CHAPTER 1: GENERAL PROGRAM REQUIREMENTS

1.1 WELCOME TO THE HANDBOOK

This handbook provides Agency staff and lenders participating in the Single Family Housing Guaranteed Loan Program (SFHGLP) with the tools needed to originate, underwrite, and service guaranteed loans efficiently and effectively. Its goal is to help Agency staff and lenders administer the SFHGLP smoothly while ensuring that the program's basic legal and administrative requirements are met. The handbook describes:

- Loan origination, underwriting, servicing, and liquidation policies and procedures;
- The role of the Agency and participating lenders in program administration; and
- Practices that will help ensure efficient and effective program administration.

The guidance provided by this handbook is intended to be consistent with all applicable laws, Executive Orders, and departmental regulations, including other Agency regulations. Nothing contained in this handbook should be construed to supersede, rescind, or otherwise amend such laws, Executive Orders, and regulations.

SECTION 1: INTRODUCTION TO THE HANDBOOK

1.2 USING THIS HANDBOOK

The handbook is organized to allow the reader to look up information on specific topics easily. There is a detailed Table of Contents that provides a guide to finding particular topics. In addition, several graphic tools and conventions have been used to make information easier to find and understand.

A. Citations

- **Regulatory citations.** The regulation for the SFHGLP is provided in 7 CFR Part 3555. The text of that regulation is provided in Appendix 1. To help readers locate the regulatory authority for procedures described here, references to this regulation appear in italicized brackets, for example: *[7 CFR 3555.55]*. Other regulations or Rural Development instructions are simply referenced.

- **Cross References**. Topics discussed in more than one place in the handbook are cross-referenced to help the reader find other related information more easily.

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- **Form references.** Agency form names are shown in *italics*. All forms referenced in this handbook can be found in Appendix 2.

B. Attachments and Appendices

- **Glossary and acronym lists.** Key words and terms are defined in the glossary. A list of acronyms and their definitions is also provided. The glossary and acronym lists can be found before the appendices.

- **Attachments.** Attachments at the end of each chapter contain technical information that is specific to the topics covered in the chapter. Attachments are referenced in sequence using the chapter number and an attachment letter. For example, Attachment 4-A is the first attachment in Chapter 4.

- **Appendices.** Appendices at the end of handbook include forms and other reference materials that relate to multiple chapters.

C. Terminology

The SFHGLP is a centralized delivery platform in all states. Servicing functions are centralized at the Customer Service Center (CSC). The State Offices are responsible for implementation of state-based functions and are structured in various ways and often use diverse terms to describe staff roles. Since this terminology may vary from state to state and change over time, this handbook uses certain standard terminology to provide consistency.

- **Agency.** The organizational unit within the U.S. Department of Agriculture (USDA) that is responsible for administering the SFHGLP.

- **Field Office**. Refers to any Agency office (field, area, regional, or State) that is responsible for taking an action. In some situations, the action must be taken exclusively at the **State Office**, and in those cases, the term "State Office" will be specified.

- **Lender.** A financial institution that has been approved to participate in the SFHGLP. The term is used to refer to entities that underwrite and apply for loan guarantees, service SFHGLP loans, or purchase SFHGLP loans from other entities.

- **Customer Service Center - CSC**. The servicing center in St. Louis, Missouri where specific servicing functions, such as loss mitigation and loss claim, have been centralized.

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- **Agency staff.** An Agency employee who is responsible for implementing the requirements of the SFHGLP on behalf of the Agency.

- **Applicant.** One or more individuals who have applied for a guaranteed loan.

- **Borrower.** One or more individuals who have received a guaranteed loan.

1.3 GETTING ADDITIONAL HELP

This handbook has been designed to be as comprehensive as possible. Each program requirement is outlined, and examples and case studies are included to help lenders understand not only the letter, but also the spirit of each requirement. However, no handbook can provide guidance adequate for every circumstance. For this reason, Agency staff is available to answer specific questions as they arise.

Agency staff will not make underwriting decisions for a lender; however, they will help the lender understand the intent of the applicable requirements and provide guidance about the kinds of information that the lender should include to document its decision-making processes. Additional training may also be provided by Agency staff with regard to particular program requirements that a lender finds very difficult to fulfill properly.

The Agency is committed to providing rapid responses to lender inquiries. Often, Agency staff can provide an immediate answer to lender questions. When that is not possible, the Agency strives to provide a response within one working day. Occasionally, Agency staff may need to consult with State or National Office staff to ensure an accurate response to a particularly complex question. In such situations, the turn-around time for an answer is likely to be somewhat longer. In such a case, the Agency staff member contacted by the lender will provide an estimate regarding the amount of time likely to be needed to answer the question, and will follow up with the appropriate Agency decision makers to ensure that the question is answered in a timely fashion.

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SECTION 2: OVERVIEW OF THE SFHGLP

1.4 SFHGLP GOALS

The SFHGLP is designed to provide low- and moderate-income households the opportunity to own adequate, modest, decent, safe, and sanitary dwellings and related facilities for their own residential use in rural areas. The program offers eligible applicants the opportunity to acquire, build, rehabilitate, improve, or relocate a dwelling

in rural areas. The program provides loan guarantees to an approved lender for loans made to eligible applicants.

In providing this service, the Agency strives to meet several goals.

- **Customer Service.** The Agency is committed to providing customer-friendly, streamlined service.
- **Partnerships.** The Agency is committed to working with participating lenders in order to serve more borrowers.
- **Effective Use of Resources.** As a publicly funded program, the SFHGLP must use tax dollars efficiently. The Agency aims to minimize administrative costs and costs incurred from loss claim payments.

1.5 SFHGLP SUMMARY

Private lenders are key to the success of the SFHGLP. Although the Agency issues loan guarantees, lenders that have been approved to participate in the program are responsible for originating, underwriting, servicing, and liquidating the loans. The Agency reviews each loan proposal to ensure the applicant and property appear to meet all program eligibility requirements. However, the lender is ultimately responsible for ensuring that all program requirements are met, and that the underwriting procedures for the loan are followed. The Agency monitors lender performance on an ongoing basis to help ensure that lenders accurately understand the Agency's expectations.

Applicant eligibility is discussed in detail in chapters 8 through 11. In summary, applicants may be eligible to receive a guaranteed loan if they:

- Are income-eligible;
- Agree to personally occupy the dwelling as their primary residence;
- Are U.S. citizens, U.S. non-citizen nationals, or qualified aliens;
- Have the legal capacity to incur the loan obligation;
- Have not been suspended or debarred from participation in Federal programs;
- Have demonstrated both the willingness and the ability to repay the loan; and
- Are purchasing a property that meets all program criteria.

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In the event that a lender incurs a loss on a guaranteed loan, the Agency may compensate the lender for all or part of that loss. The amount of the compensation depends upon the size of the loss and whether the lender has complied with all program requirements.

SECTION 3: GENERAL PROGRAM REQUIREMENTS

1.6 CIVIL RIGHTS

The Agency and participating lenders must administer the SFHGLP fairly and in accordance with all equal opportunity and fair housing legislation and applicable Executive Orders. Below is a list of the pertinent Federal laws and Executive Orders, as well as a brief description and highlights. While lenders will be familiar with many of these requirements, they should review carefully applicable legislation and orders, especially if new to Federally-~~assisted~~ conducted programs. Agency staff should refer to *RD Instruction 1901-E* for guidance on relevant civil rights requirements.

A. Major Civil Rights Laws Affecting the Single Family Loan Guarantee Program

- **The Equal Credit Opportunity Act (ECOA)** prohibits discrimination in the extension of credit on the basis of race, color, religion, national origin, sex, marital status, age, income from public assistance, ~~and~~ or because an applicant has in good faith exercised any ~~of~~ right~~s~~ under the Consumer Protection Act. ~~If a~~An applicant or borrower who believes he or she has been discriminated by Rural Development ~~against~~ for any of these reasons may~~, that person can~~ write to the Secretary of Agriculture, Washington, D.C. 20250. ~~Applicants also cannot be denied a loan because the applicant has in good faith exercised his or her rights under the Consumer Credit Protection Act. If an applicant believes he or she was denied a loan for this reason, the applicant should contact the Federal Trade Commission, Washington, D.C. 20580.~~

- **Title VIII of the Civil Rights Act of 1968** (also known as the Fair Housing Act of 1988, as amended) is enforced by the US Department of Housing and Urban Development. The Fair Housing Act- prohibits discrimination in the sale, rental or financing of housing on the basis of race, color, religion, sex, national origin, familial status, or disability.

- **Section 504 of the Rehabilitation Act of 1973** prohibits discrimination by the Federal government on the basis of disability. An applicant or borrower who believes he or she has been discriminated by Rural Development on the basis of disability may write to the Secretary of Agriculture, Washington, D.C. 20250.

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- **Executive Order 11063 as Amended by 12259** prohibits discrimination in housing or residential property financing for any Federally assisted activity against individuals on the basis of race, color, religion, sex, or national origin.

B. Nondiscrimination Practices

The applicable~~various~~ civil rights laws ~~-~~prohibit the denial of loans, services, and benefits provided under the SFHGLP to any person based upon race, color, national origin, sex, religion, marital status, familial status, age, ~~physical or mental~~ disability, source of income, or because the applicant has, in good faith, exercised any right under the Consumer Credit Protection Act (15 U.S.C. 1601). Discrimination in employment practices is also prohibited.

Effective management and consistent procedures are good business practices that help ensure all applicants are treated fairly. Poor program implementation, whether or not discrimination is intended, has possible civil rights consequences.

Consistent procedures are especially important in several key areas, which are listed below.

- **Outreach**. Information about the availability of the program and how to apply must be broadly disseminated, and the extent of the information, assistance, and courtesy extended to those who make inquiries must be consistent.

- **Application procedures**. Application procedures must be fair and accessible to all potential applicants.

- **Determining eligibility**. Equal rigor must be used for all applicants when verifying income, conducting credit checks, and allowing applicants to clarify information.

- **Making exceptions**. Standards for offering exceptions must be applied consistently.

- **Loan terms and subsidies**. Opportunities for any subsidies and favorable loan terms must be made available consistently.

- **Servicing**. Loan servicing, including offering benefits and assistance, must be offered in a fair and consistent manner to all borrowers.

- **Liquidation and Property Disposition**. Liquidation and any subsequent property disposition must be executed in a fair and consistent manner. Property

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disposition practices, like those outlined for outreach, must ensure that no person has an unfair advantage in acquiring foreclosed property.

- Agency staff has the responsibility to provide guidance and oversight to participating lenders, and their agents, to ensure the above areas are consistently met.

C. Reasonable Accommodations for Persons with Disabilities

The lenders and their agents must make reasonable accommodations to permit persons with disabilities to apply for and benefit from Agency programs. Reasonable accommodations may include providing facilities that are physically accessible and effective communication and outreach tools so that all applicants can get good program information, for example, a Telecommunications Device for the Deaf (TDD).

1.7 REVIEWS AND APPEALS

Agency decisions that are not made in favor of a lender or other program participant (applicant or borrower) are known as adverse decisions, and may be reviewed or appealed. Adverse decisions must be based upon regulations published in the Code of Federal Regulation (CFR). For the SFHGLP, any adverse decision must be based upon 7 CFR Part 3555 found in Appendix 1 of this Handbook.

Adverse decisions include the administrative actions taken by Agency staff; and the Agency's failure to take required actions within time frames specified in statutes or regulations, or within a reasonable time if no deadline is specified. Adverse decisions made by a lender are not an Agency decision. Adverse decision made by the Agency may be appealed to USDA, National Appeals Division (NAD) in accordance with Appendix 3 of this Handbook.

1.8 STATE AND LOCAL LAW

State and local laws and regulations, and the laws of American Indian tribes, may affect implementation of the program. In such cases, supplemental guidance to resolve any conflicts or differences may be issued by the State Director only as it relates to a specific State law. In cases where numerous inquiries on a specific State or local legal issue arise, the Agency may issue an Administrative Notice (AN) to help Agency staff address such issues with program participants and lenders. Lenders should seek guidance from the Agency when an interpretation of how a state or local law impacts implementation of the program.

1.9 EXCEPTION AUTHORITY

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Exceptions to any requirement of this handbook, or *7 CFR Part 3555*, can be approved in individual cases by the Administrator if application of the requirement or failure to take action would either adversely affect the Government's interest or conflict with the objectives and spirit of the authorizing statute. Any exception must be consistent with the authorizing statute and other applicable laws.

A. Who Can File a Request

Only Agency staff may file a request for an exception. However, lenders can request that the Field Office consider submission of a formal request for exception. When asking that the Agency consider requesting an exception, the lender should include documentation that demonstrates how the exception would protect the Government's interest or maintain consistency with the program's authorizing statute.

B. What Must Be Included in the Request

The exception request developed by the Agency for the Administrator, or designee, must provide clear and convincing evidence of the need for the exception. At a minimum, the request must include:

- A full explanation of the unique circumstances, including an explanation of any adverse effect on the Government's interest if the waiver is not granted;
- A discussion of proposed alternatives considered; and
- A discussion of how the adverse effect will be eliminated or minimized if the exception is granted.

C. Where Requests are Submitted

Requests for exceptions are submitted to the Administrator, through the Deputy Administrator, Single Family Housing. Requests may be initiated by:

- The State Director;
- The Deputy Administrator, Single Family Housing;
- The Director, Single Family Housing Direct Loan Division;
- The Director, Single Family Housing Guaranteed Loan Division; or

Requests for exceptions regarding architectural and engineering, environmental, or civil rights issues will be referred for review and comment to the appropriate technical staff by the State Office prior to exception request of the Administrator.

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1.10 CONFLICT OF INTEREST

All Agency staff must strive to maintain the highest levels of honesty, integrity, and impartiality in conducting activities on behalf of the Agency. In order to avoid conflicts of interest, applicants and borrowers must disclose to the lender any prohibited relationship or association with any Rural Development employee and the lender must report this information to the Agency. Lenders must also disclose to the Agency any prohibited relationship or association that it or any of its employees has with any Rural Development employee.

A. Prohibited Relationships

Prohibited relationships and associations include:

- Immediate family members, including parents and children, whether related by blood or marriage, and any household residents;
- Close relatives, including grandmother, grandfather, aunt, uncle, sister, brother, niece, nephew, granddaughter, grandson, or first cousin, whether related by blood or marriage;
- Immediate working relationships, including co-workers in the same office, subordinates, and immediate supervisors; and
- Close business associations with an identity of financial interest, including, but not limited to, business partnerships, joint ventures, or closely-held corporations.

B. Disclosure Requirements

Disclosure of prohibited relationships and associations under this section will not result in applicant, borrower or lender ineligibility. Disclosures may result in special handling or reassignment of Rural Development employee responsibilities with regard to the loan guarantee in question so that no prohibited relationships or associations exist between the Rural Development employees responsible for loan guarantee transactions, and lenders, borrowers, or applicants. Agency staff wishing to obtain additional detail regarding the Agency's conflict of interest requirements can find it in *RD Instruction 1900-D*.

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1.11 UNAUTHORIZED ASSISTANCE

Unauthorized assistance occurs when a borrower is not eligible for all or part of the financial assistance received in the form of a loan guarantee. Loans made to unqualified borrowers, written at the wrong interest rate, or made for an ineligible purpose is considered unauthorized assistance. The form of unauthorized assistance can differ based upon false information or inaccurate information.

False information includes information provided to the lender by the borrower that (i) the borrower knew was incorrect or should have known was incorrect; and (ii) was provided or omitted for the purpose of obtaining assistance for which the borrower was not eligible. It can also represent information the lender provides and falsely represents.

Inaccurate information is incorrect information inadvertently provided, used or omitted without the intent to obtain benefits for which the borrower was not eligible. The error may be caused by the borrower, a third party, or the Agency.

Unauthorized assistance may be identified through audits, reviews by the Agency, its agents or reported by lenders. Lenders will be notified by "Certified Mail, Return Receipt Requested" when incidents of unauthorized assistance are determined. The significance of the unauthorized assistance will determine the Agency's response to the determination in accordance with Section 3555.257 of 7 CFR Part 3555.

Unauthorized assistance due to false information may require the lender to accelerate the loan request. Failure of the lender to accelerate the loan may result in reduction of a loss claim and/or voiding the guarantee. Based upon the severity, the Agency may pursue criminal and civil false claim actions, suspension and/or debarment or other appropriate action.

If a borrower receives a loan guarantee and the loan application documents include inaccurate information, , the Agency will honor the guarantee as long as the loan was for eligible loan purposes.

The Agency will notify the National Office when it becomes known the loan guarantee was issued based on false information provided by the borrower or lender. The state must document in detail the findings surrounding the unauthorized assistance **and** provide a detailed solution and recommendation on disposition of the case.

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1.12 RURAL DEVELOPMENT ADMINISTRATIVE RESPONSIBILITIES

Each centralized delivery office must:

1. Establish an office management system to track applications for loan guarantees.

2. Maintain files and other Agency records in accordance with RD Instruction 2033-A.

3. Implement oversight mechanisms to monitor the loans for Rural Development. Utilize the Guaranteed Loan System (GLS) to assist with the management oversight.

4. Ensure sensitive applicant information delivered by email is encrypted and password protected.

5. Monitor and review unliquidated obligations at the end of each quarter by utilizing available GLS reports. Take action to ensure loans are closed or deobligated if no longer valid.

6. Establish a segregation of key duties or develop mitigating controls within the program delivery structure to minimize fraud, waste and abuse.

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CHAPTER 2: RECORD RETENTION

2.1 INTRODUCTION

Both the lender and the Agency have record retention responsibilities. Upon request, the lender must be able to provide the Agency with all mortgage loan files including all loan origination documents. When the lender uses imaging for storage of records, it must retain the capability to reproduce legible and exact duplicates of all original documents. The Agency must retain all files relating to its approval of a lender for participation in the SFHGLP.

2.2 LENDER RECORD MAINTENANCE

Lenders must maintain loan origination records and keep record of all payments and disbursements in which the Agency has an interest. Upon written request from the Agency, the lender must provide any mortgage records or documents requested by the Agency.

A. Loan Origination Records

Loan origination records must be retained by the lender. If the lender sells the loan, the selling lender must retain copies of the loan origination documents for a minimum of two years after selling the loan. In addition, the purchasing lender must receive copies of the loan origination documents from the selling lender, and retain those copies for a minimum of two years after the lender sells the loan. Retention of origination documents for a minimum of two years after selling a loan is required for each succeeding lender. Each selling lender is required to transfer copies of the origination documents to the purchasing lender. Loan origination records retained by the lender include:

- Loan application, including any preliminary (handwritten) application and the final typed application signed at loan settlement;
- Summary of program eligible income and repayment income calculations, verification of employment and income, including documentation of any oral contact or correspondence with an employer for all adult members of the household;
- All credit reports, including explanations for adverse credit;
- Uniform Underwriting and Transmittal Summary or loan approval form;

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- All inspection reports, plan certifications, builder warranties, including lender certifications to the Agency;
- All Agency forms submitted to the Agency or received from the Agency;
- Closing documents, including original security instruments; and
- All residential real estate appraisals and supporting documents.

B. Payment and Disbursement Records

Lenders must maintain a record of all payments received and disbursements paid on the obligation while the Agency has potential liability. The lender should also maintain a record of all servicing actions, relevant post closing documents, and all borrower notices and correspondence. The following retention periods apply.

- Mortgage files that have been satisfied through payment in full will be retained for a minimum of three years from the date of the final payment or foreclosure.
- Mortgage files that have been satisfied through voluntary or involuntary liquidation must be retained for at least six years from the date the claim proceeds were received.

2.3 AGENCY RECORD MAINTENANCE

A. Lender Approval Files

The Agency will establish a file folder for each lender approved for participation in the SFHGLP. The Agency will digitally image or electronically store all lender approval documents in the Rural Development Imaging Repository. The Agency will retain all documents relative to lender approval for participation as long as the lender remains active and maintains its approval status. Refer to Chapter 3 and Attachment 3-A of this Handbook for required documentation for lender approval.

If a lender's approval status is voluntarily withdrawn by the lender, or terminated by the Agency, the lender file and all documentation pertaining to the withdrawal or termination will be retained for at least two years from the final action. Any audits or reviews performed by the Agency, or those designated to do so for the Agency, will also be retained for a minimum of two years.

B. Mortgage Files

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The Agency may dispose of all documents except those listed below, which will be retained in accordance with RD Instruction 2033-A once the Agency receives notification from the lender that the mortgage has been satisfied.

The documents will be digitally imaged and retained in electronic format. A guide to origination document scanning may be found at http://rddocmgmt.sc.egov.usda.gov/. Imaged documents can be found in Rural Development's Centralized Indexing Application at http://rddocmgmt.sc.egov.usda.gov/ .

Attachment 2-A of this Chapter provides a checklist of records to be retained for long-term preservation in the Agency's official SFHGLP folder. The document matrix has been designed to assist states in identifying the core documents to be retained when a file has been underwritten manually and when underwritten with use of the Agency's automated underwriting system, Guaranteed Underwriting System. States will image essential documents submitted for files receiving an ACCEPT recommendation in the Agency's automated underwriting system that have been selected for quality control purposes and a full documentation file has been submitted.

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, "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/.

8. *Form RD 3555-21, "Request for Single Family Housing Guarantee"*;

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9. All forms related to the Agency's environmental review (*Forms RD 1940-22, "Environmental Checklist for Categorical Exclusions," 1940-20, "Request for Environmental Information," FEMA Form 81-93, "Standard Flood Determination Form,"* etc.);

10. Uniform Underwriting and Transmittal Summary, the lender's loan analysis and approval sheet, or final Guaranteed Underwriting System (GUS) Underwriting and Findings Report;

11. *Form RD 3555-17, "Loan Note Guarantee"* and the final Amortization Schedule attached to the Loan Note Guarantee*;*

12. Confirmation requirements under 7 CFR 3555, Section 3555.202 have been met;

13. Appraisal Report(s);

14. *Form RD 1922-15, "Administrative Appraisal Review";*

15. National Office waivers, if applicable;

16. Final *Form HUD-1, "Settlement Statement"* ;

17. Internal agency Checklist for Origination/Post Closing. See Chapter 15 of this Handbook;

18. Lender Income Worksheets;

19. Origination and loan closing lender stack list;

20. Any other forms deemed necessary for record retention by the state.

When a loss claim is paid on an account, the mortgage file and documentation supporting the claim will be retained for a minimum of three or seven years from the date of final claim disbursement in accordance with RD Instruction 2033-A. Loss claim documents may also be digitally imaged, and the original documents destroyed.

The State Director will ensure that appropriate files are established and maintained. Each mortgage file is to be labeled in a manner that will immediately identify the record retention periods for ease of disposition.

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ATTACHMENT 2-A

SINGLE FAMILY HOSUING GUARANTEED LOAN PROGRAM

MINIMAL ESSENTIAL DOCUMENTS MATRIX (internal use only)

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Use the following information as a reference for maintaining SFHGLP documents pertaining to loan origination electronically. File the identified document in the Rural Development Image Repository. If a GUS ACCEPT triggers a quality control message requiring a full documentation file, refer to the "Manual UW" column when retaining minimal essential documentation. States may also retain any other documentation they deem necessary for retention.

	Document	*Manual UW*	*GUS Accept*	*Comments*
☐	**Uniform Residential Appraisal Report (URAR)** ✓ FNMA Form 1004/ FHLMC 70 **and** any addendums or supplemental reports (i.e. manufactured home; condo)	√	√	
☐	**Property Inspections** ✓ Lender certifications in accordance 7 CFR 3555, section 3555.302 ✓ Property inspections (if submitted)			Property Inspections are typically held by a lender in their permanent case folder. Image if provided.
☐	**Conditional Commitment** ✓ Form RD 3555-18 **and** ✓ If required, conditions to Form RD 3555-18 **and** ✓ Lender Certification (completed and executed by lender – POST CLOSING). Lenders who submit closed loans electronically in accordance with Chapter 16 of this Handbook are not subject to submittal of the Lender Certification.	√	√	
☐	**Administrative Appraisal Review** ✓ Form RD 1922-15	√	√	

	Document	*Manual UW*	*GUS Accept*	*Comments*
☐	**Uniform Residential Loan Application (URLA)** ✓ Form FNMA 1003/FHLMC 65 bearing borrower and lender interviewer signature	√		
☐	**System for Award Management (SAM)** ✓ Queried result or lender certification on Form RD 1980-21	√	√	
☐	**Underwriting** ✓ Uniform Underwriting and Transmittal Summary, Form FNMA 1008/FHLMC 70 – completed with underwriter's name **and** approval signature **or** Lender's Loan Approval Sheet – provided information captured mirrors that of FNMA 1008/FHLMC 70 ✓ Guaranteed Underwriting System (GUS) final Underwriting and Findings Report.	√	√	The Lender's loan underwriting analysis must bear the underwriter's confirmation to validate the loan has been underwritten by the approved lender prior to request for Conditional Commitment.
	Income/Employment Verifications and Determinations			
☐	***Employment income of non-self- employed applicants:*** ✓ Verification of Employment (Form RD 1910-5 or equivalent) **and** most recent paycheck stub **or** ✓ Paycheck stubs or payroll earnings statements covering the most recent 30-day period **and** W-2 tax forms for the previous 2 tax years **and** a telephone verification of the applicant's current employment **or** ✓ Electronic verification or other computer-generated documents accessed **and** printed from a Intranet or Internet, **and** W-2 forms for the previous 2 tax years **and** a telephone verification of the applicant's current employment ***Self-employed applicants:*** ✓ Copies of signed individual Federal tax return – most recent two years **or** IRS-issued transcripts of the borrower's tax returns with all applicable schedules ✓ Year to date Profit and Loss and Balance Statements ✓ Fannie Mae Form 1084, "Cash Flow Analysis" and/or Fannie Mae Form 1088 "Comparative Income Analysis" – if utilized by lender	√		

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	Other income: ✓ Third party verification **or e**vidence of receipt using deposits on banks statements or cancelled checks for the most recent three months ***Income of non-purchasing household members*** ✓ Confirm income with any of the following: ✓ Copies of earning statements with YTD, employment/income verification, W-2 forms or income tax returns		
☐	**Credit Reports**	√	
☐	**Verification of Rent (VOR)**	√	
☐	**Adverse Credit Waiver** ✓ Waiver and basis can be documented on the lender's loan underwriting analysis **or** ✓ Independent form – if the lender desires	√	
☐	**Repayment Ratio Waiver request and decision granted by Rural Development** ✓ Waiver and basis for lender's request can be documented on the lender's loan underwriting analysis **or** ✓ Independent form – if the lender desires ✓ Written concurrence by Rural Development in allowing higher ratio based on compensating factors. Written evidence can be Rural Development's review/confirmation of requested waiver. The concurrence is not intended to be formal.	√	
☐	**Documentation of Household and Repayment Income Worksheets** prepared by lender	√	√
☐	**Origination and loan closing lender stack list**	√	√
☐	**Qualified alien documents**	√	√
☐	**Request for Single Family Housing Loan Guarantee** ✓ Form RD 3555-21 completed and executed by lender and applicant(s)	√	√
☐	**Loan Note Guarantee and Amortization Schedule** ✓ Form RD 3555-17 – completed/executed by Rural Development	√	√

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☐	**Guaranteed Loan Closing Report** ✓ Form RD 1980-19 completed/executed by Rural Development	√	√	Lenders participating in the Electronic Add Loan Closing/pay.gov feature do not submit a Form RD 1980-19.
☐	**Environmental Review** ✓ Form RD 1940-22 and/or Form RD 1940-21 (with attachments) **and** ✓ FEMA Form 086-0-32 (Standard Flood Determination Form)	√	√	
☐	**Final Form HUD-1, "Settlement Statement"**	√	√	
☐	**Other Documents Retained by State**	√	√	Includes National Office waivers, if applicable
☐	**Agency Documentation and Processing Checklist** (internal – see Chapter 15 of this Handbook)	√	√	
☐	**Agency Worksheet for Documenting Household and Repayment Income** (as applicable, see Chapter 9 of this Handbook)	√	√	√

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CHAPTER 3: LENDER APPROVAL
7 CFR 3555.51

3.1 INTRODUCTION

A lender is defined as an entity that originates, services, or holds a loan guaranteed by the Agency.

The SFHGLP is not intended to promote risky lending. For its success, the program relies on lenders to make sound underwriting decisions. Because the Agency does not underwrite the loans it guarantees, lenders that apply for loan guarantees must originate, underwrite, service, and hold loans responsibly. To ensure that these standards are met, the Agency must approve a lender before it participates in the SFHGLP. To be approved, a lender must agree to follow the Agency's program guidelines and consistently demonstrate high-quality in the areas of loan origination, underwriting, servicing, and reporting. Once the Agency has approved the lender, it may participate in the program as long as it maintains these standards and continues to follow all program requirements. The Agency periodically monitors the lender to verify that continued program participation is warranted.

3.2 LENDER APPROVAL CRITERIA [7 CFR 3555.52]

A lender must demonstrate that it has the expertise to make and/or service single-family housing mortgage loans. Lenders that have been approved for single-family housing loan-making activities by organizations referenced in Paragraph A of this Section are considered to have demonstrated the ability to originate, underwrite, and service SFHGLP loans. In all other cases, the Agency determines whether a lender is qualified by reviewing the lender's history along with other documentation.

A. Approval from Another Recognized Source

Acceptable documentation includes a copy of the official letter or other verifiable communication from an acceptable secondary market organization or other Federal government agency showing that the lender is approved for participation by that entity. Such documentation must be dated within 12 months of requesting approval to participate in the Rural Development SFHGLP. The lender must also provide additional documentation listed in Attachment 3-A of this chapter. The Agency reviews and confirms the information the lender submits.

Acceptable secondary market organizations, Federal government and state agencies include:

- A State Housing Finance Agency.

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- The U.S. Department of Housing and Urban Development/Federal Housing Administration (HUD-FHA), when the lender is approved as a supervised or non-supervised mortgagee with Direct Endorsement Authority for title II lending activity.

- Government National Mortgage Association (Ginnie Mae), when the lender is an issuer of Ginnie Mae mortgage-backed securities.

- The U.S. Department of Veterans Affairs (VA), when the lender is a supervised lender or is approved as a supervised or non-supervised mortgagee with the authority to close loans under VA's automatic guaranty procedure.

- Fannie Mae, when the lender is approved for single-family loan activities.

- Freddie Mac, when the lender is approved for single-family loan activities.

The Agency may revoke a lender's approval to participate in the SFHGLP if the lender fails to maintain the appropriate eligibility status or violates the terms and conditions of the Agency's lender agreement.

B. Approval by Demonstrated Ability

A lender that does not meet the conditions of Paragraph 3.2.A, and who has not previously participated as an approved lender in the SFHGLP, may seek approval by demonstrating its ability to originate and/or service sound loans. In such a case, the lender either must be overseen by a Federal regulator, be a Farm Credit System institution, or must be an active participant with an approved lender agreement in another USDA guaranteed loan program.

1. Demonstrated Ability

The lender must have a proven ability to originate, underwrite, and/or service single-family mortgage loans and must have a staff with adequate knowledge and expertise in these areas. Expert knowledge and experience in residential mortgage lending may be demonstrated through the following documentation:

- **A summary of residential mortgage lending activity**. At a minimum, the summary must include the dollar amount and number of residential mortgage loans in its loan origination and servicing portfolio, along with percentages of delinquencies, foreclosures and losses. The Agency will examine the summary to verify that the lender's performance is comparable to that of other participating lenders in good standing.

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- **Written criteria that outline the policies and procedures the lender typically follows when originating, underwriting, and closing residential mortgage loans.** The quality control system must ensure that the lender demonstrates safe and sound lending practices including, but not limited to, the analysis and review of appraisals and other factors affecting property values, credit analysis and review, and income analysis and review. In addition, the policies and procedures must comply with all applicable laws and regulations such as the ECOA, the Real Estate Settlement Procedures Act (RESPA), and the Home Mortgage Disclosure Act (HMDA).

- **Evidence that the lender has an experienced loan underwriter on staff**. The lender must provide a copy of the underwriter's signed resume showing that the underwriter has at least two years of experience in underwriting single family residential loans, and is knowledgeable of the principles, practices, and techniques of residential mortgage lending.

2. Additional Requirements for Originating Lenders that do not Service Loans

A lender that does not intend to service SFHGLP loans must certify that it will contract with an Agency-approved lender that agrees to follow all Agency servicing requirements, and that has the capacity to hold funds for taxes and insurance in escrow. Although an originating lender who has been granted lender approval by Rural Development may not service loans, the originating lender, who received the Conditional Commitment for Single Family Housing Loan Guarantee, may be required to indemnify Rural Development should the Agency determine that negligent underwriting attributed to a loss claim payment paid by the Agency.

3. Additional Requirements for Lenders Servicing Loans

If the lender intends to service SFHGLP loans, the lender must provide the following additional documentation:

- **Written criteria concerning the policies and procedures for servicing residential mortgage loans.** The Agency will review these policies and procedures to determine if escrow accounts are handled in compliance with RESPA, and that all other applicable laws and regulations, such as the Fair Credit Reporting Act (FCRA), are followed.

- **Evidence of a written plan if the lender contracts for escrow services**. If a lender does not have an escrow system for taxes and insurance, it must submit a written plan to the Agency for ensuring that taxes and insurance for mortgage loans are paid when due.

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- **Evidence that the lender has serviced single-family residential mortgage loans in the year before applying for Agency approval.** This documentation should include the number and dollar amount of the loans in the lender's portfolio, the number and percentage of loans in default (categorized by 30-60-90-days late, in bankruptcy, and in foreclosure), and the number, percentage and dollar amounts of loans on which losses have been paid.

The Agency reserves the right to re-evaluate a lender's status from time to time. Lenders who fail to follow established guidelines for real estate taxes and hazard insurance premiums or other conditions of the lender's agreement may have their lender's approval revoked by the Agency. The lender may be required to provide information to support continued Agency approval similar to the documentation provided with its initial application.

4. Federal Oversight

A lender that is a Federally regulated depository institution may be considered for participation in the SFHGLP. The lender must provide a letter or other form of evidence from the oversight authority that indicates the lender's ability to process, underwrite and service single-family residential mortgage loans. The documentation must be dated within the past 12 months and confirm that Federal oversight is being provided by one of the following Federal oversight entities:

- The Federal Reserve System;
- The Comptroller of the Currency;
- The Federal Deposit Insurance Corporation (FDIC);
- The National Credit Union Administration (NCUA);
- The Office of Thrift Supervision (OTS);
- The Federal Housing Finance Board regulating lenders within the Federal Home Loan Bank (FHLB) system.

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5. Experience with a USDA Program or Farm Credit System

A Farm Credit System (FCS) institution or lender participating in certain other USDA programs is eligible to participate in the SFHGLP if it can also demonstrate experience in underwriting and servicing single-family residential mortgage lending. Lenders meeting these criteria include:

- An FCS lender with direct lending authority; or
- A lender participating in other Rural Housing Service, Rural Business-Cooperative Development Service, Rural Utilities Service, or Farm Service Agency guaranteed loan programs that have an active lender agreement.

C. Participation as an Agent of an Approved Lender

A lender that does not meet the requirements for Agency approval as a lender may participate in the program as the agent of a lender approved by Rural Development. The lender approved by Rural Development must designate the agent in writing and state the functions that the agent performs on its behalf. The agent may be permitted to originate the loan and close it in their name as long as the loan was reviewed by the approved lender and is transferred to the approved lender immediately upon closing and prior to issuance of a Loan Note Guarantee. The lender approved by Rural Development is responsible for ensuring that its agent's loan origination, underwriting, and closing activities are in accordance with Agency standards. The Conditional Commitment for Loan Note Guarantee and Loan Note Guarantee will be issued to the approved lender.

3.3 APPLICATION

To apply to participate in the SFHGLP in more than one state, the lender submits *Form RD 3555-16, "Agreement for Participation in Single-Family Housing Guaranteed/Insured Loan Programs of the United States Government,"* and the necessary supporting documentation to the Rural Development National Office.

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If the lender wishes to participate in the SFHGLP in a single state, the lender should submit the application package to the State Office or the office designated by the State Office to review lender applications. A listing of State Offices and their addresses are included in Appendix 4. If the lender wishes to participate in multiple states, the lender may submit a single application package to the National Office.

A list of supporting documentation to accompany *Form RD 3555-16* is outlined in Attachment 3-A to this Chapter.

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Reliable and effective quality control (QC) programs are essential to a lender's success in the mortgage industry. Quality begins prior to application intake and continues through the mortgage process. The purpose of quality control is to monitor and evaluate the integrity of the origination and servicing (as applicable) process and be customized to the lender's organization, circumstances and needs. The quality control plan must contain the necessary controls as required by other recognized sources noted at Section 3.2A of this Chapter. At a minimum, but not limited to, the lender's plan should:

- Have written procedures for document re-verification process, sampling methodology that includes a representative sample of Rural Development loans, consistent and timely review process and document retention.
- Has a quality control team that operates independently from loan origination/underwriting and servicing functions or contracts out this function.
- Provides for standard operating procedures for all employees who will be involved with or affected by the quality control process.
- Written procedures to report violations of laws or regulations, false statements, and program abuses directly to appropriate authorities in a timely manner. Information regarding violations will be reported to the National Office. Refer to Appendix 4 of this Handbook regarding delivery information.
- Ensure adequate quality control and data integrity checks are included for loans process through automated underwriting systems on a regular and timely basis.
- Ensure adequate monitoring of all vendors or contractors involved in the origination process (for example from mortgage brokers or correspondents or via the internet).

3.4 AGENCY REVIEW

The Agency review of the lender's application includes the following:

- Ensuring that all required documents have been submitted and appear to have been completed correctly. If the application is incomplete, the Agency will advise the lender of the omissions in writing. Incomplete applications cannot be approved.
- *Form RD 3555-16* has been properly executed by a person authorized to bind the lender to the terms stated on the form;

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- Evidence that the lender's demonstrated ability is consistent with the requirements of this chapter;

- Evidence that neither the lender nor any of the lender's principal officers have been suspended or debarred from participation in Federal programs; and

- Evidence that the lender's approval status with Fannie Mae, Freddie Mac, HUD, VA, or another acceptable government agency is active at the time of the application to the Agency.

A *Lender Review Guide* and a *Quality Control Overview* may be found on the Agency's SharePoint website at: https://rd.sc.egov.usda.gov/teamrd/hcfp/sfh/ to assist states with their review of the lender's request. Choose *Single Family Housing Information* then *Guaranteed Program Information* from the menu to navigate to the guide.

A. Approval of Application [7 CFR 3555.52]

Pre-Approval

If the lender meets the criteria for an approved lender and provides the supporting documentation as outlined in Attachment 3-A of this Chapter, the Agency will issue an approval notice to the lender. The notice will be a pre-approval notice if the mandatory training for new lenders is incomplete at time of application. To obtain final approval members of the lender's organization must complete mandatory guaranteed loan training. The purpose of the training is to provide an overview of the objectives of the SFHGLP, the documentation required to support an individual application and the process involved in obtaining a Loan Note Guarantee. It also reviews the duties and responsibilities of the approved lender. Training is mandatory for all loan originators and underwriters that will participate in the SFHGLP. The following options are available to assist in meeting the training requirements:

- Lenders may utilize on-demand training as an option to complete mandatory training and approval of their requested Lender Agreement. The training is posted at https://usdalinc.sc.egov.usda.gov/ under the *Training and Resource Library* link at the *Single Family Housing Guaranteed Rural Housing* menu. This on-demand training is available for lenders to take at their convenience. The steps in accessing this on-demand training and the certification required of lenders once training is complete is outlined in Attachment 3-B of this Chapter.

- Guaranteed training programs presented by state and local office agency staff. Lenders should contact the Rural Development representative in their state for training events. A list of state representatives may be found at:

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http://eligibility.sc.egov.usda.gov/eligibility/. Select "*Guaranteed*" under the "*Contact Us*" navigation menu item.

Final Approval

Upon receipt of an executed training certification provided in Attachment 3-B, the Agency will forward the lender a copy of the executed *Form RD 3555-16* notifying the lender of their approval to participate in the SFHGLP. The lender may begin participating in the program once final approval is obtained.

New lenders will be subject to a compliance review as outlined in Paragraph 3.7 of this Chapter.

Once a lender obtains final approval, the Agency will update the lender pages of GLS as outlined in the Lender Review Guide found on the Agency's SharePoint website at: https://rd.sc.egov.usda.gov/teamrd/hcfp/sfh/. Choose *Single Family Housing Information* then *Guaranteed Program Information* from the menu to navigate to the guide. A checklist of items required to update the Lender Maintenance page in GLS can be found on Attachment 3-C of this chapter.

B. Denial of Application

If the lender does not qualify for participation in the program, the Agency will deny the lender's request for approval and notify the lender in writing of the reasons for the decision. The lender will be provided appeal rights in accordance with Appendix 3 of this Handbook.

A lender who does not meet the criteria to participate in the program as an approved lender may act as an agent for an approved lender, as described in Paragraph 3.2.C.

C. Record Retention

Lender approval files will be maintained and retained in accordance with Chapter 2 of this Handbook.

3.5 LENDER SALE OF GUARANTEED LOANS [7 CFR 3555.54]

SFHGLP loans may only be sold to lenders meeting the requirements of Paragraph 3.2 of this chapter. The purchasing lender must execute *Form RD 3555-16* or have an approved *Form RD 3555-16* on file. The selling lender is responsible for providing the original Loan Note Guarantee to the purchasing lender, and must report the

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sale of the guarantee on *Form RD 3555-11* within 30 days of the sale in accordance with Paragraph 4.6 of Chapter 4 of this Handbook.

3.6 LENDER RESPONSIBILITY

The lender will be responsible for the processing, servicing, and liquidation (if necessary) of the loan. The lender may use third party originators such as agents or correspondents in carrying out its responsibilities. Lenders are fully responsible for their own actions and the actions of those acting on the lender's behalf. The approved lender must adhere to SFHGLP guidelines as outlined in Paragraph 4.8 of Chapter 4 of this Handbook.

- **Processing**. The lender must abide by restrictions on loan purposes, loan limitations, interest rates and terms set forth in 7 CFR 3555 and this handbook. The lender will obtain, complete, and submit to Rural Development the items required in Chapter 15 of this Handbook. The lender is responsible for loan underwriting and for obtaining the Conditional Commitment. The agent may close the loan in its name provided the loan is immediately transferred to the approved lender to whom the guarantee will be issued.

- **Servicing.** Lenders are fully responsible for servicing and ensuring the security of all guaranteed loans. When servicing is carried out by a third party, the lender will inform Rural Development of the name and address of the servicer by utilizing *Form RD 3555-11*.

- **Liquidation**. The lender will complete any liquidation of loans guaranteed under the provisions of *Form RD 3555-16*. Loss claims will be submitted in accordance with Chapter 20 of this handbook.

3.7 OUTREACH AND EDUCATION

A. Lenders

Rural Development has developed a series of education and outreach flyers for lenders, real estate professionals, mortgage brokers and housing counselors to distribute to prospective borrowers. Material is available at the following website: https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do under "Guaranteed Outreach and Education." Flyers containing the Rural Development logo and fair housing logo are available to companies to utilize free of charge and may be used in marketing campaigns to reach out to prospective borrowers. The flyers are "fillable". Modification to the materials beyond insertion of the lender's name, corporate logo, and

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contact information are prohibited. Distribution of the material should not deny particular segments of the housing market information regarding housing opportunities because of race, color, nation origin, religion, sex, familial status, or disability.

USDA Rural Development is dedicated to serving those who educate our youth, the future of our country. Lenders are encouraged to reach out to assist local educators. Lenders should give these applicants every consideration to obtain affordable home financing to reside in the communities in which they work.

B. Agency

State Agency staff will conduct outreach and lender education activities to encourage eligible lending institutions to apply for approved lender status. Eligible rural homebuyers benefit when their choice of lending institutions includes mortgage bankers, mortgage brokers, credit unions, Federal Home Loan Banks, etc. Agency should reach out to local educators. To obtain information regarding educator organizations in the state, an online search of educator credit unions, school districts, teacher unions, etc., could assist in meeting this objective. Additionally many organizations pass along information that can benefit their members and help them achieve affordable homeownership. Phone calls, letters, educational materials and personal visits to the key decision makers are effective tools to promote guaranteed loans.

3.8 MONITORING A LENDER'S ORIGINATION AND SERVICING OF LOANS [7 CFR 3555.51]

Rural Development will conduct certain reviews of the lender's operations as provided in this Section. *Form RD 3555-16* sets forth the terms the lender must follow to participate in the SFHGLP and the responsibilities involved to maintain approval to participate in the program. If Rural Development determines that the lender is not fulfilling the obligations of *Form RD 3555-16* or that the lender fails to meet the required criteria, the lender will be notified in writing of the deficiencies. If the lender fails to make the required corrections, Rural Development will proceed with termination as provided in Paragraph 3.8 of this Chapter.

A. Compliance Reviews

The lender agreement, signed by both the Agency and the lender, states the lender will make available all records pertaining to the SFHGLP program for review by the Agency. The Agency will conduct a compliance review on a periodic basis as defined in Paragraph B of this Section. The compliance review process provides Rural Development with the required information to manage risk effectively and efficiently to ensure losses to the SFHGLP are minimal. The reviews validate that the lender is

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complying with SFHGLP regulations. Compliance reviews examine a lender and/or servicers written policies, procedures, case files, loan origination and servicing records, liquidation and claim files.

A Compliance Review Guide provides the format and content for the review of lender and/or servicer functions. The compliance Review Guide must be followed to review the specific functions of the lender and/or servicer. The Compliance Review Guide may be found on the Agency's SharePoint website at: https://rd.sc.egov.usda.gov/teamrd/hcfp/sfh/. Choose *Single Family Housing Information* then *Guaranteed Program Information* from the menu to navigate to the guide.

B. Review Circumstances and Factor

- **New Lender Compliance Review.** Rural Development may review loans developed by a newly eligible lender to ensure compliance with, and understanding of, Agency regulations. Thereafter, the lender will be subject to a review provided in Paragraph 3.7 C of this chapter.

- **Other reviews**. Rural Development may elect to conduct more frequent compliance reviews when major trends or weaknesses, such as loan delinquencies, loan losses, failure to submit required data and reports, or other influencing factors related to assuring that the Government's interest is adequately protected, have been noted, regardless of the volume of loans originated or serviced.

- **Compliance Review Guide**. A Compliance Review Guide noted in Paragraph A outlines the risk, frequency and process the Agency will undertake to conduct compliance reviews of lenders participating in the program.

C. Conducting Compliance Reviews

Compliance reviews will be performed on each lender and/or servicer as noted in Paragraph 3.7.B of this Section. Compliance reviews may be conducted as an on-site review at the lender and/or servicer's location or as a desk review at a site determined by the Agency. The review should be conducted by Agency staff or a designated representative that is knowledgeable of the lender and/or servicer functions to be reviewed. The National Office will manage nationally approved lenders and/or servicer compliance reviews. The National Office may elect to perform a review on a State-approved lender and/or servicer. States will perform compliance reviews on State-

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approved lender and/or servicer operations. Rural Development will determine the amount of time that is needed to conduct the review. The review team members will utilize the Compliance Review Guide when planning, conducting and reporting reviews.

Three possible types of reviews may be performed.

- **Loan origination review**. A loan origination review is applicable to lenders who perform all or a portion of the following functions: underwriting, processing and closing.

- **Loan servicing review**. A loan servicing review is applicable to a servicer which is performing all or a portion of the following functions: reporting, loss mitigation, loss claims, and property disposition.

- **Expanded review**. An expanded review is performed for lenders and servicers that are both originating and servicing loans.

Compliance review findings will be communicated to the lender and/or servicer verbally and in writing. The reviewers will work with the lender and/or servicer to correct findings identified. The clearance and follow-up process commences upon issuance of the findings report by the Agency or their representative. If necessary, the National Office will assist the state with resolving open compliance review findings. Upon closure of the review or expiration of any follow-up period, a report will be prepared summarizing the review performed. A copy of all compliance review reports performed by the state will be forwarded to the National Office, Guaranteed Loan Division. All supporting documentation relating to the review will be maintained in the state operational file.

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3.9 REVOKING LENDER ELIGIBILITY:

The lender remains eligible as long as the lender meets the criteria in paragraph 3.2 of this Chapter unless that lender's status is revoked by Rural Development or by another Federal agency. Rural Development may terminate the lender's approval due to noncompliance with any of the eligibility requirements. Status may also be revoked if the lender violates the terms of *Form RD 3555-16*, fails to properly service any guaranteed loan, or fails to adequately protect the interests of the lender and the Government. In addition to revocation of eligible lender status, the lender may be debarred by Rural Development or may be required to indemnify Rural Development for any losses paid.

If Rural Development terminates a lender's approval, the lender will have 30 days from the date of receipt of the Agency's notification to appeal the decision. Refer to Appendix 3 of this Handbook for additional information regarding appeal procedures. Notifications returned with a forwarding address will be sent to the new address with an additional 30 day timeframe for the lender to respond. If the notice is returned as "undeliverable' with no forwarding address, the returned envelope will be retained in the file as evidence that the lender was sent notice that they no longer met approved lender status. Agency staff will update GLS by removing the lender designation and any authorizations. Closed lender eligibility files will be marked as "Closed on month day, year" and retained in accordance with RD Instruction 2033-A.

3.10 VOLUNTARY WITHDRAWL

The lender may voluntarily withdraw from participation in the SFHGLP. Pending, unclosed Conditional Commitments, loans serviced or held must be transferred to another approved lender participating in the SFHGLP prior to withdrawal. Lenders must notify Rural Development of their intent to withdraw participation.

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ATTACHMENT 3-A

LENDER APPROVAL CHECKLIST

Regulation 7 CFR 3555.51 and Chapter 3 of this Handbook describe the qualifications required to become an Agency approved lender. Other entities may participate as an approved lender's agent or correspondent, but only approved lenders are responsible for underwriting and servicing and may hold the Loan Note Guarantee on a Rural Development guaranteed loan. For nationwide or multi-state approval, a lender must submit a request to the Rural Development National Office. For single state approval, a lender must submit a request to the Rural Development State Office. Lenders may utilize the following checklist to assure a complete application is submitted. Requests must contain all of the following information in the order listed:

Lender Approval Application Checklist
USDA Rural Development

Lender Information						
Name:					TAX ID:	
DBA Name(s), if applicable. Use separate sheet for any additional DBAs:						
Geographic Address:			Mailing Address (if different)			Phone:
						Fax:
						County:
Chartered State/Headquarters:						
Website:			Company E-Mail:			
Contact Person	Name:		Phone:			E-Mail:
	Title:		Fax:			
Minority/Women-Owned Business (Optional)			☐ Minority-Owned	☐ Women-Owned	☐ Minority-Owned/ Women-Owned	

Provide the following information for all principal officers, directors, and senior managers. Additional sheets may be attached, if necessary.

Name of Person	Title (if applicable)	Responsibilities

Lender Functions		**Lender Type (Select Applicable):**							
☐	Originate	☐	Commercial Bank	☐	Federal Land Bank	☐	Broker	☐	Service Bureau
☐	Underwrite	☐	Mortgage Loan Co	☐	Credit Union	☐	Other	☐	State Housing Finance Agency
☐	Service	☐	Insurance Co	☐	Savings Bank	☐	Non-Traditional		
☐	Own	☐	Production Credit Association	☐	Bank for Co-Ops	☐	Small Business Investment Co		

Current eligibility designations [Paragraph 3.2 of Chapter 3 of this Handbook]: (Certification must be within the past 12 months)			
☒	**Agency Certifications (*Select applicable*)**	**Preferred Method of Evidence of Evidence/Certification (*Submit as supplemental information*)**	**Applicable Agency Assigned Identification**
☐	Fannie Mae	Fannie Mae Form 582, "Annual Eligibility Certification Report	
☐	Freddie Mac	Freddie Mac Form 16SF, "Annual Eligibility Certification Report"	
☐	U.S. Department of Housing and Urban Development – Federal Housing Administration (HUD-FHA)	Lender must be approved by HUD as a Title II supervised or non-supervised mortgagee for submission of one to four family housing applications for Federal Housing Mortgage Insurance or as an issuer of Ginnie Mae mortgage backed securities "supervised" or "non-supervised." Lender cannot be a correspondent only.	
☐	U.S. Department of Veterans Affairs (VA)	Any Lender approved as a supervised or non-supervised "automatic" mortgagee with direct lending authority for VA	
☐	State Housing Finance Agencies (SFHA)	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.	
☐	Farm Credit Service (FCS)	Lender must have direct lending authority. Provide Membership letter.	
☐	Lenders participating in USDA guaranteed loan programs.	Loan programs can be Rural Housing Service, Rural Business and Cooperative Service, Rural Utilities Programs and/or the Farm Service Agency.	
☐	Evidence of demonstrated ability in underwriting and/or servicing (if applicable).	☐ A summary of residential mortgage lending activity. ☐ Written criteria that outline the policies and procedures the lender typically follows when originating, underwriting, and closing residential mortgage loans. ☐ Evidence that the lender has an experienced loan underwriter on staff.	

List of Supplemental Information to be Submitted with Lender Approval Checklist [Check the box to indicate that each required document has been included with the lender approval request package.]			
1.	Form RD 3555-16	"Agreement for Participation in Single-Family Housing Guaranteed/Insured Loan Programs of the United States Government (Lender Agreement)	☐
2.	Resume	Evidence of Underwriter's qualifications and experience in the industry.	☐
3.	Retail Lender – Spreadsheet	If your firm is a **retail lender**, provide complete contact information (addresses, telephone numbers, fax numbers and e-mail addresses) for your branch locations, loan processing/underwriting departments, loan servicing, and a contact person for loan production. Information assists in populating Rural Development's lender record database.	☐
4.	Wholesale Lender or Servicing Lender-Spreadsheet	If your firm is a **wholesale lender or a servicing lender**, provide a general description of your services (loan processing, underwriting, table funding, loan servicing, real estate owned (REO) disposition, etc.) and provide complete contact information (address, telephone number, fax number, e-mail addresses) for your various departments, including regional account executives.	☐
5.	Outline	A brief outline of underwriting criteria from the lender's internal loan policy manual.	☐
6.	Statement	A statement agreeing to use forms approved by the Federal Housing Administration (FHA), Fannie Mae, or Freddie Mac, with a list of the forms to be used. (Do not submit the forms.) This statement can be included in the loan underwriting criteria.	☐

7.	Quality Control Plan	General requirements for quality control plans: • Must be in writing outlining policies and procedures along with any forms and checklists used in the process. • Employees must operate independently of loan origination and servicing departments or the lender/servicer may contract out this function. If this function is contracted out, the lender must adequately monitor the performance of the contractor. • Have procedures to report non-compliance to the highest levels of management. May be monthly or at the mot a quarterly basis. • Have procedures to report non-compliance or suspected misrepresentation to the appropriate regulatory authorities. • Identify training opportunities for lender/servicer staff. • Set timeframes for review and follow-up procedures. • Have procedures in place to monitor any third party originators (TPOs) • Include a consistent process to sample select and review SFHGLP loans.	☐
8.	Training Certification	Evidence of "New Lender Training" – see https://usdalinc.sc.egov.usda.gov/RHShome.do for one option available for mandatory new lender training. Review Section 3.2 of Chapter 3 for additional options available.	☐

Certifications/Acknowledgments

I certify I am a corporate officer and/or principal/owner of the above-named entity with the authority to legally bind the organization and to execute certifications and acknowledgements on behalf of the entity/organization named. I certify information provided and any accompanying documentation is true and accurate to the best of my knowledge and belief.

Name:		Title:	
Signature:		Date:	

Send the executed Lender Agreement, Checklist and Supplemental Information to one of the following addresses:

Single State Approval	*Multi-State or National Approval (by US Mail or Overnight Delivery)*	
Send to the Rural Development State Office Headquarters in the State lender approval is sought. To find the address and contacts, go to: http://www.rurdev.usda.gov/recd_map.html	USDA – Rural Development SFH/Guaranteed Loan Division STOP 0784, Room 2250-S 1400 Independence Avenue, SW Washington, D.C. 20250-0784	**Questions:** 202.720.1452 **Fax Number:** 202.205.2476 202.720.8795

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ATTACHMENT 3-B

NEW LENDER TRAINING

Mandatory training is required as part of the lender approval process. One option, in addition to those outlined at Section 3.4 A of this Chapter, is on-demand recorded training. Training is required for all originators and underwriters of the lender's organization. The lender will be required to certify training has been taken. For on-demand training at the lender's convenience, go to: https://usdalinc.sc.egov.usda.gov/.

The following demonstrates the visual steps in accessing the available training:

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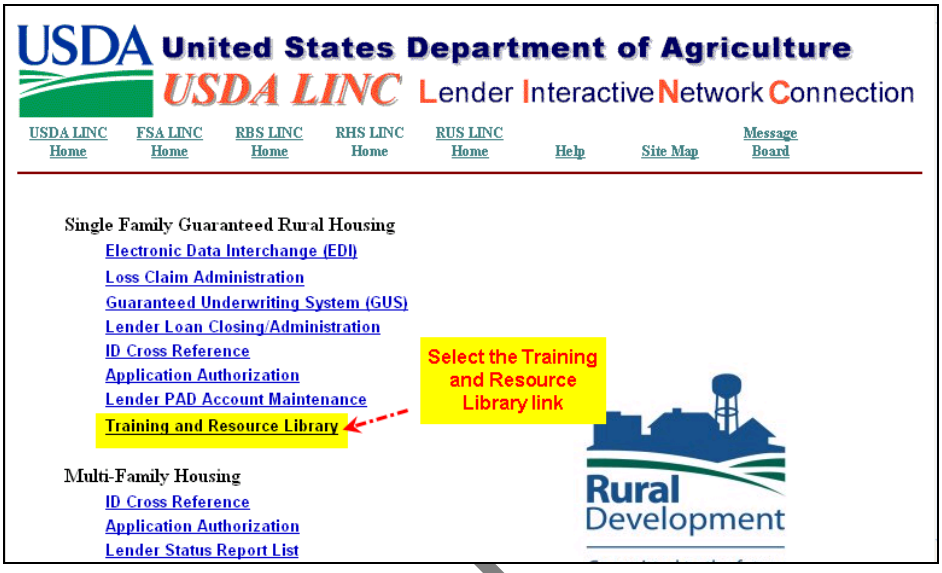
USDA United States Department of Agriculture
USDA LINC Lender Interactive Network Connection
USDA LINC Home
FSA LINC Home
RBS LINC Home
RHS LINC Home
RUS LINC Home
Help
Site Map
Message Board
Single Family Guaranteed Rural Housing
Electronic Data Interchange (EDI)
Loss Claim Administration
Guaranteed Underwriting System (GUS)
Lender Loan Closing/Administration
ID Cross Reference
Application Authorization
Lender PAD Account Maintenance
Training and Resource Library
Select the Training and Resource Library link
Multi-Family Housing
ID Cross Reference
Application Authorization
Lender Status Report List
Rural Development

USDA United States Department of Agriculture
USDA LINC Lender Interactive Network Connection
USDA LINC Home
FSA LINC Home
RBS LINC Home
RHS LINC Home
RUS LINC Home
Help
Site Map
Message Board
Use the scroll bar to reach the desired training and handouts.
USDA LINC Training and Resource Library
The documents and material contained in the USDA LINC Training and Resource Library use Adobe PDF and Adobe Flash formats. To view PDF files you must have Adobe Acrobat Reader installed on your computer. To view Flash files you must have Adobe Flash Player installed on your computer.
Single Family Guaranteed Rural Housing
Security (E-Authentication and Application Authorization System Module (AASM))
Training
Lender eAuth Training for SFH (FLASH)
Documentation and Resources
UNDER CONSTRUCTION

Guaranteed Underwriting System (GUS)

Training

GUS Overview Training (Flash)

GUS Lender Overview Training (Flash)

GUS Lender Advanced Training (Flash)

Documentation and Resources

GUS Training (PDF)

GUS Attendance Sheet (EXCEL)

GUS User Agreement (PDF)

Transmittal Sheet (PDF)

GUS User Guide (PDF)

LOS/POS Tested Listing(PDF)

Lender Loan Closing/Administration

Training

Lender's Steps to Closing SFH Guaranteed Loans (Flash)

Documentation and Resources

UNDER CONSTRUCTION

Select new lender training

Documentation accompanying training

New Lender Training

Training

Overview of SFH Guaranteed Loan Program (Flash)

Documentation and Resources

SFH Guaranteed Loan Training (PDF)

GRH Training Attendance Sheet (EXCEL)

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Single Family Housing Guaranteed Loan Program Mandatory Training

Lender Name: _____

Lender Tax ID #: _____

I certify the following participants completed mandatory Guaranteed Rural Housing Training.

Signed _____

Title _____ **Date** _____

Participant Name	Title/Position	Email Address	Phone Number	Date Training Completed

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Attachment C - SFHGLP LENDER APPROVAL
Rural Development Review

Refer to the *Lender File Review Guide* posted to the Agency's SharePoint website for review and documentation of lender approval files. The following will be required to complete the Lender Maintenance page in GLS:

Lender Name:	_____	
Lender ID/TIN#:	_____	
Doing Business As:	_____	
Address:	_____	
	_____	
City, State:	_____	
Zip + 4:	_____	
Telephone #:	_____	
Fax #:	_____	
Point of Contact:	_____	
E-mail ID:	_____	
Web URL:	_____	
Lender Type:	☐ **Commercial Bank** ☐ **Mortgage Loan Company** ☐ **Insurance Company** ☐ **Farm Production Assoc.** ☐ **Federal Land Bank** ☐ **Credit Union** ☐ **Savings Bank**	☐ **Bank for Co-Ops** ☐ **Broker** ☐ **Other** ☐ **Non-Traditional** ☐ **Small Business Co.** ☐ **Service Bureau** ☐ **SFH Agency**
Minority Owned Lender?	☐ **Yes** ☐ **No**	
Chartered State/Head Quarters	**Select the State** **State:** _____	

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CHAPTER 4: LENDER RESPONSIBILITIES [7 CFR 3555.51]

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/mainservlet.

4.2 OPERATE RESPONSIBLY

The lender must:

- Operate in a prudent and businesslike manner. A lender that maintains its approval from Fannie Mae, Freddie Mac, VA, or HUD is presumed to act responsibly as long as all other elements of the Lender Agreement are maintained.

- Establish and maintain adequate written policies for loan origination, underwriting, servicing, and quality control. The quality control plan must contain information as outlined in Attachment 3-A, Chapter 3 of this Handbook. It must be compliant for the organization on which approval is based and include a representative sampling of SFHGLP loans. The lender must provide copies of the quality control plan for Agency review.

4.3 MAINTAIN A WELL-TRAINED STAFF

A lender must ensure that its loan processors, underwriters, and servicers are fully trained to implement the SFHGLP properly. The lender must document either that it has provided its staff adequate training, or request training from the Agency before it originates SFHGLP loans.

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- **Maintain knowledgeable staff.** The lender must ensure that new staff members are trained on relevant SFHGLP areas. On a periodic basis, lenders are encouraged to seek refresher training for staff to promote efficiency and consistency in delivering the SFHGLP.

- **Performance improvement.** If the Agency finds that a lender needs to improve its overall performance, the Agency will require that the lender's staff participate in technical assistance or on-site training.

4.4 COLLECT LOAN PAYMENTS AND ENSURE PAYMENT OF TAXES AND INSURANCE

The servicing lender, or their representative, must collect the borrower's monthly payment and apply the funds to the borrower's account in accordance with the terms of the promissory note and mortgage. The servicing lender must maintain first lien position and ensure that real estate taxes and hazard insurance premiums are paid when they are due. If tax and insurance funds are collected from the borrower, they must be held in escrow in accordance with the RESPA, and must be deposited in an account insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA). A lender that is not able to hold funds in escrow must have a plan that ensures that taxes and insurance are paid, as described in Attachment 4-A.

4.5 MAINTAIN FIDELITY BONDING

The lender must maintain fidelity insurance covering its employees' errors and omissions at a level of coverage deemed prudent based on the size of the lender's operation. The fidelity bond or errors and omission insurance that is generally acceptable to the secondary market agencies (Ginnie Mae, Fannie Mae, and Freddie Mac) will meet Rural Development requirements.

4.6 SELL LOANS ONLY TO APPROVED LENDERS [7 CFR 3355.54]

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.

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Should a lender be unable to complete the sale of a loan due to the loss of the loan note guarantee 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.

B. Purchaser Risks and Responsibilities

The purchaser of a SFHGLP loan acquires all the rights of a loan holder under the guarantee. This means that, should there ever be a loss; the purchaser is entitled to file a loss claim with the Agency. However, the purchaser ~~also assumes all of the risks and obligations of the loan holder~~ must ensure that it properly fulfills all servicing obligations, and must provide the Agency any requested assistance for its program monitoring.

4.7 REPORT SIGNIFICANT CHANGES

The lender must immediately inform the Agency, in writing, of significant changes in its structure or status. Failure to keep the Agency informed of changes in accordance with *Form RD 3555-16* could lead to withdrawal of approval. Significant changes include instances where the lender:

- Changes its name, location, address, tax identification number, or corporate structure;
- Changes its fidelity bonding or errors and omissions insurance coverage;
- Becomes insolvent;
- Files for any type of bankruptcy protection, is forced into involuntary bankruptcy, or requests an assignment for the benefit of creditors;
- Takes any actions to cease operations, or discontinue servicing its SFHGLP portfolio;
- Becomes delinquent on any Federal debt, or is debarred, suspended, or sanctioned in connection with participation in any Federal program;
- Is debarred, suspended, or sanctioned in accordance with any applicable State licensing or certification requirement or regulation; or
- Wishes to withdraw from participation in the SFHGLP.

4.8 ADHERE TO SFHGLP GUIDELINES

The lender must follow all SFHGLP guidelines. Failure to comply could result in

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reduction or denial of a loss claim or revocation of approval to participate in the program. These program guidelines include:

- **Approved Forms**. The lender must use forms approved by the FHA, Fannie Mae, Freddie Mac, or FCS lenders only when forms are not provided by the Agency.

- **Eligibility Requirements**. The lender is fully responsible for ensuring that the loan applicant and property meet all SFHGLP eligibility requirements. This takes place during the underwriting process.

- **Underwriting Requirements**. The Agency approved lender is responsible for underwriting the loan even if an agent originates the loan.

- **Servicing Requirements.** The lender must comply with the loan servicing requirements in this handbook. The approved lender is responsible for proper servicing even if it has sub-contracted the servicing.

- **Monitoring Requirements**. The lender must submit all required reports and cooperate with all Agency monitoring efforts and information requests.

4.9 INDEMNIFICATION

If the Agency determines that a 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 and may also require the originating Lender:

(1) To indemnify the Agency for the loss, if the payment under the guarantee was made within 24 months of loan closing, when one or more of the following conditions is satisfied:

- 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 indentified in the appraisal or inspection report that affect the health and safety of the occupants or the structural integrity of the property;

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- 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, if the Agency determines that there was fraud or misrepresentation in connection with the origination of the loan of which the originating Lender had actual knowledge at the time it became such Lender or which the originating Lender participated in or condoned. Misrepresentation includes negligent misrepresentation.

4.10 PREVENT MORTGAGE FRAUD

Fraud is an intentional deception made for personal gain. It can come in the form of schemes or can be committed by borrowers and/or loan officers or agents on behalf of or representing the approved lender. It can involve the submittal of falsified information about employment, income or assets in order to qualify for a loan. Lenders remain accountable for the contents of a loan file, including:

- The sources of and authenticity of all qualifying documentation.
- Representation made on the loan application, such as occupancy, employment income, assets, equity contribution, etc.

Lenders must ensure they have adequate operational quality control procedures in place to help detect and effectively prevent mortgage fraud. Sound pre-funding quality control practices and a rigorous post-funding quality program are examples to safeguard against fraud. The quality control procedures should address updating company policies and procedures when fraud is discovered.

When a lender becomes aware of fraud, they must report the findings surrounding the discovery to the National Office. Include the following information:

- Provide the name, email address and telephone number of the company point of contact of the case reported.
- Indicate if the fraud involves origination or servicing.
- Indicate the originating lender (underwriting lender) and/or servicing lender, as applicable.
- Include the lender's taxing identification number and the lender loan number.

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- Agency borrower identification.
- Property street, city, state and zip code.
- Detailed description of findings.
- Identify the mortgage broker, loan officer, appraiser, closing agent, real estate agents, as applicable.

Refer to Chapter 1 of this Handbook for additional information regarding falsely submitted information, fraud and unauthorized assistance.

4.11 WITHDRAWAL OF APPROVAL

A lender's approval to participate in the SFHGLP does not expire as long as the lender is an active program participant who is complying with Agency guidelines, continues to meet the criteria of *Form RD 3555-16* and remains an eligible lender with Fannie Mae, Freddie Mac, HUD, VA or other lender approval criteria explained at Section 3.2 of Chapter 3 of this Handbook. The Agency may periodically require updated information to ensure the GLS lender file remains accurate. When the Agency withdraws a lender's approval adversely, the Agency retains the right to pursue debarment and other legal actions, as appropriate.

A. Criteria to Withdraw Approval

A lender's approval may be withdrawn when:

The lender is neither servicing loans guaranteed under the program, does not hold SFHGLP loans, nor has originated a SFHGLP loan in the previous 24 months. Updated training to ensure a lender's continued knowledge of the program may be required when lenders originate minimal loans in the previous 24 months.

The Agency will withdraw a lender's approval if the lender experiences uncorrected performance problems. The Agency will notify the lender in writing of the reasons for the termination and of its appeal rights as described in Appendix 3 of this Chapter. If a lender chooses to stop participating in the SFHGLP, the lender should notify the Agency in writing.

B. Sale of Loans upon Termination

Upon the Agency's termination of a lender's approval, any SFHGLP loans held by the lender must be sold within six months to an Agency-approved lender. Failure to sell the loans, if the lender is able to do so, may result in the Agency withdrawing its

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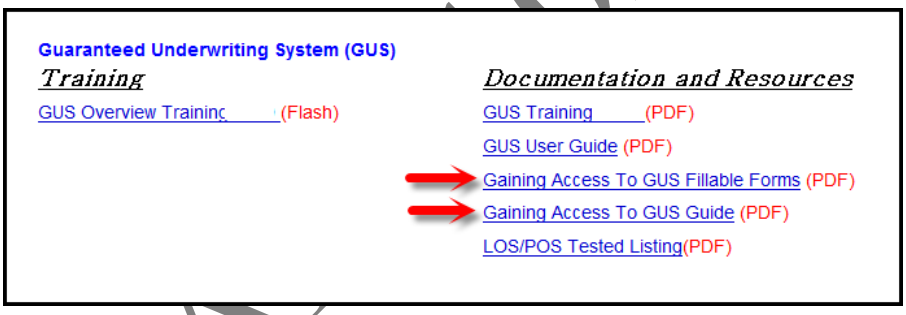
guarantee from the loans. If poor loan quality prevents the sale, the lender may continue to hold the SFHGLP loans in its portfolio; however, it must contract with an Agency-approved lender to conduct all servicing activities and give proper notifications to the Agency.

4.12 ADDITIONAL LENDER RESPONSIBILITES UPON APPROVAL

- *Guaranteed Underwriting System (GUS)*. An automated underwriting system is available to approved participating lenders. Lenders may utilize GUS by entering into a User Agreement. Information on obtaining access to GUS is provided in Section 5.3 of Chapter 5 of this Handbook. The following link provides a guide for gaining access to GUS, a Lender User Guide for utilizing GUS and the necessary forms to gain access:

  https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do

  Scroll to Guaranteed Underwriting System (GUS) to access documents and training.



- *Electronic Lender Loan Closing*. Lenders who have an approved lender participation agreement will be eligible to submit closed loans electronically to the Agency. The lender must execute a User Agreement to again access to the system. Payment of the fee will be electronic in lieu of paper check. Requesting and receiving the Loan Note Guarantee will be through the automated method. Additional information is provided in Section 16.3 B of Chapter 16 of this Handbook. An on-line user guide is available through the link provided above. Scroll to *Lender Loan Closing/Administration*.

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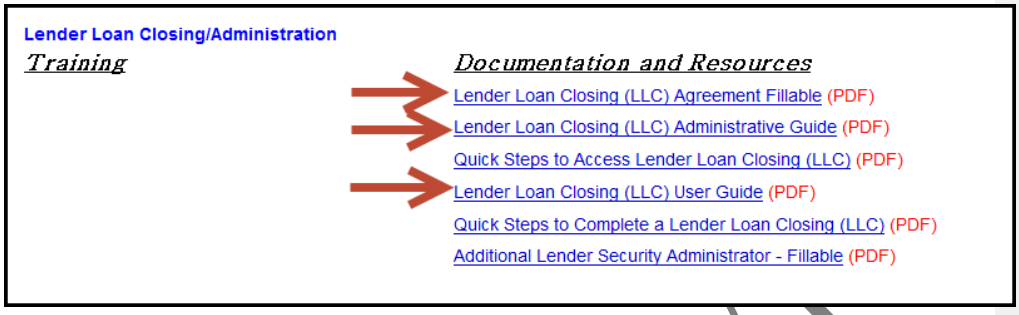

- *Payment of Annual Fees*. For loans subject to payment of annual fees, payment of such fees will be received electronically. Lender/servicers will enter into a User Agreement to receive automatic notification and electronically pay annual fees due. Lenders who fail to pay the annual fee when due will be subject to late fees. The late fee charged the lender for non-payment cannot be passed onto the borrower. The link noted above provides information on completing a User Agreement and utilizing the *Guaranteed Annual Fee* system. At the link provided above, scroll to Guaranteed Annual Fee (GAF) billing and payment.

- *Electronic Status Reporting*. Lender/Servicers who service SFHGLP portfolio are required to report monthly defaults and quarterly status reports of all SFHGLP loan serviced. Lender/servicers will enter into an Agreement to gain access to the reporting system. The link noted above provides information on completing a *Trading Partner Agreement* and utilizing the *Electronic Status Reporting (ESR)* system. At the link provided above, scroll to Electronic Status Reporting (ESR). Email questions or request for assistance to: RD.DCFO.GLB@stl.usda.gov. Refer to

Section 17.3 of Chapter 17 and Appendix 8 of this Handbook for additional information regarding electronic reporting.

Electronic Status Reporting (ESR)

Training	*Documentation and Resources*
UNDER CONSTRUCTION	ESR Implementation Guide (PDF)
	Trading Partner Agreement (TPA) (PDF)

- *Loss Mitigation, Property Disposition, Loss Claim Administration*. An automated method of processing loss mitigation requests pre-liquidation, property disposition and loss claim administration post-liquidation is available to participating lender/servicers. Lenders will enter into a User Agreement. Information on obtaining access is provided at the link noted above. At the link provided above, scroll to Loss Mitigation, Property Management or Loss Claim Administration and Servicing.

Loss Mitigation

Training	*Documentation and Resources*
Loss Mitigation Lender Training for SFH (Flash)	Loss Mitigation Servicer User Guide (PDF)
	Loss Mitigation Guide (PDF)

Property Disposition

Training	*Documentation and Resources*
UNDER CONSTRUCTION	UNDER CONSTRUCTION

Loss Claim Administration and Servicing

Training	*Documentation and Resources*
Lender's Steps to Processing and Submitting Loss Claims (Flash)	Frequently Asked Questions (PDF)
	Guaranteed Servicing Contact Information (PDF)
	Loss Claim Administration User Guide (PDF)
	Loss Claim Ready Reference (PDF)
	Trading Partner Agreement - Addendum E (PDF)
	RD Special Loan Servicing Final Rule (PDF)
	RD Special Loan Servicing Job Aid (PDF)

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ATTACHMENT 4-A

CONDITIONS FOR LENDERS NOT HOLDING FUNDS IN ESCROW

A lender who does not hold borrower funds in escrow for taxes and insurance should consider the following:

- The Agency's loan guarantee covers a maximum of twelve months' past-due real estate taxes and hazard insurance.
- Loan losses attributable to the borrower's failure to maintain appropriate hazard insurance will not be covered by the Agency's loan guarantee.
- Loan losses attributable to the borrower's failure to pay real estate taxes when due will not be covered by the Agency's loan guarantee.
- The lender will report annually to the Agency the number of borrowers who failed to pay real estate taxes and/or hazard insurance premiums and which resulted in the lender advancing funds on the borrowers' behalf.

Lenders who do not hold borrower funds in escrow should consider doing the following to minimize the risk of taxes and insurance not being paid:

- Prior to loan closing, the lender must extensively counsel applicants about the need for prompt payment of real estate taxes and hazard insurance premiums. Applicants must sign a statement indicating that they fully understand the significance of these obligations.
- The lender must include the estimated monthly tax and insurance expenses in the ratio calculations when determining the borrower's loan eligibility.
- The lender should encourage applicants to set money aside for taxes and insurance through payroll deductions or bank accounts with direct deposit.
- The lender must ensure that taxes and insurance are paid by monitoring insurance policy expiration, contacting the taxing authority annually, and reviewing local newspapers for tax delinquencies.

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ATTACHMENT 4-B

SAMPLE FOR ACKNOWLEDGMENT OF REAL ESTATE TAX AND HAZARD INSURANCE REQUIREMENTS

_____(Date)_____

I (We), _____, hereby acknowledge that _____(lender), has explained the requirements for monthly deposits, or set-asides for payment of annual real estate taxes and hazard insurance premiums. I (We), the undersigned, do state that I (We) understand and agree to set-aside _____ dollars each month ($ monthly amount) to pay real estate taxes and hazard insurance premiums when they are due.

_____(Borrower Signature)

_____(Borrower Signature)

_____(Lender)

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CHAPTER 5: ORIGINATION AND UNDERWRITING OVERVIEW

5.1 INTRODUCTION [7 CFR 3555.51(b)]

SFHGLP loans are originated and underwritten by approved lenders. However, the process of requesting, issuing, and receiving the loan guarantee is one in which the lender and the Agency must cooperate closely. Lenders must provide the Agency with clear and accurate information so that Agency staff can promptly determine whether the loan qualifies for a guarantee. At the same time, Agency staff must process loan applications quickly and accurately to avoid delays that might hamper the lender's efforts to close the loan efficiently.

Section 5.2 of this chapter covers manual origination and underwriting. Section 5.3 of this chapter covers the use of the Guaranteed Underwriting System (GUS), the Agency's automated underwriting system.

5.2 REQUESTING A GUARANTEE

Not all loans are appropriate for the SFHGLP. The lender should determine whether, based on preliminary information, it appears that the loan will meet the program's criteria. The lender should also ensure that the applicant is fully informed about the requirements of the program.

A. Preliminary Determination of Applicant Eligibility

In general, the program is most appropriately used to offset the risk of making high loan-to-value loans in rural areas. It is not intended to offset risks that stem from a poor credit history or poor property condition. In particular, the lender should review the following items to make a preliminary determination of the applicant's eligibility.

- **Income**. Does the combined annual adjusted income of all members of the applicant's household (not just those who will be signatories to the note) fall within the program's income limits? Annual and adjusted incomes are distinct from repayment income.

  Briefly, repayment income represents the income of parties to the note used to repay the loan. Annual income represents the entire household's combined income, regardless of whether the household members are loan applicants or not. Adjusted annual income represents the combined household income minus

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qualified household deductions. The adjusted annual income may not exceed the program's income limits, which determines the household's eligibility for a SFHGLP loan. Chapter 9 contains more detail about calculating annual adjusted income for program eligibility. Appendix 5 contains the current income limits. Adjusted annual income eligibility may also be checked online at http://eligibility.sc.egov.usda.gov/eligibility/ or by using the Agency's automated underwriting system, GUS.

Aside from meeting annual adjusted income requirements, the applicant must also have sufficient repayment income and meet additional program requirements. See Chapter 9 for more information about repayment income.

- **Ratios**. Do the applicant's PITI (Principal, Interest, Taxes and Insurance) and total debt (TD) ratios fall at or below the limits described in Chapter 11? Ratios are calculated using repayment income from applicants that will be a party to the Promissory Note. Please see Chapter 9 for more detail.

- **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.

- **Loan amount**. Is the loan amount supported by the appraisal's fair market value? If there is not yet a current appraisal, is the loan amount expected to be supported by the appraisal? Appraisals are addressed in Chapter 12.

- **Rural area**. Does the property appear to be in an eligible rural area as designated by program guidelines? If warranted, did Agency staff confirm that the property location was rural? The Agency encourages lenders and those involved in the origination package to verify a property's eligibility on the Agency's property eligibility website. Property eligibility in many cases may be checked online at http://eligibility.sc.egov.usda.gov/eligibility/ or by using the Agency's automated underwriting system.

- **Qualified alien/U.S. citizen**. Is the applicant a qualified alien or a United States citizen? If the applicant is not a U.S. citizen, they must produce evidence that they are qualified to receive Federal assistance and establish that they are a qualified alien. Alternately, Agency personnel can check a Department of Homeland Security (DHS) Citizenship and Immigration Services (CIS) database to determine eligibility. See Chapter 8 for more information.

- **Need for Guarantee**. Has the lender made a preliminary determination regarding the applicant's ability to obtain traditional credit?

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

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

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

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

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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.

B. Informing the Applicant

Before requesting a loan guarantee, the lender should take the following steps to ensure that the applicant has a general understanding of the SFHGLP.

- **Concept of a loan guarantee**. Describe to the applicant what a loan guarantee is, why it is used, and the benefits of a loan guarantee. Benefits include, but are not limited to: no required down payment and a fixed interest rate.

- **Loan guarantee fee**. Inform the applicant of the guarantee fee to be paid at loan closing.

- **Annual fee**. Inform the applicant of the annual fee, if applicable.

- **Occupancy**. Inform applicants that they must occupy the property as their principal residence.

- **SFHGLP requirements**. Inform the applicant of program requirements such as income limits, property location eligibility, debt ratio thresholds, and other requirements such as the Debt Collection Improvement Act (DCIA) outlined on *Form RD 3555-21*.

5.3 UTILIZING THE GUARANTEED UNDERWRITING SYSTEM [7 CFR 3555.107(3)(b)]

The Guaranteed Underwriting System (GUS) was developed to automate the process of credit risk evaluation for the SFHGLP. Automated underwriting (AU) systems are an efficient, consistent, objective and accurate method of mortgage underwriting compared with traditional manual methods. GUS is a tool that helps evaluate the credit risk of the loan request. It compliments, but DOES NOT replace the considered judgment of experienced underwriters.

GUS incorporates applicant eligibility and underwriting requirements of this Handbook by utilizing a modified version of the Federal Housing Administration (FHA) mortgage scorecard known as Technology Open to Approved Lenders (TOTAL) concurrently with a rules based engine. GUS is accessed through a secure web-based automated underwriting environment at: https://usdalinc.sc.egov.usda.gov/. GUS considers mortgage loan application data entered by the approved lender, credit repository

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data, and income and property information to evaluate a potential borrower's ability to meet a proposed mortgage obligation. GUS evaluates select components in a mortgage loan application and provides a credit evaluation and underwriting recommendation within seconds. GUS is not designed to evaluate the dependability of an applicant's income proposed for repayment. This remains the underwriter's responsibility to determine prior to final submission. Refer to Chapter 9 of this Handbook to determine adequate and dependable income for repayment ability. Lenders are reminded that data entered into GUS must coincide with that of the lender's permanent case file.

A. Functionality of GUS

Incorporated within the functionality of GUS are the following components:

Property and Income Eligibility

- The dwelling offered as collateral for the proposed mortgage loan is located in an eligible rural area; and

- The applicant's annual adjusted household income meets the adjusted income limits in accordance with size of household, county and State in which the applicant(s) will reside.

Rules Based Engine

- The Engine incorporates the guidelines found in this Handbook regarding originating SFHGLP loans.

- Periodically new rules may be created to respond to issues analyzed within the SFHGLP portfolio.

Scorecard

- GUS uses a modified version of the FHA mortgage scorecard known as TOTAL exclusive to Rural Development.

- The scorecard has been validated and adjusted for SFHGLP use.

- The TOTAL scorecard, including the modified version validated for SFHGLP use, is intellectual property that is proprietary to HUD.

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- Factors considered under the scorecard include credit history, payment-to-income ratios, and loan-to-value ratios.

- The scorecard allows favorable consideration to applicants that exhibit positive compensating factors such as available reserves for housing payments after loan closing.

- Periodically the scorecard may be modified to react to the changing lending market. When modifications occur, loans remaining as a preliminary recommendation may not receive the same underwriting results upon a final submission.

Credit Bureau Interface

- GUS links with hundreds of credit providers nationwide. Users may link to a full list of credit providers at: https://www.efanniemae.com/sf/refmaterials/creditproviders/index.jsp

- An interface occurs between GUS and the credit bureaus through a platform known as the Fannie Mae Credit Interface Service (CIS).

- The interface is seamless to lenders and only acts as a conduit. An attempt to access information from all national credit repositories will occur, but GUS can complete its credit risk evaluation with information from only one repository.

- New or re-issued credit can be pulled through GUS.

- Credit reports pulled through GUS are valid for 120 days for purchase loans and ~~180 days for~~ new construction, unless the credit provider's expiration is more restrictive.

- Lenders are not required to be a Fannie Mae subscriber or partner to utilize the credit report interface in GUS.

B. Gaining Access to GUS

Approved lenders may utilize GUS, as an optional tool. A step-by-step guide, "Gaining Access to GUS" may be used as a resource tool by lenders seeking to gain access and approval to utilize GUS. With the present version of GUS, only those lenders

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who have active Lender Agreements are eligible to utilize GUS. Lenders who utilize this system will be required to enter into a User Agreement and obtain authorized access through the use of an eAuthentication account and password. An on-line user guide covering the step-by-step process of gaining access to GUS may be obtained at: https://usdalinc.sc.egov.usda.gov/RHShome.do under the Training and Resource Library menu.

C. Underwriting Guidance for Lenders

A Lender User Guide, designed to assist approved lenders who utilize GUS, may be obtained at the website and menu noted above in Paragraph 5.3.B of this Chapter.

GUS evaluates the overall creditworthiness of the applicant(s) based upon a number of credit variables and, when combined with remaining functionalities of GUS indicates a recommended level of underwriting to determine a loan's eligibility for a SFHGLP guarantee. GUS will conclude that the credit and capacity for repayment of the mortgage are acceptable or will refer the loan to an underwriter for further consideration, review and manual underwriting. Regardless of the underwriting recommendation provided, the lender remains accountable for compliance with SFHGLP eligibility requirements, as well as any credit, capacity, and documentation requirements. No borrower should be denied a SFHGLP guarantee solely on the basis of a risk assessment generated by GUS.

D. Compatible Loan Origination System (LOS) and Point of Sale (POS) Vendors

A single file import feature is available in GUS. GUS currently accepts the Mortgage Industry Standards Maintenance Organization (MISMO) AUS 2.3.1 .xml exported files, Fannie Mae 3.2. file format. LOS and POS vendors who have submitted an exported test file from the vendor's system and successfully imported to GUS are published at the following website under "GUS Documentation."

https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do

E. Cash Reserves

Although cash reserves after closing are not required for the SFHGLP, cash reserves are considered in the risk assessment provided by GUS. When disclosing the assets of the borrower on the "Assets and Liabilities" page of GUS, lenders have the responsibility to determine if the asset is liquid or readily converted to cash and can be done so absent retirement or job termination. Assets such as 40l (k)s, IRAs, etc. may be included in the underwriting analysis up to only 60 percent of the vested value. Funds borrowed against these accounts may be used for loan closing, but are not to be considered as cash reserves. Funds from gifts from any source ~~are~~ will not ~~to~~ be included in the cash reserves

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calculation in GUS. The most recent 2 month average of liquid accounts such as checking or savings accounts may be considered as cash reserves. Documentation of assets will be retained in the lender's permanent case file.

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 2 month average 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 balance. The true calculated value will be input on the "Assets and Liabilities" page of GUS.

Assets may also influence program eligible income. Refer to Paragraph 9.4 of Chapter 9 for additional information regarding assets and program eligible income.

F. Established Data Tolerances

Loan application date submitted to the Agency must reflect a true and accurate representation of the loan to be closed. This data must match the loan file submitted to the Agency when requesting the Conditional Commitment for Loan Note Guarantee or fall within the tolerances established by the Agency.

Tax and Insurance Escrows: Approved lenders must ensure that an accurate estimate for the property tax/insurance component of an applicant's monthly mortgage payment is utilized when submitting loan applications to the Agency. Care must be taken to assume a realistic estimate is used for computing the monthly escrowed amount. The escrowed amount for real estate taxes is based on the assessed value of improved land (i.e. value of both the property and the completed dwelling) for new construction and the actual taxes assessed for existing properties. The lender may contact the taxing authority which has jurisdiction over the property to obtain an estimate of the taxes to be assessed for newly constructed homes. Minor changes to the escrow portion of the monthly housing expense do not require the mortgage application to be reconsidered. This guidance is applicable to manually underwritten files and those files electronically submitted by lenders utilizing GUS. Specifically, it is not necessary for the lender to perform an updated underwriting analysis of a loan file that has received a Conditional Commitment for Loan Note Guarantee when monthly tax and insurance estimates do not increase the payment-to-income principal, interest, taxes, and insurance (PITI) and debt-to-income total debt (TD) ratios by more than two-percentage points at closing. A small increase to monthly tax and insurance payments would not typically cause a substantial change in risk classification of the proposed real estate loan. This tolerance threshold

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applies only to situations where tax and insurance data provided on the loan application, at time of Conditional Commitment, differs from the amount recorded at loan closing.

The threshold policy for tax and insurance escrow should not be construed to allow lender manipulation of escrow variables to obtain approvals. The Agency reserves the right to request and review files from lenders that are suspected of purposely underestimating tax and insurance payments in order to secure a commitment or loan guarantee.

Income: Verification of income shall be obtained prior to final submission. Therefore data entered in GUS is supported with verifying documentation of income in the lender's permanent loan file. Data tolerances for confirmed income are not available to approved lenders. Income shall be verified and documented in accordance with Chapter 9 of this Handbook.

Liquid Assets: Asset data reflected in GUS must be supported by verification documentation. The final submission will reflect the verified amount. Guidance regarding verifying assets can be found at Paragraph 9.4 of Chapter 9.

G. GUS Findings and Underwriting Report

The responsibilities associated with producing loans of acceptable quality for loan guaranteed by the Agency remains the same for a GUS evaluated loan or manually underwritten loans. When a lender enters mortgage loan data into GUS and requests a loan underwriting evaluation, a two part underwriting summary is delivered to the lender through a GUS Underwriting Findings Report. The first portion of the underwriting summary will render an underwriting recommendation of ACCEPT, REFER or REFER WITH CAUTION. An INELIGIBLE or UNABLE TO DETERMINE may also be delivered. The underwriting recommendation is followed by a risk evaluation of ELIGIBLE, INELIGIBLE, or UNABLE TO DETERMINE. The second portion represents a combined analysis of property, income, loan eligibility and borrower eligibility.

The GUS Findings and Underwriting Report will provide feedback messages for lenders. The lender must review the feedback messages.

The final submission of the last scoring event must be retained in the lender's permanent loan file. Lenders who utilize GUS to obtain their underwriting recommendation do not need to prepare a Uniform Underwriting Transmittal Summary (FNMA Form 1008/Freddie Mac Form 1077), or equivalent, to document the underwriting analysis and decision if the underwriting recommendation is an "Accept."

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The Agency commitment will reference the GUS findings report as a condition of guarantee loan approval.

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H. Lender Steps When Requesting a Commitment

1. Ensure the data entered in GUS is true, complete and accurate.

2. Verify the entire loan package meets all SFHGLP requirements.

3. The approved lender's underwriter must review and confirm the loan package meets SFHGLP requirements and underwrite the appraisal.

4. Submit the file by GUS as a "Final Submission" to electronically transmit the loan application to the Agency.

5. If the loan is a "Refer or Refer with Caution," the underwriter must determine if the borrower is creditworthy in accordance with SFHGLP credit policies and guidelines. If approved by the approved lender's underwriter, submit the file by GUS as a "Final Submission" to electronically transmit the loan application to the Agency. Full documentation files are required for loans receiving a "Refer" or "Refer with Caution" when using GUS.

I. GUS Underwriting Recommendations

Based on the analysis of credit, capacity and other loan characteristics, GUS will render an underwriting recommendation. The recommendation is based upon the data entered in GUS with the representation from the lender that the data is true, complete and accurate. The following represent possible underwriting recommendations with guidance on documentation to be submitted to the Agency when requesting a Conditional Commitment for Loan Note Guarantee.

ACCEPT/ELIGIBLE Underwriting Recommendation

Minimal documentation provisions apply to GUS underwriting recommendations that receive an ACCEPT. The lender may submit the following completed documents to obtain a Conditional Commitment, unless a quality control message on the GUS Underwriting Findings Report indicates a full documentation file is required. A quality control message requiring a full documentation file will appear on the GUS Underwriting Findings Report upon final submission.

1. "Uniform Residential Appraisal Report" (URAR) for single family dwelling units or its equivalent, or condominiums or manufactured homes [FNMA Form 1004 or Freddie Mac Form 70]

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2. "*Standard Flood Hazard Determination Form*" [*FEMA Form ~~81-93~~086-0-032*]

3. "*Request for Single Family Housing Loan Guarantee*" [*Form RD 3555-21*]. This form must be fully executed by the lender or the lender's representative, and all applicants. The form must represent the request of the lender. If an interest rate is floating at commitment request, the lender should include the lock in date for confirmation by the Agency. Once the Conditional Commitment is issued if the loan is adversely affected by an increase in interest rate upon lock the loan must be resubmitted to GUS for underwriting prior to loan closing. An increase in interest rate could affect the eligibility of the loan.

4. Lender's worksheet for documenting eligible household income and repayment income. Refer to Chapter 9 for additional guidance.

5. Final GUS Underwriting and Findings Report.

If the loan applicant is a qualified alien, a buydown is involved, or the property is located in a community property state and there is a non-purchasing spouse additional documents may be required.

Accurate data is the responsibility of the approved lender. By submitting the mortgage loan application request through GUS as a final submission, the lender is representing that the data input is true, complete, accurate and verified. Underwriting is the responsibility of the approved lender. Lenders are required to review the results of the GUS findings and credit reports. If necessary, make data changes and resubmit the loan to GUS. Approved lenders then make a lending decision using the Findings Report obtained from GUS, credit report(s), stable and dependable income, employment, assets, collateral and other file documentation.

Only a nominal amount of time by Agency personnel should be spent on GUS mortgage loan applications receiving an ACCEPT. During the review process, should data appear to be questionable, the Agency reserves the right to request further supportive information. Files may be selected for full file review if the lender is a new user to GUS, has demonstrated a disregard for Agency policies and procedures, has a high first year delinquency rate, or loss payments in excess of the national average. Randomly, full documentation of a file in lieu of minimal documentation noted above will be requested when receiving an underwriting recommendation of ACCEPT. This random selection is for quality control purposes. A message on the lender's final pass of underwriting will confirm when a full documentation file is required. Full file documentation reviews are

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to confirm the data input into the GUS file accurately reflects that of the lender's file and documentation.

Mortgage loan documents may be photocopied, scanned, emailed, faxed or delivered by regular or express mail. All documents must be clear and legible. The preferred method for receiving documents from lenders is electronic through the state general email delivery box. A list of state general email delivery addresses may be found at the following website: https://usdalinc.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.

ACCEPT/INELGIBILE Underwriting Recommendation

Loans receiving this recommendation have been determined as meeting the SFHGLP risk standards for loan guarantee; however do not meet certain eligibility guidelines. Typical reasons for an ACCEPT/INELIGIBLE recommendation may include:

- Property not located in a rural area
- Program eligible income exceeds Rural Development guidelines
- Non-owner occupied transaction
- Not a qualified alien

Loans that receive a recommendation of ACCEPT/INELIGIBLE may still be eligible for a Rural Development loan guarantee. To achieve eligibility, the lender's underwriter should analyze the findings report and determine the basis for the ineligibility and determine if the reason for ineligibility can be resolved in order to comply with Rural Development guidelines. Issues that caused the loan to be ineligible may be resubmitted to obtain a correct underwriting recommendation.

REFER or REFER WITH CAUTION Underwriting Recommendation

GUS loans receiving an underwriting recommendation of REFER or REFER WITH CAUTION will require further review by the lender. Risk factors have been identified based upon the data entered into GUS. The credit risk evaluation represented by a REFER WITH CAUTION is greater than the credit risk of loans that receive a REFER. Lenders should practice extreme care in their underwriting analysis and decisions when underwriting a loan file receiving a REFER or REFER WITH CAUTION recommendation. The lender's underwriter must perform a manual underwriting evaluation of the mortgage loan application to determine if the borrower is creditworthy

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in accordance with SFHGLP credit policies and guidelines. Lenders must submit full documentation files as noted in Chapter 15 of this Handbook for manually underwritten files for GUS underwriting recommendations of REFER or REFER WITH CAUTION. Credit documentation, mitigating circumstances, and compensating factors considered in the manual underwriting analysis should be recorded in the lender's permanent case file. Compensating factors considered in the evaluation of the mortgage loan application should be documented on the underwriting analysis and summary [typically the Uniform Underwriting Transmittal Summary – FNMA Form 1008/Freddie Mac Form 1077 or equivalent].

Loans should not be denied solely on the basis of a risk evaluation generated by GUS. Mitigating circumstances according to Agency standard guidelines may be considered.

J. Lender's Reliance on the GUS System

Lenders who utilize GUS represent and agree that they will not rely principally or exclusively on the GUS System in determining whether or not credit will be extended to any applicant. The lender remains responsible for the loan qualifying decision in addition to eligibility of the household for the SFHGLP.

K. Lender's Permanent Loan File - Documentation Requirements

The lenders permanent case files must be supported with the following verified documentation, regardless of the GUS recommendation:

- Credit history;
- Annual Adjusted Income – determined for program eligibility;
- Stable and Dependable Income – determined for repayment and qualifying purposes;
- Assets – for income calculation and compensating factor analysis;
- Collateral requirements; and
- Any other documentation supporting the mortgage loan request.

Stable and dependable income will be documented in accordance with Chapter 9 of this Handbook and remains the responsibility of the lender. GUS does not evaluate or predict the stability of an applicant's continuance of income. This determination is performed by the lender prior to final submission of an application.

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L. Resubmission Policy

The lender is responsible for the integrity of the data used to obtain an underwriting evaluation in GUS. If data changes during the loan application stage, after Conditional Commitment or prior to loan closing, the GUS underwriting recommendation could be compromised. Lenders are responsible for resubmitting the loan to GUS when material changes are discovered. Lenders must follow Paragraph 15.7 of Chapter 15 of this Handbook prior to closing a loan. **Any request to release GUS for data updates after issuance of a Conditional Commitment will be treated as a new request, processed in date order of applications received.** Under the following conditions, lenders must resubmit the loan through GUS for an updated evaluation:

- Borrowers were either added or deleted from the loan application or critical information has changed.
- A **decrease** in the borrower's income and/or cash assets/reserves.
- An **increase** in loan amount or interest rate on the mortgage loan request.
- Any changes that would negatively affect the borrower's ability to repay the mortgage.
- Information regarding the property changes – such as a change in sales price or value.

The lender must request the loan be released from the Agency to the lender. The lender should modify the data and resubmit the loan through GUS for an updated final evaluation underwriting recommendation.

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

M. Lender's Representations to the Agency upon Final Submission

The lender represents as of the date of final submission to the Agency the following:

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- All terms, conditions and requirements of the SFHGLP are fully satisfied.
- All representations submitted by the lender are true and correct.
- The lender is in compliance with its agreements contained in documents to participate in the SFHGLP and utilize the GUS System.
- The lender has not misstated or omitted any material fact about the mortgage loan request for guarantee.
- Applicable laws and terms of the note and security instruments have been correctly and timely disclosed to the applicant(s).
- The lender represents that all persons executing documents on behalf of the lender are duly authorized to do so.

N. Termination

GUS is a tool to assist lenders in their underwriting decisions. The Agency reserves the right to terminate the lender's access to GUS in the event of any default under the terms of the agreement to utilize GUS or any lender's suspension, withdrawal or termination of approval to participate in the SFHGLP.

Other than a lender's suspension, withdrawal or termination of approval to participate in the SFHGLP, a lender may be suspended from accessing GUS if (not all inclusive):

- A lender fails to provide the Agency with information that is true, complete and accurate.
- Omission of any material fact on any application, other documents, or oral representation made to the Agency when seeking a Loan Note Guarantee.
- A lender has a 30-, 60- or 90- day delinquency rate or loss claim rate more than 50% higher than the average 30-, 60- or 90- day delinquency rate or loss claim for all guarantees issued in the Agency's portfolio. This can be measured within a geographic area of the nation also.
- Misuse of GUS in accordance with terms and conditions of the agreement to utilize the System.

Emphasis of any evaluation conducted will be placed on the risk that the loan(s) poses to the Agency.

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Agency Actions

- Initially, contact the lender to ensure a firm understanding of the lender's terms and conditions of the use of the GUS System. Firm evidence of any violations must be discussed and addressed.

- Follow up the initial communication with a written notice outlining the agreed upon plan to improve.

- Allow a lender a reasonable time frame to institute a remedy and represent improvement to the identified findings.

- Monitor the lender for improvement.

- After continued evaluation of findings and results to improve, if the lender fails to comply, refer the lender's lack of conformance to the National Office. States must support the referral with a recommendation of action, supported by the state's actions and attempt to remedy and improve results with the lender.

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CHAPTER 6: LOAN PURPOSES
7 CFR 3555.101

6.1 INTRODUCTION

SFHGLP loan funds can be used to acquire new or existing housing that will be the applicant's principal residence, and 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.

6.2 ELIGIBLE LOAN PURPOSES

Guaranteed loan funds must be used to acquire a new or existing dwelling to be used as a permanent residence and may be used to pay costs associated with such an acquisition. Residential properties must be residential in use, character and appearance. Loan funds may be used for the following purposes:

- Acquiring a site with a new or existing dwelling;
- Repairs and rehabilitation when associated with the purchase of an existing dwelling;
- Reasonable and customary expenses associated with purchasing a dwelling; and
- Refinancing under specific situations.

A. Acquiring a Site and Dwelling

Loan funds may be used to acquire a site with a new or existing dwelling that meets the Agency's site, dwelling, and environmental requirements, or will meet the Agency's requirements once planned rehabilitation or repair work is completed. These requirements are addressed in Chapter 12 of this Handbook.

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. The exception to this rule is completion of exterior work or minor interior work. Repairs and rehabilitation are addressed in Chapter 12 of this Handbook.

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C. Reasonable and Customary Expenses Associated With Purchasing a Dwelling

The program allows loan funds to be used for expenses associated with purchasing a dwelling as long as they are reasonable and customary for the area. These expenses may include the following items:

- **Loan Acquisition Expenses**. These include legal, architectural, and engineering fees, title clearance costs, and insurance costs. The guarantee fee and fees for appraisal, surveying, tax monitoring, expenses for homeownership education counseling, and other technical services associated with obtaining the loan may also be included. Paragraph 16.4 B of Chapter 16 of this Handbook provides information on the guarantee fee structure.

- **Reasonable Lender Fees**. Reasonable lender fees may include an origination fee and other fees and charges. Lender fees 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 calculation.

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

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- **Design Features or Equipment for Physical Disabilities.** Special design features or permanently installed equipment to accommodate a household member who has a physical disability is an eligible loan purpose. The purchase of personal items for such individuals, such as wheelchairs, is not an eligible loan purpose.

- **Connection, Assessment and Installment Fees.** Reasonable and customary connection fees, assessments, or the pro rata installment costs for utilities such as water, sewer, electricity, and gas for which the buyer is liable are eligible costs.

- **Taxes and Escrow Accounts**. A pro rata share of real estate taxes that are due and payable on the property at the time of closing and funds for the establishment of escrow accounts for real estate taxes, hazard and flood insurance premiums, and related costs are eligible costs.

- **Essential Household Equipment.** Loan funds can be used to pay for essential household equipment such as wall-to-wall carpeting, ovens, ranges, refrigerators, washers, dryers, and heating and cooling equipment as long as the equipment is conveyed with the dwelling, and such items are normally sold with dwellings in the area.

- **Energy Efficiency Measures**. Loan funds can be used for purchase and installation of measures to promote energy efficiency, such as insulation, double-paned glass, and solar panels.

- **Broadband**. Loan funds may be used to install fixed broadband service to the household, as long as the equipment is conveyed with the dwelling.

- **Site Preparation.** Site preparation activities, including grading, foundation plantings, seeding or sod installation, trees, walks, fences, and driveways, are eligible costs.

D. Refinance [7 CFR 3555.101(d)]

Refinances under the SFHGLP are permissible under the following conditions.

1. Construction Financing

Refinancing is allowed for "take out" purposes when financing to construct a new dwelling, or to improve an existing dwelling~~, is arranged as a part of the loan package approved for guarantee by the Agency~~. The guarantee fee structure for this type of financing will be considered a purchase loan.

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- 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 is to obtain the interim construction financing. The second closing obtains the permanent financing when improvements are completed.
- The lender is responsible 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-month period. The 12-month period must have occurred directly prior to permanent financing.
- Credit document standard guidelines apply.
- New construction documentation (certified plans and specifications, inspections and warranty) as outlined in Chapter 12 applies.
- The Loan Note Guarantee will be issued on the permanent financing, once construction is complete.

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 dwelling will be constructed on the site prior to issuance of the loan note guarantee; and

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- ~~Construction financing is arranged as part of the loan package to construct an appropriate dwelling on the site for the applicant's use.~~

- The lender is responsible 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-month period. The 12-month period must have occurred directly prior to permanent financing.

- Credit document standard guidelines apply.

- New construction documentation (certified plans and specifications, inspections and warranty) 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 Guaranteed Loans

The intent of the refinance feature of the SFHGLP is to give existing SFHGLP 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 loan to be financed must be 100 basis points below the rate of the existing loan to be refinanced. Applicants must meet all existing eligibility requirements. 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. Attachment 6A provides a brief reference to the following refinance options available in this Chapter.

Two options for refinancing are available:

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Non-streamlined refinance. The non-streamlined refinance option requires an appraisal. 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. The Guaranteed Underwriting System (GUS) may be utilized when requesting a non-streamlined refinance.

Streamlined refinance. Lenders may offer a streamlined refinance without obtaining a new appraisal. 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 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 that are in good standing every consideration when applying for a SFHGLP refinance loan. SFHGLP refinance loans may <u>not</u> 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.

a. Loan Terms and Conditions

- The term of the loan must be 30 years.
- The interest rate of the new loan must be a fixed rate. The rate of the new loan must be at least 100 basis points below the original rate of the loan refinanced.
- Funded 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 income for the household cannot exceed the moderate level for the area.

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- An approved SFHGLP lender must make the 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 principal of the amount of loan to be refinanced.

- 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" from the refinance transaction. However, 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, such as late fees due the servicer, are not eligible to be included in the new loan amount.

- SFHGLP refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made.

- As part of the refinance transaction, additional borrowers may be added to the new SFHGLP loan. Existing borrowers may be deleted from the current loan. All applicants that will be a party to the promissory note for the new loan must meet

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all eligibility requirements. At least one of the original borrowers must be retained to qualify as a refinance transaction.

- To be eligible for a refinance, the original loan must have closed at least 12 months prior to the Agency's receipt of a conditional commitment request for refinance.

- To be eligible for a refinance, the existing loan must have been current for the 180-day period prior to the Agency's receipt of a conditional commitment request to refinance.

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:

- Signed copy of the loan application.

- Current credit report.

- Any late mortgage payments within the past 36 months on the existing SFHGLP loan 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.

- 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.

- Applicants and lenders will sign *Form RD 3555-21, "Request for Single Family Housing Loan Guarantee."*

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- A complete Uniform Residential Appraisal Report (URAR) will be required in cases as defined in this section. This is considered a non-streamlined refinance option.

- Property inspections are not necessary. Although Rural Development does not require repairs to be completed for refinance transactions, 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.

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c. Submission Process

- Lender. After underwriting and approval of the loan, the lender will submit the loan application package for Agency 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 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 developed in the community, that may impact the application and require further analysis as prescribed in RD Instruction 1940-G.

- The Agency will establish an application in GLS. Both streamlined and non-streamlined refinance transactions developed with the assistance 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.

- Following Rural Development approval, funds will be obligated in GLS and a conditional commitment issued.

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

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being charged excessive fees as part of the new loan. Discount points are not eligible to be financed, except for low-income applicants. 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 guarantee fee may be financed into the 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.rurdev.usda.gov/rd_instructions.html.

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.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 Finance Office, Guaranteed Loan Branch, Attn: FC-350 by Fax at (314) 457-4279 or by email at RD.DCFO.GLB@stl.usda.gov.

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h. Guaranteed Loan System (GLS) Reporting

- All SFHGLP refinance loans should be coded with an accurate type of assistance code as referenced in Chapter 14 of this Handbook.

i. Funding Limitations

- There will be no limit placed on the number of refinance loans made from the allocation at this time. Refer to Chapter 14 of this Handbook for additional information regarding funding.

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.

4. Existing Section 502 Direct Loans

When the Agency has determined that a 502 direct borrower may be eligible to refinance with private credit, the option to attempt a refinance with a SFHGLP loan may be offered to the borrower. It will be the option of the borrower to contact a SFHGLP lender or pursue other refinance credit. If the borrower elects to refinance with a SFHGLP loan, the same process described above for Section 502 Guaranteed loans will apply, with the following exceptions:

a. Section 502 Leveraged Loans

- The SFHGLP may not be used to refinance Leveraged Loans. Leveraged Loans are loans from a non-Rural Development source closed simultaneously with a 502 direct loan. The private sector lender takes a first lien; Rural Development takes a second lien on the same property. Because the first lien is not funded or guaranteed by Rural Development, it is statutorily prohibited to refinance Leveraged Loans.

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 payoff may be included into the amount being financed with the SFHGLP loan subject to maximum loan of refinance. Alternatively, any

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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.

E. Supplemental Loans

When an existing SFHGLP loan is being assumed, a supplemental loan can be provided if funds are needed for seller equity, closing costs, or essential repairs. See Chapter 17 of this Handbook for a detailed discussion of transfers and assumptions in the SFHGLP.

6.3 PROHIBITED LOAN PURPOSES

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

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

- **Income Producing Property**. Purchase or improvement of income-producing land or buildings that will be used principally for income producing purposes is not allowed. ~~Farm-related property cannot be acquired under this program.~~ Vacant land or properties used primarily for agricultural, farming or commercial enterprise are ineligible. A minimal income-producing activity, such as maintaining a garden that generates a small amount of additional income, does not violate this requirement. A qualified property must be predominantly residential in use, character and appearance. Refer to Chapter 12 of this Handbook for additional information on qualifying a property.

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

- **Lease Payments.** Payment on any lease agreement associated with the proposed real estate transaction is prohibited.

- **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 interest party under local, state law, or local custom are not considered in the maximum contribution calculation.

- **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 ATR/AQM rule. The SFHGLP up-front guarantee fee and annual fee is not included in the three percent lender fee calculation.

6.4 AGENCY REVIEW OF LOAN PURPOSES

The Agency will review the purposes for which guaranteed loan funds are being used before issuing a conditional commitment of loan guarantee. If the Agency discovers loan funds are to be used for an ineligible purpose, the Agency will contact the lender and attempt to resolve the situation prior to making a determination on the loan guarantee. Loan purposes also will be reviewed during the Agency's on-site monitoring process to ensure that the lender has an accurate understanding of allowable and prohibited loan purposes. See Chapter 20 of this Handbook for a detailed discussion of how the Agency handles loss claims for loan funds that were used for an ineligible purpose.

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Attachment 6-A: Refinancing Rural Development Mortgages - *This summary is intended for reference.*

		Refinance Type ***Guaranteed Loan to Guaranteed Loan***	**Refinance Type** ***Direct Loan to Guaranteed Loan***
Lender Eligibility	**Eligible Lenders**	▪ Any lender who has been approved by Rural Development and holds an active lender agreement (Form RD 3555-16 or earlier version). ▪ Approved lenders are responsible for loan underwriting and will be issued a Conditional Commitment if all eligibility requirements are met. ▪ Approved lenders may utilize the services of an agent for processing refinance loans.	
Types of Refinancing	**Processing Types**	▪ Streamlined refinance • No appraisal; principal and current interest charges due, reasonable and customary reconveyance fee plus the upfront guarantee fee • Limited to original purchase loan amount ▪ Non-streamlined refinance	▪ Streamlined refinance ▪ Payment subsidy never received • No appraisal; principal and current interest charges due, reasonable and customary reconveyance fee plus the upfront guarantee fee • Limited to original purchase loan amount ▪ Non-streamlined refinance

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Eligibility and Underwriting	**Eligible Existing Loan**	▪ Loan must have a Loan Note Guarantee issued to an approved lender. (Form RD 3555-17 or earlier version) ▪ Loan must have closed at least twelve months prior to the Agency's receipt of a conditional commitment request for refinance. ▪ Loan has been current for the 180-day period prior to the Agency's receipt of a conditional commitment request for refinance. ▪ Loan must be fully documented, underwritten and originated in compliance with 7 CFR 3555 and this Handbook.	▪ Loan must be an existing Section 502 Direct loan. ▪ Loan must have closed at least twelve months prior to the Agency's receipt of a conditional commitment request for refinance. ▪ Loan has been current for the 180-day period prior to the Agency's receipt of a conditional commitment request for refinance. ▪ Loan must be fully documented, underwritten and originated in compliance with 7 CFR 3555 and this Handbook. Ineligible loans: The SFHGLP may not be used to refinance leveraged loans from a non-USDA source that was originally closed simultaneously with a Section 502 Direct loan.
Eligibility and Underwriting	**Applicant Eligibility**	▪ All applicants that will be a party to the promissory note for the new loan must meet all applicable Agency eligibility regulations to qualify for a refinance loan. ▪ As part of the refinance transaction, additional borrowers may be added to the new SFHGLP loan. ▪ Existing borrowers may be deleted from the current loan. At least one original borrower must be retained on the new refinance loan. ▪ Any late mortgage payments within the past 36 months on the existing USDA loan must be analyzed and addressed by the lender to determine if any late payments were a disregard for financial obligations, an inability to manage debt, or factors beyond the control of the borrower when considering the underwriting decision. All scheduled payments over the most recent ~~12 month 180-day~~ period, prior to the Agency's receipt of the conditional commitment request, must have been paid as agreed.	

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	Loan Purpose and Limitations	▪ **Non-streamlined refinance**: The maximum loan amount cannot exceed the present fair market value as supported by an appraisal. A portion of or the full amount of the upfront guarantee fee may be financed above the appraised value. The base loan amount may include the balance (principal and interest) of the existing loan to be refinanced, reasonable and customary closing costs, and lender fees, including funds to establish a new tax and insurance escrow account in conjunction with the new loan request.	▪ **Non-streamlined refinance**: The maximum loan amount cannot exceed the present fair market value as supported by an appraisal. A portion of or the full amount of the upfront guarantee fee may be financed above the appraised value. The base loan amount may include the balance (principal and interest) of the existing loan to be refinanced, reasonable and customary closing costs, subsidy recapture (if applicable) and lender fees, including funds to establish a new tax and insurance escrow account in conjunction with the new loan request. ▪ **Subsidy Recapture.** Any recapture amount due may be financed as part of the loan balance, or it may be deferred if the lien position is subordinate to the new SFHGLP loan. A 25% discount will be offered if the borrower does not defer recapture.
Eligibility and Underwriting	**Loan Purpose and Limitations. Cont'd**	▪ **Streamlined refinance**: The refinance loan amount cannot exceed the original purchase loan amount. The refinance loan amount may represent the outstanding principal balance (including current interest plus a reasonable and customary reconveyance fee) of the existing loan to be refinanced, plus the upfront guarantee fee.	▪ **Streamlined refinance**: Only available for Section 502 Direct loans that have not received payment subsidy. The refinance loan amount cannot exceed the original purchase loan amount. The refinance loan amount may represent the outstanding principal balance (including current interest plus a reasonable and customary reconveyance fee) of the existing loan to be refinanced, plus the upfront guarantee fee.

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Eligibility and Underwriting	**Loan Purpose and Limitations. Cont'd**	▪ Cash out refinance transactions are not permitted. ▪ Subordinate financing, such as home equity seconds and down payment assistance "silent" seconds, cannot be included in the new loan amount. Any existing secondary financing must be subordinate to the new first lien. ▪ 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 (non-streamlined transactions only). ▪ Nominal "cash out" to the applicants may occur at closing due to final escrow and interest calculations. ▪ Unpaid fees, such as late fees due the servicer, are not eligible to be included in the new loan amount. ▪ There is no limit placed on the number of refinance loans made to an existing SFHGLP borrower, however the loan to be refinanced must have closed at least twelve months prior to the Agency's receipt of a conditional commitment request for refinance.	
	Upfront Guarantee Fee/Annual Fee	▪ Refinance loans are subject to the prevailing upfront guarantee fee and annual fee for the SFHGLP. ▪ **Non-streamlined refinance:** A portion of or the entire upfront guarantee fee may be financed into the loan above the appraised value. ▪ **Streamlined refinance:** The refinance loan amount cannot exceed the original purchase loan amount. The refinance loan amount may represent the outstanding principal balance (including current interest plus a reasonable and customary reconveyance fee) of the existing loan to be refinanced, plus the upfront guarantee fee.	▪ Refinance loans are subject to the prevailing upfront guarantee fee and annual fee for the SFHGLP. ▪ **Non-streamlined refinance:** A portion of or the entire upfront guarantee fee may be financed into the loan above the appraised value**.** ▪ **Streamlined refinance:** Only available for Section 502 Direct loans that have not received payment subsidy. The refinance loan amount cannot exceed the original purchase loan amount. The refinance loan amount may represent the outstanding principal balance (including current interest plus a reasonable and customary reconveyance fee) of the existing loan to be refinanced, plus the upfront guarantee fee.

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Eligibility and Underwriting	**Repayment Ratios**	▪ The monthly housing expense to income ratio may not exceed 29 percent of repayment income. ▪ The total debt ratio may not exceed 41 percent of repayment income. ▪ Lenders may request a waiver of Rural Development when strong compensating factors are documented. A satisfactory payment history for the existing mortgage is considered a strong compensating factor.
	Term	▪ Term of the new loan will be a 30 year fully amortized fixed rate mortgage.
	Interest Rate	▪ Interest rate of the new loan must be a fixed rate. ▪ The interest rate must be 100 basis points (1%) lower than the existing loan to be refinanced. ▪ The interest rate of the new loan is not subject to Section 7.3 of Chapter 7 of this Handbook. ▪ Funded buy down accounts are not permitted.
	Household Income	▪ Total adjusted income for the household cannot exceed the moderate level for the area as established in Appendix 5 of this Handbook.
	Security	▪ 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.
	Rural and Non-Rural Areas	▪ SFHGLP refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made.

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Eligibility and Underwriting	**Property Valuation**	▪ **Non-streamlined refinance:** The value of the new mortgage loan request must be supported by a new appraisal. The loan amount cannot exceed the present market value plus the upfront guarantee fee. The new loan amount can include closing costs or lender fees when supported by market value. ▪ **Streamlined refinance:** The new mortgage loan request can be supported by the original appraisal report obtained in connection with the existing mortgage. The loan amount cannot exceed the original purchase loan amount. The refinance loan may include the outstanding principal balance (including current interest and a reasonable/customary reconveyance fee) of the existing loan refinanced plus the upfront guarantee fee.	▪ **Non-streamlined refinance:** The value of the new mortgage loan request must be supported by a new appraisal. The loan amount cannot exceed the present market value plus the upfront guarantee fee. The new loan amount can include closing costs or lender fees when supported by market value. ▪ **Streamlined refinance:** Ineligible for this transaction when any payment subsidy has been received. The new mortgage loan request can be supported by the original appraisal report obtained in connection with the existing mortgage. The loan amount cannot exceed the original purchase loan amount. The refinance loan may include the outstanding principal balance (including current interest and a reasonable/customary reconveyance fee) of the existing loan refinanced plus the upfront guarantee fee.

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	Inspections	▪ No inspections or repairs are required by Rural Development. ▪ Lender may require inspections or repairs. ▪ Expenses related to inspections or repairs may not be financed.
	Processing Requirements	▪ The lender will process the refinancing loan package in accordance with 7 CFR 3555 and this Handbook.

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Eligibility and Underwriting	**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 – such as Federal Housing Administration (FHA) or Veterans Affairs (VA). ▪ Examples of reasonable and customary fees and charges: • actual cost of the appraisal, inspection or credit reports; • imposed verification charges; • title examination and title insurance fees; • attorney fees; • settlement and recording and/or courier/wire/notary fees; • real estate taxes for establishing an escrow; • test or treatment fees; • document preparation fees (if prepared by a third party); and • origination fee. ▪ Lenders and the Agency should make every effort to ensure that applicants are not charged excessive fees as part of the new loan. ▪ Discount points may be financed in connection with the new loan request when the existing borrower's adjusted household income is at or below the low income limits, as determined by Appendix 5 of this Handbook. Also see: http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do. Select *Guaranteed* from the navigation menu under *Income Limits*. ▪ Permissible discount points financed in accordance with this Chapter will not exceed two percentage points of the loan amount for a non-streamlined refinance. Financed discount points must be used to permanently reduce the interest rate.

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Eligibility and Underwriting	**Use of the Guaranteed Underwriting System (GUS)**	▪ **Non-streamlined refinance:** loans may be originated with the assistance of GUS. ▪ **Streamlined refinance:** loans may be originated with the assistance of GUS. ▪ Reduced documentation may be submitted for loans receiving an ACCEPT recommendation in GUS. Lenders are required to review the GUS Underwriting Findings Report for a detailed list of required documentation as quality control messages can flag additional requirements. An abbreviated file submission includes: • An appraisal report. • FEMA Form 086-0-32, "Standard Flood Hazard Determination Form." • Form RD 3555-21, "Request for Single Family Housing Loan Guarantee." The form should be executed by the lender and borrower(s). • Income calculation worksheet for household eligibility income and repayment income. • Copy of the final GUS Underwriting Findings Report.

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	Document Processing Requirements	▪ The lender will process the refinance loan package in accordance with 7 CFR 3555 and this Handbook. ▪ Form RD 3555-21, "Request for Single Family Housing Loan Guarantee" must be completed and executed by the borrower and the lender and accompany the commitment request. Rural Development accepts a fax, scan or photocopy of this executed form. The preferred method of delivery is electronic by use of general e-mail boxes available in all states. Refer to the USDA LINC Training and Resource Library under loan origination for a complete state list of e-mail addresses at https://usdalinc.sc.egov.usda.gov/RHShome.do ▪ Full documentation file as follows: • Fully completed and executed mortgage loan application. • Evidence of a qualified alien, as applicable, with the addition of new borrowers. • Current credit report and verification of debt. • Income documentation of household income. • Evidence of the lender's underwriting analysis addressing repayment ability, credit worthiness and security value. • Evidence of the current market value when the refinance type is non-streamlined refinance. ▪ Submit the fully underwritten file to Rural Development requesting a "Conditional Commitment for Loan Note Guarantee."

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Post Closing Delivery	**Obtaining the Loan Note Guarantee**	▪ Submit closing documents and the guarantee fee to the Agency in accordance with Chapter 16 of this Handbook. The preferred method of delivery is electronic by use of general e-mail boxes available in all states. Refer to the USDA LINC Training and Resource Library under loan origination for a complete state list of e-mail addresses at https://usdalinc.sc.egov.usda.gov/RHShome.do ▪ If the provided documentation represents the loan was closed in accordance with the terms of the "Conditional Commitment for Loan Note Guarantee," 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.

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CHAPTER 7: LOAN TERMS AND CONDITIONS
7 CFR 3555.104

7.1 INTRODUCTION

The SFHGLP helps low- and moderate-income people living in rural areas purchase adequate, modest, decent, and safe homes by providing guarantees for qualified loans that a lender would not make without a guarantee. The program's loan terms and conditions, which are described below, are designed to ensure that the loans are used to acquire modest homes and that the property will provide adequate security for the loan.

7.2 MAXIMUM LOAN AMOUNT

The applicant is permitted to finance reasonable and customary expenses associated with purchasing a home as described in Chapter 6, as long as the total amount financed does not exceed any of the following limits:

- The maximum loan amount for which the applicant qualifies, as determined by their income and repayment ability as further discussed in Chapter 8 and 9 of this Handbook;

- The fair market value of the property, as determined by a current appraisal conducted in accordance with the Uniform Standards of Professional Appraisal Practices (USPAP); and

- The LTV of the loan can exceed 100 percent of the market value of the property when the guarantee fee is financed. Loans may exceed 100 percent LTV only to the extent that the excess represents a financed guarantee fee. See additional guidance in Chapter 6 of this Handbook regarding refinance loans.

The purchase price of the property is permitted to exceed these limits for applicants with sufficient cash reserves or access to a source other than credit through which to obtain the necessary cash difference.

A newly constructed dwelling that does not meet the definition of an existing dwelling, as defined at Section 3555.10, and cannot meet the requirements of Section 3555.202(a) is limited to 90 percent of the present market value. The dwelling must meet or exceed the International Energy Conservation Code (IECC) in effect at the time of construction.

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7.3 LOAN TERMS

The lender must consider whether the loan could be made without a guarantee. If the lender is willing to make the loan without the guarantee at the same rates and terms, the loan is not eligible for the guarantee program. If the lender is not willing to make the loan without a guarantee and wishes to request a guarantee, the required loan terms for all loans guaranteed under the program are described below.

A. Repayment Period

The loan term must be 30 years and the loan must fully amortize in that period. The promissory note must show regular monthly payments generally payable on the first day of the month.

B. Interest Rate

The lender and the borrower are free to negotiate any mutually acceptable fixed interest rate, as long as it does not exceed the interest rate cap established by the Agency. This cap is 100 basis points (1.00 percentage point) over the following:

- Current Fannie Mae yield for 90-day delivery (actual/actual) for 30-year fixed rate conventional loans, rounded up to the nearest one-quarter of 1 percent. The Fannie Mae website to confirm acceptable interest rates is: https://www.efanniemae.com/sf/refmaterials/hrny/index.jsp.

This cap will remain in effect unless otherwise changed by the Agency. The lender will document in their mortgage file that the rate did not exceed the cap on the date the interest rate for the loan was locked. Documentation can be on Form RD 3555-21, which becomes part of the lender's permanent case file. If the rate is floating at completion of Form RD 3555-21, the lender will document in their file the date the rate was locked and their confirmation the rate did not exceed the cap. The Agency will request confirmation of the lock date as a condition of the commitment if the rate remains floating at issuance of the Conditional Commitment.

The relevant date for determining whether the interest rate is in compliance with this provision is the date the lender and applicant mutually agree to lock the interest rate. The interest rate should be locked by the time of loan settlement.

In the event the interest rate is not locked at the time Form RD 3555-18 is issued, and the interest rate increases between the time of issuance of Form RD 3555-18 and loan closing, the lender will note the change when submitting the loan closing package and

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support the increase in interest rate with modified loan application documents. Modified loan documents will include at a minimum:

- Updated URLA reflecting data changes due to an interest rate adjustment.
- A new updated Form RD 3555-21 reflecting data changes due to the interest rate adjustment.
- Underwriting analysis reflecting the updated interest rate and confirming the applicant(s) remain eligible for the SFHGLP.
- Confirmation of the date the interest rate was locked to confirm the rate meets the maximum allowable rate as described earlier in this Paragraph.
- Interest rates that have been underwritten with the assistance of GUS will require a resubmission if the locked interest rate adversely affects the eligibility of the loan. The resubmission will be treated as a new request by SFHGLP processing offices. An increased interest rate could result in a denial of Loan Note Guarantee request if the underwriting recommendation of GUS at issuance of Form RD 3555-18 results in a recommendation lower than the original recommendation (i.e. an Accept underwriting recommendation at issuance of the Form RD 3555-18, changed to Refer underwriting recommendation as a result of a resubmission with a higher interest rate).

The Agency will provide adequate advance notification of changes to the established interest rate cap by written notification to approved lenders.

C. Terms Unacceptable for a Guarantee

The following terms are unacceptable for the guaranteed loan.

- Adjustable rate mortgages (ARMs);
- Balloon mortgages;
- Mortgages for other than 30 years;
- Interest on interest or negative amortization (or any non-fully amortizing loan); and
- Prepayment penalties.

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CHAPTER 8: APPLICANT CHARACTERISTICS
7 CFR 3555.151

8.1 INTRODUCTION

Applicants seeking the assistance of a SFHGLP loan must meet the minimum applicant characteristics outlined in this chapter. Lenders must determine that the criteria have been met prior to analyzing the applicant's income, credit and ratio qualifications. The lender must have at least one personal interview with the applicant to verify that the information on the application is correct. The interview may be completed by telephone, ~~or~~ face-to-face, by mail or by internet.

8.2 APPLICANT ELIGIBILITY REQUIREMENTS

The lender must confirm the applicant meets the criteria for obtaining a SFHGLP guarantee prior to full analysis of the applicant's loan request.

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

An applicant who owns a dwelling to which they will retain ownership is eligible for a guaranteed loan to purchase another home if:

- The homeowner's current dwelling is not financed by a Rural Development guaranteed or direct Section 502 or 504 loan or active grant (the grant agreement has not expired);
- The homeowner is financially qualified to own more than one house (the loan applicant is limited to owning one single family housing unit other than the one associated with the loan request);
- The homeowner will occupy the home financed with the guaranteed loan as their primary residence ~~on a permanent basis~~throughout the term of the loan.
- The current home owned no longer adequately meets the applicants' need. The determination that the current home no longer adequately meets the applicant's needs must include documentation of a significant status change in the circumstances of the borrower that require immediate remedy. Examples of changes in status could include, but are not limited to:
    - Severe overcrowding which is defined as more than 1.5 household residents per room. 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.

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- The disability or limited mobility of a permanent household resident that cannot be accommodated without substantial retrofitting of the current property, e.g., the installation of a ramp, an elevator or stair-lift, or extra-wide doors and hallways. Lender must obtain verification of the change in status, the existing property deficiencies, and the suitability of the new property.

In call cases, the lender must provide an additional explanation of the burden upon the applicant imposed by the status change both in the near the near and longer term, and also the reasons beyond homeowner convenience why the purchase of the property must be completed prior to the sale of the existing property. All documentation will be retained in the lender's permanent loan file and may be requested by the Agency upon review.

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- ~~As an example – the applicant is disabled and requires handicap accessibility. The applicants' present home is not handicap accessible and no longer meets the applicants' needs.~~

Repayment Income for rents received less than 24 months. Applicants retaining their existing dwelling must qualify for all mortgage liability payments. Newly signed leases have no historical basis to conclude that the income is likely to continue and cannot be used for repayment ratio calculation. Rents received less than 24 months do not represent a stable continued source of income for repayment income due to lack of history and cannot be used when qualifying the loan request. The exclusion of rental income will ensure the applicant has sufficient monthly income to meet all mortgage and liability payments. Lenders who utilize GUS will not populate data fields on the "REO Property Information" page with any information regarding rental income received for less than 24 months in the "Gross Rental Income," "Mortgage Payments," or "Insurance, Maintenance and Taxes" data fields. However, the corresponding mortgage liability associated with the retained dwelling must be included in the long-term debt liability.

Repayment Income for rents received 24 months or greater. When applicants can demonstrate rental income is stable and dependable, as evidenced and documented with the most recent two years tax returns and a copy of the current written lease executed by the homeowner and the lessee, the net rental income can be considered for repayment ratios. IRS From 1040 Schedule E is required to verify all rental income. Depreciation or depletion shown on Schedule E may be added back to the net income or loss for repayment income. Positive rental income is considered gross income for repayment income while negative income must be treated as a re~~oc~~curring liability.

Repayment Ratios. If the net rental amount is negative, the amount of debt will be considered as a re~~oc~~curring liability for repayment ratios. This applies to manual and automated underwritten loan files.

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Annual Income Calculation. Any positive net rental income will be included in the calculation of annual income to determine eligibility of the household for the SFHGLP. Rental income must be considered in the annual income analysis regardless of its duration. Rental income, for annual income purposes, is considered the total rental real estate income amount reported on the most recent IRS Form 1040 Schedule E for the previous 12 months. In the absence of a Schedule E; ~~for rents received less than 12 months, documentation to support income will be~~ canceled checks, money order receipts, ~~or~~ bank statements or other documentation may be used to support the amount of rents received for annual income purposes. Any negative net rental income is treated as zero for the purposes of calculating annual income.

Documentation. Refer to Chapter 9 of this Handbook for additional information surrounding documentation requirements of rental income.

B. Obtaining Credit

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

- The applicant has available personal non-retirement liquid 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.

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- The conventional mortgage loan term is for a 30- year fixed rate loan term without a condition to obtain private mortgage insurance (PMI).

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

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. 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.

C. Occupying the Property [7 CFR 3555.151(c)]

Applicants must agree to personally occupy the dwelling as a principal residence throughout the term of the loan.~~on a permanent basis~~. Bona fide occupancy in the home as the applicant's principal residence within 60 days after signing the security instruments is required.

- **Active duty military applicants.** Active duty military applicants may be eligible for the SFHGLP. They must occupy the property as their principal residence. A military serviceperson will be considered to meet occupancy requirements defined in § 3555.10 of 7 CFR 3555 provided proof that a discharge will be received within a reasonable period of time, usually within 1 year, and the serviceperson's family will continue to occupy the property if the serviceperson is assigned to a combat zone, other hazardous duty area or another duty station prior to discharge.

- **Student applicants.** Due to the probability of relocation after graduation, full-time students cannot obtain loans unless they intend to make the home a permanent residence and there are reasonable prospects of securing employment in the area after graduation.

D. Having Legal Capacity [7 CFR 3555.151(f)]

The applicant must be considered an adult under State law, and must have the legal capacity to incur the loan obligation. An applicant with a court-appointed guardian or conservator, who is empowered to obligate the applicant in real estate matters, is eligible for a loan.

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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. 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.

F. Having Acceptable Citizenship or Immigration Status [7 CFR 3555.151 (b)]

The applicant must be a U.S. citizen, a U.S. non-citizen national, or a qualified alien.

This program is available to individuals who receive a loan note guarantee under the SFHGLP to those who:

- reside as a citizen in any of the 50 States, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Marianas, Federated States of Micronesia, and the Republics of the Marshall Islands and Palau; or,

- a non-citizen who resides in one of the foregoing areas after being legally admitted to the U.S. for permanent residence or on indefinite parole.

The term "indefinite parole" is no longer a term used by the Citizenship and Immigration Service (CIS), formerly known as the Immigration and Naturalization Service (INS). Instead, under Section 401 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (8 U.S.C. Section 1611) lenders and the Agency must determine whether the applicant for a guaranteed loan is a U.S. citizen, a U.S. non- citizen national, or a "qualified alien."

Generally, a U.S. non-citizen national is a person born in American Samoa or Swains Island or after the date the U.S. acquired American Samoa or Swains Island, or a person whose parents are U.S. non-citizen nationals. Typical evidence of the relatively uncommon status as a non-citizen national includes a birth certificate or passport, and persons who are non-citizen nationals are eligible for consideration.

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Aliens must provide acceptable evidence that they are qualified aliens. A qualified alien is defined under PRWORA (8 U.S.C. Section 1641) as:

1. An alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act (INA); or

2. An alien who is granted asylum under section 208 of such Act; or

3. A refugee who is admitted to the United States under section 207 of such Act; or

4. An alien who is paroled into the United States under section 212(d)(5) of such Act for a period of at least 1 year; or

5. An alien whose deportation is being withheld under section 243(h) of such Act; or

6. An alien who is granted conditional entry pursuant to section 203(a)(7) of such Act as in effect prior to April 1, 1980; or

7. An alien who is a Cuban/Haitian Entrant as defined by section 501(e) of the Refugee Education Assistance Act of 1980; or

8. An alien who has been battered or subjected to extreme cruelty under section 431 of the Immigration and Nationality Act.

In addition to the categories of qualified aliens described above, Native Americans born in Canada may also be eligible as lawfully admitted for permanent residence. They might not possess any of the documentation described above, and the Agency might not be able to verify their status through Systematic Alien Verification for Entitlements (SAVE) Program. SAVE is a program the Agency has access through a "Memorandum of Agreement" with the Department of Homeland Security (DHS). To establish the applicant(s) is a qualified alien, the Native American should provide **all** of the documentation listed below, as described in the Wabanaki Legal News at http://www.ptla.org/wabanaki/jaytreaty.htm.

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- A letter from their Native American tribe stating that the alien has at least 50 percent Native American or Aboriginal blood (also referred to as the blood quantum);
- Their Canadian "Certificate of Indian Status Card" with a red stripe along the top;
- Their birth certificate;
- If an Haudenosaunee, their Red I.D. Card;
- If an Inuit, an Inuit enrollment card from one of the regional Inuit lands claim agreements;
- Their Social Security Card issued by the U.S. Social Security Administration;
- Their Canadian or U.S. driver license.

Lenders must secure proof of identity and evidence that non-citizens who apply for a guaranteed loan are qualified aliens. The evidence confirming qualified alien status may be obtained after the lender has received an application for credit from the potential borrower. The lender should obtain the non-citizen's alien identification number with copies of any supporting documents and communicate it to the Agency office servicing their area. Examples of supporting documents are provided in the screen print below. Agency staff will then submit the alien's information to SAVE and, in most cases, will be able to promptly inform the lender of the applicant's eligibility status based on the aliens Class of Admission (COA).

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The system typically responds within seconds of the applicant's eligibility and a COA code. In most cases SAVE will give a "System Response" indicating the alien's status.

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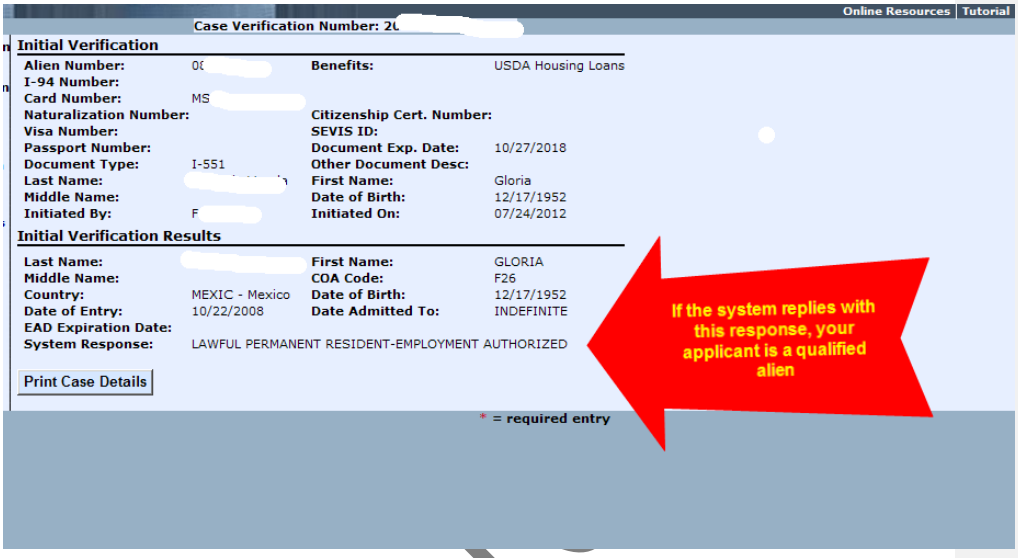

If the response states, "LAWFUL PERMANENT RESIDENT-EMPLOYMENT AUTHORIZED," the borrower is eligible for our benefit. The Agency will print the case details for the lender and permanent Agency file.

If SAVE is unable to determine the alien's status, the system responds with the message "~~Request Additional Verification~~Institute Additional Verification" as illustrated in the screen print below.

SAVE is asking the Agency user to supply additional information for this second step process. Agency staff should click on the "Request Additional Verification" button and follow the instructions. The Agency will request additional information of the lender to proceed. With information received Agency personnel will reply via the SAVE site within three to five days. Agency staff must return to their case verification screen to view the system response. In the event that SAVE is unable to determine a COA code the system will respond "submit copies of documentation."

Online Resources | Download Tutorial | Return to Home | Cont

Case Verification Number: 20_ L

Initial Verification

Alien Number:	(	Benefits:	USDA Housing Loans USDA Housing Grants USDA Loan Guarantees
I-94 Number:			
Card Number:			
Naturalization Number:		Citizenship Cert. Number:	
Visa Number:		SEVIS ID:	
Passport Number:		Document Exp. Date:	07/01/2012
Country of Issuance:			
Document Type:	I-766	Other Document Desc:	
Last Name:		First Name:	
Middle Name:		Date of Birth:	
Initiated By:		Initiated On:	12/21/2012

Initial Verification Results

Last Name:		First Name:	
Middle Name:		COA Code:	
Country:		Date of Birth:	
Date of Entry:		Date Admitted To:	
EAD Expiration Date:			
System Response:	INSTITUTE ADDITIONAL VERIFICATION		

Additional Verification

User Case Number:		A.K.A.:	
I-94 Number:			
Passport Number:		Country of Issuance:	
Special Comments:			
Initiated By:		Initiated On:	12/21/2012

Additional Verification Results

DHS Response:	Resubmit Doc (Need copy original)	Expires On:	
COA Code:		Date Admitted To:	
USCIS Benefits:		Response Date:	12/26/2012
Revocation Date:			

If this is the case, the Agency staff must print the CIS Form 845 (prefilled by SAVE) from the verification screen and mail it with copies of all supporting documentation to their United States Citizenship and Immigration Service (USCIS) branch office. The USCIS personnel have seven to fourteen business days from receipt of the documents to reply. The reply will be via the case verification screen in the SAVE program so Agency staff must return and check for the reply.

Mailing addresses to send the supportive documentation are available at: www.uscis.gov.

In all cases, non-citizens legally admitted into the United States will have an Alien Identification Number. In the rare occasion where a number is not available or known, the **applicant** should contact the CIS. Some documented cases have been discovered where an alien has been legally in the US for a long period of time, and the Department of Homeland Security has supplied them with a number, but the alien did not ever receive or has misplaced the number.

8.3 TRUTHFUL APPLICATION

The integrity of the information presented in the mortgage application process of the utmost importance. Applicants and lenders should be aware that they will be held responsible for the validity of the information submitted to the Agency. Applicants must provide truthful information when applying for a guaranteed loan. Applicants who provide false information, or who fail to disclose relevant information, will be denied a guaranteed loan. Falsification of information or disclosure can jeopardize any issued Loan Note Guarantee or continued eligibility of the approved lender, depending on the severity of the action

The types of information covered by this policy include all documentation and information submitted by the approved lender when requesting a Conditional Commitment, Loan Note Guarantee, or servicing action request. Fraud or other criminal misconduct in connection with his or her application will be reported to the appropriate office or Agency as required by state or federal law. These include the Office of Inspector General, state agencies, or other entities that may take whatever action is required by law.

Any intentional or negligent misrepresentation of information contained in the application package may result in civil liability, including monetary damages, to any person who may suffer any loss due to reliance upon any misrepresentation made on the application and/or in criminal penalties including but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.

8.4 ACCESS STEPS TO SAVE

Attachment 8-A provides information on how Agency staff may access the SAV E website to retrieve information regarding an applicant's alien status.

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ATTACHMENT 8-A
SAVE System Access by Agency Employees

The Agency has entered into a "Memorandum of Agreement" with the Department of Homeland Security (DHS) United States Citizenship and Immigration Service (USCIS) to allow access to the SAVE program database. This program enables the Agency staff to obtain online immigration status information to assist in determining a non-citizen applicant's program eligibility. In most cases, SAVE will provide an immediate response concerning the immigration status of an applicant.

The lender remains responsible for securing proof of identity and evidence that non-citizens are qualified aliens.

In all cases, non-citizens legally admitted into the United States will have an Alien Identification Number. In the rare occasion where a number is not available or known, the applicant should contact CIS.

Selected Agency personnel will be supplied a user name and password to access the SAVE website. Selected Agency personnel will be supplied a user name and password to access the SAVE website. Each State Office should submit the name, telephone number, and address of one person who will administer user access to SAVE to the division representative. The Agency representative will be provided a "supervisor" access role and will be able to establish other SAVE supervisors and users within their State. It is required that all personnel using the SAVE system complete the SAVE Program Guide and Web-3 User Guide provided on the SAVE system home page. At this time, only Housing and Community Facilities program staff are authorized to access the SAVE system.

All personnel who are designated to use the system must complete the SAVE tutorial prior to using the system for the first time. After the tutorial is completed, the employee will be able to enter the applicant's Alien Identification Number (9 digits) and other documentation information into the proper fields, select the program for which the alien is seeking a benefit, and submit the information for processing. Social Security numbers, driver's license numbers, or any number other than an Alien Identification Number will NOT yield a valid result.

The following steps are not a tutorial or a user guide. Steps are not all inclusive. Refer to the tutorial online for complete information. Agency personnel must complete the SAVE tutorial Section once logged on and prior to using the system.

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Access Steps

Log into the SAVE website.

Enter the applicant's Alien Identification Number (9 digits) into the "Alien number" field. Social Security numbers, driver's license numbers, or any other number other than the Alien Identification Number will not yield a valid result.

For SFHGLP, select ***USDA Loan Guarantees*** as the program for which the alien is seeking a benefit.

Submit the information for processing.

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CHAPTER 9: INCOME ANALYSIS
7 CFR 3555.152

9.1 INTRODUCTION

The lender is responsible for ensuring that applicants meet eligibility criteria for the SFHGLP. One very important criterion is income eligibility. Income information is used to determine eligibility, to calculate the applicant's ability to repay a loan, and to determine the amount of the loan. This chapter provides guidance for verifying and calculating income for these purposes. Section 1 covers qualifying income, which is the income that determines eligibility for participants in the program. Section 2 covers repayment income, which represents the stable and dependable income available to repay the mortgage and other debts. It remains the lender's responsibility to document the applicants qualifying income and support their calculation. Lenders must support their inclusion of certain types of income in the repayment income calculation. This chapter applies to both manually underwritten loans and loans utilizing the assistance of the Agency's automated underwriting system.

Four income definitions are used:

- **Annual Income.** The income of all adult household members;
- **Adjusted Annual Income.** The household's annual income minus certain qualified household deductions;
- **Qualifying Income.** Adjusted annual income compared to established income limits to determine eligibility of the household for the SFHGLP: and
- **Repayment Income.** The stable and dependable income used to calculate debt ratios and determine whether the applicant(s) can afford the home.

SECTION 1: QUALIFYING INCOME

9.2 OVERVIEW

The SFHGLP is intended to assist very-low, low- and moderate-income households. Therefore, the lender must ensure that any applicant for which it requests a loan guarantee has an adjusted annual income that does not exceed the applicable moderate-income limit at the time the request for guarantee is made. Any applicant falling at or below the established moderate-income level is eligible. For administrative reporting purposes the Agency monitors the degree of assistance provided to low-income

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applicants. The Agency provides income information as shown in Appendix 5 of this Handbook to lenders and updates the limits whenever they are revised.

This section describes how the lender must calculate annual household income, how assets must be included in that calculation, and how adjusted income is calculated based on annual income. It outlines the expectations of the verification records and supportive documentation required of a lender's permanent file by income type. Attachment 9-A of this Chapter provides a sample worksheet to help lenders with these calculations, and Attachment 9-B of this Chapter provides a case study illustrating the key principles outlined in this section. A public website is available to assist in the calculation of program eligible income. The site is located at: http://eligibility.sc.egov.usda.gov/eligibility/.

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.

A. Income that is Never Counted

The following income is never counted as annual income:

- Income received by live-in aides, regardless of whether the live-in aide is paid by the family or a social service program. Family members cannot be considered live-in aides unless they are being paid by a health agency and have an address, other than a post office box, elsewhere.

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

- Earned income of a minor. There is an exception for earned income from a spouse who is a minor or unearned income attributable to a minor, such as child support, Temporary Assistance for Needy Families (TANF) payments, and other benefits paid on behalf of a minor.

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- Employer provided fringe benefit packages, even if displayed on the applicants' pay statements, are not considered in annual income unless reported as taxable income to the Internal Revenue Service (IRS).

- Amounts granted for, or in reimbursement of, the cost of medical expenses.

- Earnings of full-time students 18 years of age, or older, in excess of $480 unless a spouse or head of household.

- Temporary, nonrecurring, or sporadic income (including gifts).

- Lump sum additions to family assets such as inheritances; capital gains, insurance payments under health, accident, or worker's compensation policies; settlements for personal or property losses; and deferred periodic payments of supplemental social security income and Social Security benefits received in a lump sum.

- Any earned income tax credit.

- Adoption assistance payments in excess of $480 per adopted child.

- Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling.

- Amounts paid by State agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home.

- The full amount of any student financial aid received by household members.

- Supplemental Nutrition Assistance Program (SNAP) (formerly the Food Stamp Program).

- The amount of Section 8 housing vouchers.

- Any other revenue exempted by a Federal statute, a detailed list can be viewed in Attachment 9-C of this Chapter.

B. Projecting Annual Income for a 12-Month Period

The calculation of annual income is used to determine an applicant's eligibility for the SFHGLP. Income received by the applicant and all adult members of the household

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is considered in the calculation of annual income. Annual income is the first step in determining program eligible income. Paragraph 9.5 discusses the calculation of adjusted annual income in determining program eligibility of the household. The calculation of annual income may differ from repayment income. Repayment income is based upon stable and dependable income of the applicants only.

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. 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. For the annual income calculation, count only the first $480 of earned income from adult full-time students who are not the applicant, co-applicant, or spouse.

Historical data may be utilized to project annual income in certain circumstances. For example, if one of the household members works overtime in the winter, but the income is being verified in the summer, historical overtime may be used to determine annual income. Historical information may also be used to estimate annual income that is anticipated to be received for less than 12 months. For example, if one of the household members is a seasonal worker, the income attributable to that worker should be based upon past history, rather than annualizing current income.

For example, assume a family member who currently has no income, historically has seasonal income during the summer months and earnings on the average of $4,000 during that time. Confirm with the applicant and employer that the same seasonable pattern is expected and use historical data to project the annual income for the coming 12 months.

If any adult member of the household is not presently employed but there is a recent history of such employment, that person's income will be considered in the calculation of annual household income. If the person involved is not presently employed and does not intend to resume employment in the foreseeable future, or if interest assistance is involved, during the term of the Interest Assistance Agreement, the applicant(s) and the person involved must sign a statement to such. The statement will be filed in the permanent loan file.

Once the income source is verified, the lender must project the expected income from this source for the next 12 months. This calculation is used only to determine the household eligibility for the SFHGLP. This calculation does not necessarily represent stable and dependable income for qualifying the loan. This projection should be based on a comparison and analysis of the figures derived to establish earning trends and avoid

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underestimating annual income for the household. The calculation of annual income must be the most representative of income likely to be received during the next 12 months. Conservatively selecting the lowest projected income figure without analysis is not acceptable. The following methods represent examples of calculating annual income. Regardless of the method utilized, the lender's mortgage file must contain written documentation on how the lender calculated annual income.

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Income Type	Definition of Income	Example Guidance	Example Calculation
Straight Income	**Straight** is based upon the benefit or wage amount and converted to the annual equivalent.	An example of an employed applicant who is paid hourly and works 40 hours per week would be derived by multiplying the hourly wage by 2080 hours (for part-time employment use anticipated annual hours). If paid weekly, the weekly wage is multiplied by 52 weeks. Bi-weekly paid employee's wages are multiplied by 26 weeks and a monthly wage multiplied by 12 months.	For example: $20/hour x 2080 hours per year (40 hours/week x 52 weeks/year) = $41,600. Overtime paid at $30/hour x 50 hours/year = $1,500. Total wages in this example: $43,100.
Average Income	**Average** the income reported on the benefit statements or pay stubs for the last 30 days and covert to the annual equivalent.	An example of an applicant who is paid monthly each and every month the exact amount.	For example: The gross income received in the past 30 days is $5,192 as verified by pay stubs. Multiply $5,192 by 12 to arrive at the annual income of the household. $5,192 x 12 = $62,304.
Year-to-date (YTD)	**Year-to-date (YTD)** gross earnings divided by the YTD interval, which is the number of calendar days elapsed between January 1 of the current year and the last date of the most recent income verification,	The YTD interval should be closely examined to determine the appropriateness of this method. Lenders should not use this method if the earning activity during the YTD interval is insufficient to make an annual projection or does not reflect the likely earning	For example: The applicant worked 230 days to date (e.g. August 18) and income earned during that time period is $40,000. Divide $40,000 by 230 days, arrive at $173.91/day, then multiply by 365 to arrive at the annual income

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	multiplied by 365.	activity for the period outside the YTD interval (the time between the last date covered by the most recent income verification and December 31 of the current year).	of $63,477.15.
Historical Income	**Historical** income as reported on the previous year's tax return is used.	Consider the time of year and the reasonableness of this approach. For example, if the income documentation submitted is for January of the current calendar year, the historical data from the previous year may be utilized.	For example: The date is January 15. The most representative income for the applicant is the previous 12 months. The applicant earned $60,000, in the previous tax year. The applicant worked all year. The anticipated annual income for the ensuing year is $60,000.

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C. Income of Temporarily Absent Family Members

Household members may be temporarily absent from the household for a variety of reasons, such as temporary employment or students who live away from home during the school year. The income of these household members is considered when computing annual income, except that for full-time students only the first $480 of earnings is counted.

A student is considered a member of the household if either of the following conditions is met:

- The student lives or proposes to live in the dwelling at any time during the coming 12 months; or
- The property is listed as the student's permanent address.

If the absent person is not considered a member of the household and is not a party to the note, the lender must not count that individual's income when calculating annual income, must not consider that person when determining deductions for adjusted annual

income, and must not consider that individual as a family member when determining which income limit to use.

D. Applicant Assets

Assets are also included in the calculation of annual income. The method in which assets are counted in annual income is described in Paragraph 9.4.

E. Verification Requirements

The applicant must provide the income, expense, and household information needed to enable the lender to make income determinations. Lenders must verify income information provided by the applicant. Written or oral verifications provided by third-party sources or documents prepared by third-party sources are acceptable. Oral verifications, or re-verifications, must be documented in the loan applicant's file, including the date the verification was obtained, the name of the source, and the name of the lender employee conducting the review. Facsimiles, photocopies, computer images and computer-generated documents may be used instead of original forms. The lender is responsible for the integrity and accuracy of the information in the mortgage underwriting file. Regardless of the type of documentation used to support the loan application, the documents must be legible and free of any alternations, erasures, "white-outs," or similar indications that changes have been made.

Eligibility for the SFHGLP through the calculation of annual income is based upon all income received in the household, regardless if the adult household member is a party to the loan transaction. To accurately determine annual income for the household, the lender must also verify income from adult members of the household who do not intend to be a party to the note in addition to those members requesting the mortgage loan. To validate income documentation and disclosure provided by the applicant's and other adult household members that will reside in the home, Lenders will require each adult member of the household to complete and execute IRS Form 4506-T (or comparable IRS form) for the previous two years at the time of loan application. Validation from IRS must be received prior to request for Conditional Commitment for Loan Note Guarantee as further noted in this section. The information received from IRS is not intended to document income, but to validate the income documentation and disclosures provided by the applicant(s) and adult members of the household.

Verification and documentation of household annual income will be retained in the lender's permanent case file. It may be supported by any method noted below. Credit documents, regardless of documentation method selected below cannot be greater than 120 days old at time of loan closing. Exceptions include divorce decrees and income tax returns which are typically unaffected by time. Lenders will verify the income for each

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adult household member for the previous 2 years prior to loan application. The documents must not contain any alternations, erasures, correction fluid, or correction tape. Household annual income, together with eligible adjustments outlined below determines eligibility for the SFHGLP.

1. Full Documentation

Attachment 9-E of this Chapter summarizes verification requirements for income sources. When utilizing full documentation, the file must contain the following, as applicable:

- **Employment Income.** *Form RD 1910-5, "Request for Verification of Employment*" or its equivalent HUD, VA, Fannie Mae or Freddie Mac form to verify the applicant's current, year-to-date, and previous year's employment earnings. Employment income may include base income, overtime, bonus, commissions or other income earned. The most recent paycheck stubs will be obtained directly from the applicant to support or clarify income information provided. The paycheck stub must clearly indicate that the applicant is the employee and reflect year to date (YTD) earnings. If the documentation is from a third-party, such as an employer verification of income, it must be provided directly to the lender.

    - **Bonus, Commision or Overtime Income.** For employment income that includes bonus, commission or overtime, lenders must consider the previous history of these income types from the same employer (or same line of work) together with the employment verification of continuance when calculating annual income.

    - **Employee Differential Payments/Housing Allowances.** Include this type of payments as gross income when calculating annual income.

    - **Automobile/Expense Allowance/Per Diem.** If the allowance/reimbursement is shown on the earnings statement as "gross earnings" it must be included in the annual income calculation.

    - **Unreimbursed Employee Expenses.** The amount of unreimbursed employee expenses will be deducted from the calculation of annual income when supported on IRS Form 2106, "Employee Business Expenses." The sum of columns A and B on Line 8 of the form represent the total amount expensed personally by the employee.

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- **Military Income**. Pay allowances and other types of income should be included in the calculation of annual income when there is a history of receipt and will continue to be paid. The hazardous duty pay to a service person exposed to hostile fire will not be included in the calculation of annual income.

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

- **Non-employed Income.** A copy of the most recent award letter, pension statement IRS 1099, verification through individual federal income tax returns for the most recent tax year or other appropriate documents for, other non-employed income. Documentation must be dated within the last 12 months. Examples of other income types can include alimony/child support, pension/retirement income, social security/disability income, trust income, notes receivable, etc.

    - **Unemployment Income**. Unemployment compensation must be computed as the estimated amount for the upcoming 12 months with consideration to the history of this income type for the previous 12 months.

    - **Retirement Income**. Retirement payments that have a history of receipt and will continue for the next 12 months will be included in the annual income calculation.

    - **Public Assistance Income.** A copy of the most recent award or benefit letter for public assistance. Documentation must be dated within the last 12 months.

    - **Child Support or Alimony Income.** A copy of the divorce decree, separation agreement or other document indicating the amount of required alimony or child support payments. Obtain proof of receipt of payments

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from one of the following: Court payment records or cancelled checks or bank statements clearly showing the deposit for the subject income. If an applicant who is separated does not have a separation agreement that specifies alimony or child support payments, the lender should consider any voluntary payment that is reoccurring for qualifying the household for the SFHGLP. Alternatively, if the court ordered payments are not received for an extended period of time and a reasonable effort has been made by the applicant to collect them through the official entity responsible for enforcing such payments, court ordered payments may be excluded from the annual income calculation. It remains the lenders responsibility to document the permanent loan file with the evidence to support excluding court ordered payments.

- **Interest on Liquid Depository Accounts Asset Income**. *Form RD 1944-62, "Request for Verification of Deposit"* or similar form acceptable to investors to verify liquid assets of the applicant(s). Examples of liquid assets could include checking accounts, savings accounts, certificate of deposit and/or money market accounts. Alternatively, the lender may verify assets by obtaining the most recent two consecutive monthly bank statements. Assets will be calculated by a 2 month average daily balance. When utilizing the direct verification method, the lender must send the request form directly to the applicant's depositories or account holders. See Paragraph 9.4 of this Chapter for additional guidance on documentation of household assets.

- **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. See Paragraph 9.4 of this Chapter for calculation and documentation of income from net family assets.

- **Seasonal Employment Income.** Seasonal employment must be supported with the most recent two year history of Federal income tax returns, W-2's and/or 1099 statements.

- **Rental Income**. Refer to Paragraph 8.2 of Chapter 8 for eligibility and documentation standards for applicants who retain a rental.

- **Other Income.** Unemployment benefits, disability and Worker's Compensation must be supported with the most recent award or benefit letter prepared and signed by the authorizing agency to verify the non-employment income. Computed annual income will be the estimated amount for the upcoming 12 months with consideration to the history of this type of income for the previous

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~~24~~12 months. Certain types of income are not considered in the calculation of annual income. Refer 7 CFR 3555.152(b)(5) for additional information on excluded other income.

- **Verification of Gifts**. Document through an executed gift donor letter; obtain proof of transfer from the donor to the applicant by obtaining a copy of the canceled check or other withdrawal document showing the withdrawal is from the donor's personal account, along with the homebuyer's deposit slip or bank statement that indicates the deposit. Establish the gift **does not** have to be repaid. Funds may be provided by the applicant's relative, employer or labor union, charitable organization, or government agency/public entity that has a program to provide homeownership assistance to low and moderate income applicants. Funds received from non-profit entities may not be used to pay installment loans, credit cards, collections, judgments, or other similar debts of the applicant. To the greatest extent possible, the donor must be able to furnish conclusive evidence that the funds given to the homebuyer came from the donor's own funds, and were not provided directly or indirectly by the seller, real estate agent, builder, or any other entity with an interest in the sales transaction.

  Gift funds in applicant's bank account at time of loan application. Document the transfer of the funds from the donor to the homebuyer by obtaining a copy of the canceled check or other withdrawal document showing that the funds are from the donor's account. Evidence the homebuyer deposited the gift into their personal account is required.

  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. "Cash on hand" is not an acceptable source of funds.

  Gift funds should be reflected on the application as a separate entry to the applicant's depository account(s). Gift funds should not be reflected in applicant's depository account balances. Gift funds will not be considered as cash reserves or a compensating factor in the underwriting decision.

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Once gift funds are documented, verified and received, for the purposes of loan settlement, gift funds are considered the applicant's personal funds. Any excess funds at settlement that represent gift funds contributed may be returned to the applicant.

The following additional documentation is required to qualify the applicant for program eligibility in the calculation of adjusted annual income:

- **Child Care.** Documentation of reasonable anticipated child care expenses for the ensuing 12 months. Documentation can be obtained from the provider, or supported by receipts, income tax returns, etc. Third party verifications provided by a licensed childcare facility or provider on official letterhead are acceptable when the document includes the name of the child enrolled, the date of enrollment, the monthly payment due, and payment history. Letters prepared by relatives or private individuals must include the same information as a third party verification and must include evidence of payments made (i.e. canceled checks, money order receipts, bank statements, etc.) Applicants who have not yet placed their child into care or have no evidence to support payments made will be unable to qualify for this deduction. Child support payments or private school tuition (kindergarten through minor children up to 12 years of age) paid by an applicant are not eligible child care expenses. With qualifying documentation, reasonable child care can be deducted as long as it enables a family member to work, to actively seek work, or to further a member's education as long as they are not reimbursed or paid by another source and the minor is 12 years of age or under. The childcare provider cannot be a household member. The deduction cannot exceed the amount of income, including the value of any health benefits, earned by the family member enabled to work. To qualify for the deduction, the applicant must 1) identify the children receiving child care and the family member who can work or go to school as a result of the dare; 2) demonstrate there is no adult household member available to care for the children; 3) identify the child care provider, hours of care provided and costs; and identify the educational institution and provide documentation of enrollment (if appropriate). Attachment 9G to this chapter provides a sample format for requesting childcare information.

- **Dependent Documentation**. Documentation from the school that a dependent over the age of 18, who resides in the household as their primary residence, is enrolled as a full-time student. This type of documentation allows a deduction to annual income for a dependent meeting these criteria.

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Unborn children are not household members. If it is unclear if a household member may claim a minor child as a household member and for the purpose of a dependent deduction, IRS Publication No. 502 considers the custodial parent as the one authorized to claim the dependent on a Federal income tax return. Lenders may validate the household member is authorized to claim as a dependent by supporting their permanent file with a divorce decree, custody agreement and/or a Federal income tax return.

- **Disability.** *Form RD 1944-4, "Certification of Disability or Handicap"* to verify a disability or other evidence that supports a member of the household has a disability. Evidence of other documentation can be receipts, copies of billing statements, invoices, or other written documentation supporting the expenses. Documentation of reasonable expenses related to the care of household members that allow a family member or the individual with disabilities to work, to actively seek work, or to further a member's education as long as the expenses are not reimbursed from insurance or another source and represent in excess of 3 percent of the household's annual income and do not exceed the amount of earned income of the person able to work. A deduction to annual income for disability expenses is only applicable to disabled households as further explained in Paragraph 9.5 of this Chapter; and

- **Medical Expenses**. Documentation of medical expenses anticipated to be incurred over the ensuing 12 months, as necessary. Documentation can be in the form of receipts, billing statements, or evidence of payment, etc. Consider only the portion in excess of 3% of the annual income that was not reimbursed by Medicare or insurance. Some examples of medical expenses are hospital, doctor, dentist, prescriptions, etc. A deduction to annual income for medical expenses is only applicable to elderly or disabled households as further explained in Paragraph 9.5 of this Chapter.

2. Alternative Documentation

When utilizing this form of documentation, the lender's permanent file must contain the following for employed applicants and/or adult household members. Alternative documentation does not apply to self-employed applicants and/or adult household members:

- W-2 forms for the previous two tax years which may be obtained directly from the applicant and must clearly identify the applicant as the employee; and

- Paycheck stubs or payroll earnings statements covering the most recent 30 day period, which show the applicant's gross earnings for both the most recent pay

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period and year-to-date. If these documents are obtained directly from the applicant, the document must clearly identify the employee by name and/or social security number, the employer's name and source of information; and

- An oral verification from the current employer. This must be substantiated by a written document prepared by a representative or employee of the lender that includes the name, address, and phone number of the employer, the name and title of the person contacted, the applicant's name, date of employment and present position, probability of continued employment, amount of current base pay, amount of other income such as overtime, bonus, commissions, etc. likelihood that the level of current earnings will continue and the lender's signature and date verified. Some employers will not release certain detailed information over the telephone, for example, amount of current earnings. This is acceptable provided the paycheck stubs or payroll earnings statements contain this information. The oral verification can also be used to supplement the full documentation verification when the written documentation is not clear or incomplete.

3. Electronic Verifications of Employment

Employers may provide electronic access to employment and income verification information, and there are several companies that obtain information directly from participating employers in order to provide lenders with employee and income verifications. When utilizing this form of documentation, the automated verification must provide essentially the same detailed employment and income information that is obtained using the full documentation employment verification form, including year-to-date and previous year's pay history. All verifications must pass directly between the loan originator and the employer. The file must contain the following:

- Electronic verification or other computer-generated documents accessed and printed from an Intranet or Internet. The electronic verification or other computer-generated document accessed and printed must cover the most recent pay period as of the date the initial loan application is made; clearly identify the applicant as the employee by name and/or social security number and show the applicant's gross earnings for the most recent 30-day period and year-to-date; and

- W-2 forms for the previous two tax years which may be obtained directly from the applicant and must clearly identify the applicant as the employee.

4. Expiration of Credit Documents

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Credit documents utilized to qualify the applicant(s) must be no more than 120 days old on the date the note is signed. When the age of documents is greater than allowed, the lender must obtain updated verifications that support the applicants continued eligibility. Credit documents represent the loan application package, including the applicant's loan application, forms used to verify an applicant's employment, income, assets, credit report, etc.

Prior to loan closing, lenders are required to obtain a verbal verification of employment for all salaried applicants within 10 business days (prior to the note date). Lenders will confirm with a third party source the existence of an applicant's business no more than 30 calendar days prior to the note date for self-employed applicants. Acceptable third party sources include, but are not limited to, a regulatory agency, the phone directory, the internet directory assistance or the applicable licensing bureau. A verbal verification of the existence of the business will require the lender to document the name and address of the business and the date the information was verified and name and title of who obtained the verification. Documentation to support this step will be retained in the lender's permanent loan file.

5. Use of Documents Handled by Third Parties

Lenders may not accept or use documents relating to the credit, employment or income of borrowers that have been handled by, or transmitted from or through the equipment of interested third parties such as: real estate agents, builders, or sellers.

6. Validation of Household Income

Lenders must require each adult member of the household (regardless of income source) to complete and sign IRS Form 4506-T (or comparable IRS form) for the previous two tax years at the time of loan application. IRS Form 4506-T is an efficient method for lenders to receive and validate a household member's income tax information electronically.

Transcripts available through submission of IRS Form 4506-T include the 1040 U.S. Individual Income Tax Return, W-2 Wage & Tax Statement, 1099 Dividends/Interest, Miscellaneous Income, Government Payments, Cancellation of Debt, etc. along with other tax series forms. Lenders must determine what transcripts are necessary to validate the household income of applicants.

Guaranteed loans cannot be made to household's that exceed the applicable adjusted annual income limits. The transcripts provide an excellent quality control check for lender's to ensure all income and asset earnings reported to the IRS from all adult household members has been disclosed.

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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:

- 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.

If the IRS transcripts reveal additional income or asset sources that were not previously disclosed, the lender must follow up and verify these income sources. Any discrepancies noted in the IRS returned transcripts must be documented in the lender's permanent loan case file.

Lenders must have the information returned from the IRS prior to submission of a request for a conditional commitment for loan note guarantee. IRS transcripts and further supportive documentation regarding discrepancies must be submitted to the Agency as part of a complete loan file for all manually underwritten loans and GUS loans that receive a "Refer" or "Refer with Caution" underwriting recommendation as further outlined in Chapter 15 of this Handbook. GUS loans that receive an "Accept" underwriting recommendation may retain the transcripts in the lender's permanent loan case file.

9.4 CALCULATING INCOME FROM ASSETS [7 CFR 3555.10(d)]

Assets may influence the calculation of annual income and/or the underwriting determination. This paragraph outlines the types of assets that will be considered in the annual income calculation, those that can be excluded from the annual income calculation and the documentation requirements to support each type.

For the purpose of computing annual income, the assets of all household members are considered. This paragraph explains the difference between market value and cash value, outlines two methods of calculating the assets' contributions to annual income, and describes the procedures the lender must use to account for assets disposed of for less than fair market value.

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Many types of assets generate income that must be included in the calculation of annual income. Applicants must provide information about assets at the time of loan application. The lender may collect this information in any format. Agency forms can be used to verify assets, however, equivalent forms or other types of documentation may be used if they provide all of the essential information that is required by the Agency's forms contained in Appendix 2. As an option, the lender may utilize Attachments to this Chapter to verify income and expenses of the applicant's household.

A. Non-Retirement Assets that Must be Considered

- Cash on hand and funds in savings or checking accounts. Obtain the average two month daily balance of accounts of the two most recent consecutive monthly bank statements. Lenders must review documentation for evidence of any additional household income. Large deposits may indicate additional income. Review unusual deposits that are not consistent with previous history to determine the source and reoccurrence of funds;

- Earnest money deposit on the sales contract can be considered an asset if the deposit is not already reflected in a liquid asset account. If the funds have cleared the applicant's account, place the amount as an "Other Credit" in Section VII of the mortgage loan application. For GUS transactions, lenders should only enter the earnest money one time on either the "Asset and Liabilities" section or at the "Transaction Details" page;

- Stocks, bonds, savings certificates, certificates of deposit, money market funds, and other investment accounts. The monthly or quarterly statement provided by the stockbroker or financial institution managing the portfolio may be used to verify the value of these securities. Government issued bonds such as savings bonds are counted at original purchase price, unless eligibility for redemption and redemption value are confirmed. Equity in real property or other capital investments, other than the subject dwelling or site of the loan request. Documentation to support the value of the property or investment and evidence of income received from investments must be obtained. Refer to Section C of this paragraph for guidance on the calculation of contributive annual income from the equity of an investment property. Refer to Paragraph 8.2 of Chapter 8 for the income calculation and documentation standards for applicants who retain a rental property;

- Sales proceeds of real property sold. Obtain a final HUD-1 or equivalent closing statement to indicate cash sales proceeds realized by the applicant. Proceeds from the sale of property should be included in the applicant's liquid assets.

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Lenders who utilize GUS will enter information regarding the real property sold or pending on the "REO Property Information" section. For properties with a disposition of "Pending Sale," the calculation of "Net Equity" will automatically populate on the "Assets and Liabilities" applicant page. For properties with a disposition of "Sold" on the "REO Property Information" section, the lender must manually enter the "Net Equity" on the "Asset and Liabilities" application page;

- Amounts in trust funds that are available to the household. Obtain a copy of the Trust Agreement or other trustee statement confirming the amount of trust, frequency of payment (if any) and duration of account;

- Income from assets disposed of for less than fair market value during the two years preceding the determination of annual income. Provide evidence of the items sold and the fair market value. The value of assets disposed of for less than fair market value shall not be considered if they were disposed of as a result of foreclosure, bankruptcy, or a divorce or separation settlement. Refer to Section E of this Paragraph for guidance on the calculation of contributive annual income for assets disposed of for less than fair market value;

- Lump-sum receipts, such as inheritances, capital gains, lottery winnings. Obtain documentation to support the value;

- Cash on hand may be considered an asset. Obtain a written explanation from the applicant as to how the funds were accumulated and the amount of time taken to do so. The lender must consider the applicant's current income stream and time frame taken to accumulate cash on hand as being legitimate. Applicant's that report cash on hand, but also retain depository accounts must be carefully analyzed by the lender; and

- Personal property held as an investment, such as jewelry, stamps, coins, baseball card collections or cars. Provide evidence of the worth of the personal property items.

B. Assets That are not Considered

- Amounts in retirement and pension plans, individual retirement accounts (IRAs), 401(k) plans, and Keogh accounts. Agency staff should note that unlike the Section 502 Direct Loan program, retirement savings are not included in the calculation of assets when determining annual income. Retirement savings that are <u>accessible to the applicant</u> can however be considered a <u>compensating factor</u> for the underwriting decision at the net value for consideration of penalties for early withdrawal. Calculate the asset amount as 60 percent of the vested account

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balance to allow for withdrawal penalties when utilizing as a compensating factor. Obtain the most recent statement and conditions under which funds may be withdrawn or borrowed. Retirement accounts that restrict withdrawals only in connection with the applicant's employment separation, retirement or death should not be considered as cash reserves;

- Cash value of life insurance policies;
- The value of necessary items of personal property, such as furniture and automobiles;
- Assets that are part of any business, trade, or farming operation in which any member of the household is actively engaged;
- The value of an irrevocable trust fund, or the value of any trust over which no member of the household has control;
- Interests in American Indian restricted land; and
- Any assets on hand that will be used to purchase the property or pay for closing costs.

C. Market and Cash Value

The market value of an asset is simply its dollar value on the open market. For example, the market value of $2,000 in a savings account is $2,000 and the market value of real estate is its appraised value. The cash value of an asset is the market value, less reasonable expenses to convert the asset to cash. The cash value of stock worth $5,000 would be $5,000 less any broker's fee. For example, Mr. Smith has a $10,000 Certificate of Deposit (CD). The account's market value is $10,000. But, in order to withdraw funds from the account, Mr. Smith must pay a withdrawal penalty of $200.00. Therefore the cash value of the CD is $9,800.

The market value is typically the figure most readily available. However, using the cash value to calculate asset income will provide a more realistic estimate of the value of a household's assets.

D. Methods of Calculation

There are two ways to calculate the contribution that household assets make toward annual income. The method used depends on whether the cash value of the asset is greater or less than $5,000.

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1. Cash Value of $5,000 or Less

If the cash value of the household's assets is $5,000 or less, the amount of asset income included in the annual income calculation is the actual income the household derives from these assets.

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2. Cash Value Over $5,000

If the cash value of the household's total assets is more than $5,000, the amount of asset income included in the annual income calculation is the greater of: (1) the actual income to be derived from the assets; or (2) an imputed income from assets that is calculated by multiplying the total cash value of assets by a local- passbook savings rate as determined and documented by the lender.

For example, Charles and Patty Brown, both ages 40, have applied for a guaranteed loan. The Brown family has the following assets:

- A certificate of deposit of $2,000. It earned 6.8 percent or $136 of interest last year. The estimated cash value after paying penalties is $1,750, after subtracting applicable federal income tax or withdrawal penalties.

- A savings account with $4,000 earning 4 percent annually. The family will put $1,000 from this account toward closing costs. The net value of the savings account is $3,000.

- A two-month average balance of $300 in a non-interest-bearing checking account.

The cash value of the Brown's assets is $5,050 ($1,750 + $3,000 + $300). Since this is greater than $5,000, the lender must use the greater of the actual income or the imputed income to include in the annual income calculation. In this case, the actual income is $256 [$136 from the certificate of deposit ($2,000 x 0.068) + $120 from the interest bearing savings account ($3,000 x 0.04)]. This amount is greater than the imputed income of $202 which is the cash value of the Brown's assets imputed ($5,050 x 0.04).

E. Assets Disposed of for Less than Fair Market Value

Applicants who dispose of assets for less than fair market value have, in essence, voluntarily reduced their ability to afford housing. Therefore, imputed income from assets disposed of for less than fair market value during the two years preceding loan closing must be included in the annual income calculation. The amount to be included in the annual income calculation is the imputed income from the difference between the market value of the asset and the amount that was actually received, if any, in the disposal of the asset.

Assets disposed of for less than fair market value as a result of foreclosure, bankruptcy, divorce, separation, or if the income calculation is being conducted in connection with an annual income review for interest assistance when eligible under the

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SFHGLP, are not included in this calculation. See Appendix 6 for more information on interest assistance.

9.5 ADJUSTED ANNUAL INCOME [7 CFR 3555.10(c)]

Adjusted annual income is compared with the moderate-income limit for the family's size to determine eligibility for a loan guarantee. Adjusted income is calculated by subtracting any of five deductions below that apply to the household from annual income calculated in Paragraph 9.3 and 9.4 of this Chapter. Not all households are eligible for all deductions. These deductions, household eligibility and documentation requirements are outlined in Paragraph 9.4 and summarized below. The Calculations Worksheet in the case study in Attachment 9-B of this Chapter illustrates the use of these deductions.

A. Dependent Deduction

A deduction from annual income of $480 is made for each household member who qualifies as a dependent and will make the home their principal residence. Dependents are members of the family who are not the head of the household or spouse, and who are ages 17 or younger, a person with a disability, children of divorced parents even if the child lives with the family all or part of the time, or a full-time student.

If it is unclear or if parents share custody of children, a determination as a qualifying dependent deduction for a child who lives in the home part of the time can be made by the lender through guidance provided in Internal Revenue Service (IRS) Publication No. 501. IRS considers the custodial parent the parent authorized to claim the dependent on a Federal Income tax return. A divorce decree, custody agreement and/or Federal income tax returns are documentation evidence the applicant is authorized to claim the dependent.

Documentation from the school indicating that the individual is enrolled on a full-time basis is required for students who are 18 years of age or older. A foster child, an unborn child, a child who has not yet joined the family or a live-in aide may never be counted as a dependent.

B. Child Care Expenses

Reasonable unreimbursed child care expenses for the care of children age 12 and under are deducted from annual income if the care enables a family member to work, actively seek employment, or go to school and if no other adult household member is available to care for the children. If the child care enables a household member to work, the expenses deducted cannot exceed the income earned by that household member. If

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the child care provider is a household member, the cost of the children's care cannot be deducted.

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To qualify for the deduction, the applicant must:

- Identify the children who are receiving child care and the family member who can work, seek employment or go to school (academic or vocational) as a result of the care;
- Demonstrate that there is no adult household member available to care for the children;
- Demonstrate that the child care hours parallel the hours the family member works or goes to school;
- Identify the child care provider, the hours of child care provided, and the costs; and
- If the child care provided enables a family member to go to school, identify the educational institution. The family member need not be a full-time student but the child care hours must parallel the hours the family member goes to school.

Acceptable formats for documenting child care are outlined in Paragraph 9.4 of this Chapter. Child support is a court ordered debt that must be considered as a monthly liability for debt ratio calculations, but does not qualify as a child care expense. Annual child care expenses are not considered a liability in the repayment ratio calculation.

C. Elderly Household Deduction

A single $400 deduction is subtracted from annual income for any elderly household. To be considered an elderly household, the head of household, spouse, or sole member of a family, who is party to the note, must be 62 years of age or older, or a person with a disability.

D. Deduction for the Care of Household Members with Disabilities

Reasonable expenses for the care of a person with disabilities in excess of 3 percent of annual income may be deducted from annual income if the expenses:

- Enable the individual with disabilities or another family member to work;
- Are not reimbursable from insurance or any other source; and

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- Do not exceed the amount of earned income included in annual income by the person who is able to work as a result of the care provided.

To qualify for this deduction, applicants must identify the person with a disability. The lender must obtain verification of the individual's disability from the state review board in the state where the applicant resides, the Social Security administration, or a physician or other medical professional. *Form RD 1944-4*, or similar form or documentation acceptable to the industry may be used to request this information.

Typical disability expenses include attendant care to assist an individual with disabilities with activities of daily living directly related to permitting the individual or another family member to work, or special apparatus, such as wheelchairs, ramps, adaptations to vehicles or work place equipment, if directly related to permitting the person with disabilities or another family member to work.

E. Deduction for Medical Expenses (for Elderly Families Only)

Medical expenses may be deducted from annual income for elderly households if the expenses will not be reimbursed by insurance or another source, and when combined with any disability assistance expenses, are in excess of three percent of annual income. The definition of an elderly family can be found at 7 CFR 3555.10.

Typical medical expenses include:

- Services of physicians or other health care providers;
- Services in hospitals or other health care facilities;
- Medical insurance premiums or Medicare premiums;
- Prescription and non-prescription medicine;
- Dental expenses;
- Eyeglasses and eye examinations;
- Medical or health products or apparatus (e.g., hearing aids, wheel chairs, etc.);
- Live-in or periodic medical care (e.g., visiting nurses or care attendants); and
- Periodic payments on accumulated medical bills.

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If the elderly household qualifies for the medical expense deduction, expenses of the entire family are considered. For example, if a household included the head (grandmother, age 64), her son (age 37), and her granddaughter (age 6), the medical expenses of all three family members would be considered.

One of the most challenging aspects of determining allowable medical expenses is estimating a household's medical expenses for the coming year. While some anticipated expenses can be documented easily, for example, Medicare or other health insurance premiums and ongoing prescriptions, others need to be estimated. The lender should use historical information about medical bills to estimate future expenses. However, the estimates should be realistic. For example, if the household has a significant medical bill, the lender would count only that portion of the bill that is likely to be paid during the coming year. The lender must document all information used in making the calculation.

9.6 AGENCY REVIEW OF ELIGIBLE HOUSEHOLD INCOME

Agency staff is directed to recalculate the lender's determination of eligible income, as a quality control step, if the lender's adjusted annual income calculation is within 10 percent of the applicable published income limit. The Agency review is applicable to manually underwritten loans. This review will ensure eligible household income calculations are correctly computed and include all applicable income. The recalculation will validate only eligible SFHGLP applicants obtain funding for the SFHGLP. Agency staff will utilize Attachment 9-F to this Chapter to record the Agency's calculation. Attachment 9-F will be imaged with essential documents in the Agency's Imaging Repository.

9.7 DOCUMENTING REPAYMENT INCOME

Repayment income is the amount of the household's income that is available to repay the mortgage loan debt. To compute repayment income, the lender should count only the income of persons who will be parties to the note.

In order for the Agency to confirm that the household is eligible for assistance under the SFHGLP, the lender's file must thoroughly document all relevant information used to make the determination. The lender will certify when making a request for commitment that all supporting documentation is available and that Agency guidelines have been met. For manually underwritten loans, the loan application package forwarded to Rural Development will include copies of income verification documents. Documentation to support the lender's calculations of the repayment income and adjusted annual income, which determines if the household is eligible for a SFHGLP, will be included in all requests for conditional commitment. Attachment 9-A of this Chapter provides for a

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written analysis of elements utilized in determining household eligibility. The calculation of annual and adjusted household income must be retained as part of the lender's permanent loan file.

9.8 AGENCY REVIEW OF REPAYMENT INCOME

When Agency staff receives an application, they must review the lender's determination of the applicant's eligibility. Agency staff is directed to recalculate the lender's determination of repayment income for manually underwritten loans, during the review process, if the lender's repayment ratios are within 10 percent of the published debt ratio limit found at 7 CFR 3555.151(h). Repayment ratios greater than 26.0 percent principal, interest, taxes and insurance (PITI) and/or greater than 37.0 percent total debt ratio (TD) require Agency staff to recalculate repayment income. This action will strengthen the oversight procedures used by field staff to verify compliance with regulatory requirements. Agency staff will utilize Attachment 9-F to this Chapter to record the Agency's calculation. Attachment 9-F will be imaged with essential documents in the Agency's Imaging.

SECTION 2: REPAYMENT INCOME
[7 CFR 3555.10(b)]

9.9 OVERVIEW

Lenders use repayment income to determine whether applicant(s) have sufficient income to repay the mortgage in addition to other recurring debts. Repayment income often differs from the calculation of annual income and adjusted annual income used to determine if the household is eligible for the SFHGLP. To compute repayment income, the lender must count only the stable and dependable income of persons who will be parties to the note. Co-signers are not permitted in a SFHGLP transaction and are not an acceptable source when considering repayment income. The approved lender must use sound underwriting judgment in making this determination. This section provides guidance about the Agency's standards for determining whether income is adequate, dependable, and stable.

9.10 STABLE AND DEPENDABLE INCOME

The anticipated amount of income, and likelihood of its continuance, must be established to determine the applicant's capacity to repay the loan. The determination of stable and dependable income remains the lender's responsibility. GUS does not evaluate the stability and dependability of repayment income in the overall risk evaluation. The lender must determine the history and stability of earnings prior to entering repayment income into GUS. Repayment income often differs from the annual income and adjusted income calculations that determine program eligibility.

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Income from any source that cannot be verified, is not stable, or will not continue, must not be used in calculating the applicant's repayment income. Stable monthly income is the applicant's verified gross monthly income from all acceptable and verifiable sources that can reasonably be expected to continue for at least the next three years. For each income source used to qualify the applicant(s), the lender must determine both the source and the amount of the income are stable. The determination of stable and dependable income remains the lender's responsibility.

There is no minimum length of time an applicant must have held a position to consider employment income as dependable. Many low and moderate-income applicants change jobs frequently due to the nature of the employment available. Applicants in this situation should not be penalized for frequent changes in jobs within the same line of work if, despite the changes, income continuity has been maintained and the income amount has remained at a consistent level. However, the lender must verify the applicant's employment for the most recent two full years and verify that the applicant's income has been stable. If an applicant indicates he or she was in school or in the military during any of this time, the applicant must provide evidence supporting this such as college transcripts or discharge papers. If the applicant has recently re-entered the workforce after an absence to care for a family member or minor child, extended medical illness, or other circumstance reasonable to the lender, the applicant must provide evidence. The applicant should not have any gaps in employment of more than a month within the two year period prior to making the loan application. It remains the lender's responsibility to analyze the gaps in employment as it relates to the probability of continued income. The lender may make allowances for seasonal employment, as is typical in the building or agriculture trades. In most instances, a two-year history of receiving income is required in order for the income to be considered stable and used for qualifying. The lender should focus on the applicant's occupation, tenure, past employment history and probability of consistent receipt.

Applicants that have not been employed for 12 months with their current employer or have experienced a significant earnings increase are considered high risk. Lenders must ensure the applicant will have the required stable and dependable income to carry the mortgage debt. Caution must be utilized when the applicant's employment includes a probationary period. The lender may consider reasonable allowances for applicants with less than 12 months job time with their current employer under the following circumstances: (1) the applicant has recently changed jobs but remains in the same line of work, (2) the applicant frequently changes jobs but demonstrates income continuity, (3) the applicant is a recent graduate, as evidenced by college transcripts, or a recent member of the military, as evidenced by discharge papers, entering the civilian workforce, (4) the applicant has recently re-entered the workforce after an absence to care for a family member or minor child, extended medical illness, or other circumstance

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reasonable to the lender as further outlined in this Paragraph; and (5) an applicant will begin a new job with a firm offer letter from the employer indicating a start date within 60 days of loan closing (lenders must verify the applicant will have sufficient income, or cash reserves, to support mortgage payments and other obligations during the time between loan closing and the start of employment), this type of allowance is commonly represented by an applicant entering a teaching position with a contract from the school district.

Many income sources such as commission, bonus, overtime, tips and income from a second job require two years of receipt of income and two years of income documentation. Notwithstanding the requirements below, in some extraordinary instances less than two years of income receipt for income sources such as commission, bonus, overtime, tips and income from a second job may be acceptable with a documented thorough analysis of the applicant's income and a determination that the income is stable and likely to continue for the next three years. If less than two years documentation is utilized for qualifying the applicant, the lender must document in their underwriting analysis the basis for determining the income utilized when qualifying the loan as stable and dependable.

Other non-employed or not self-employment income sources such as child support, alimony, public assistance payments, social security (including social security received by adults on behalf of minors or by minors intended for their own support – as long as the minor is a member of the household), retirement, etc. can be considered stable to the extent that they are likely to be consistently made by the payor and can reasonably be expected to continue for at least the next three years. Many factors should contribute the determination and likelihood of consistent payments from other income sources such as:

- Are payment received pursuant to a written agreement, court decree or law?
- How long have payments been received?
- Are payments regular?
- What procedures are available to compel payment of other income?
- Have full or partial payments been made?
- What are the ages of each child for which child support payments are made (if applicable)?
- What is the eligibility criteria governing continued receipt of income, such as age of dependents or accumulation of assets?

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Generally, income from self-employment is considered stable and dependable if the applicant has been self-employed for two or more years, supported by documented income tax returns. Projected or hypothetical income from any source is typically not acceptable for repayment purposes.

The lender's permanent case file must retain supporting documentation confirming the stable and dependable income utilized to qualify the loan. The following will assist lenders to evaluate the stability and continuance of income.. This list does not encompass all eligible income types the lender may consider.

A. Salaries, Wages and Other Forms of Repayment Income

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

Employed income: Stable income may be income from primary, secondary employment, including base earnings plus consistent and documented secondary income such as bonuses, commissions, overtime, additional part-time employment or seasonal employment. All income sources must be documented to determine that the applicant's income is stable and likely to continue at the level used to qualify the applicant for the mortgage loan request.

Newly employed: An applicant who has less than a two-year employment and income history can be considered when the lender obtains supportive documentation the applicant was either attending school or training program immediately prior to their current employment history. For those applicants about to start a new job, if the applicant has a firm offer letter from the new employer indicating the job that will begin within 60 days of loan closing, see Paragraph 9.10 A.15 of this Chapter regarding additional documentation for qualifying an applicant with this type of income.

Re-entering the Workforce: Applicants who re-enter the workforce after an absence to care for a family member or minor child, extended medical illness, or other circumstances reasonable to the lender and have less than a two-year employment and income history, this type of income source may be considered as repayment income if the applicant has been at the current employer for a minimum of six months and there is evidence of a previous employment history.

Significant increases or decreases in income level: When an applicant has experienced a significant decrease in income, the previous higher income level cannot be

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averaged for repayment purposes unless there is documentation of a one-time occurrence (e.g. injury) that prevented the applicant from working or earning full income for a period of time and proof that the applicant is back to the income amount that they previously earned. Focus on the most recent earnings and income that it is likely to be received at the level used for qualifying.

When an applicant has experienced a significant increase in income and the lender proposes to qualify the applicant at the higher amount, sufficient documentation to confirm the increased income is stable and likely to continue at the level used for qualifying must be part of the lender's written analysis of income.

Calculation of Monthly Repayment Income From Primary Employment: The following table will assist lenders in calculating base earnings from primary employment paid on an hourly, weekly, every two weeks, semi-monthly or monthly basis to qualify the applicant. The guide will not be applicable in all situations. The lender remains responsible for determining the amount of income used to qualify the applicant is stable. A written analysis of the income used to qualify the applicant must be retained in the mortgage loan file. Documentation must support the lender's income calculation.

Calculation of Monthly Repayment Income – Base Earnings	
Frequency	**Calculation of Repayment Income**
Hourly	Multiply the hourly pay rate by the average number of hours worked per week; multiply by 52 weeks; divide by 12 months.
Weekly	Multiply the weekly income by 52 weeks; divide by 12 months.
Every two weeks	Multiply the two weeks income by 26 pay periods; divide by 12 months.
Twice per month	Multiply the semi-monthly income by 24 pay periods; divide by 12 months.
Monthly	Use the monthly income from the paystub. Multiply by 12 months.
Applicants who are paid less than 12 months per year	Annual salaries may be received over a time period of less than 12 months. Determine how often; how long the applicant is paid. Utilize the monthly income based upon calculations above. Example - divide an annual salary paid 10 months of the year by 12 to arrive at the average monthly income.

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Additional Income: Procedures for treating other acceptable income sources in addition to primary employment are described below. The lender must determine that the amount of additional income used to qualify the applicant is likely to continue at the level used for loan qualifying. The monthly income documented in the mortgage file must support the lender's income calculation. A written analysis of the additional income used to qualify the applicant must be retained in the lender's mortgage file.

1. Overtime and Bonus Income

Both overtime and bonus income may be used to qualify the applicant if the income source has a two year consecutive history of paying overtime and bonuses and the income will likely continue for the next three years. Income earned for less than one year with the current employer should not be considered for repayment income without significant compensating factors (e.g. the applicant has recently changed from a salary to commission position with the same employer, or remains in the same line of work with a verified history of receipt of these income types).

When the lender verifies this type of income, the employer must indicate that the overtime and bonus income is likely to continue. If either type of income shows a continual decline, the lender must provide a sound rationale for the amount included. If bonus income varies significantly from year to year, a period of more than two years may be used in calculating the average income.

Calculation of Overtime and Bonus Income: If the amount of the bonus and/or overtime is consistent in the most recent two years, the amount utilized for repayment income will be the total of the most recent two years divided by 24 months. Business expenses will be deducted prior to the calculation. If the applicant has experienced a decrease in overtime or bonus income the lender must determine the amount of income, if any, which can be justified as stable and document their explanation for the decrease. The calculation of repayment income - when less than a 24 month average is utilized - will be based upon the time frame the lender can support with documentation the income is stable and likely to continue at the level used for qualifying (e.g. the previous 12 months represents the level and stability of income to be received in the future – the lender would divide income received for this period by 12).

2. Commission Income

The applicant must have a two year consecutive history of receiving commission income and the commission income must likely to continue for the next three years in order to consider the income as stable and dependable for repayment purposes. Commission income should be averaged over the previous two years utilizing the current employer.

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The applicant should provide the last two years tax returns or W-2 forms along with a recent year to date paystub. Non-reimbursed business expenses, if any, should be subtracted from gross income when supported by IRS Form 2106. An individual who claims commission income for less than two years, or shows a decrease from one year to the next, requires significant compensating factors if the commission income is to be included as repayment income. Typically, this example would be an extraordinary instance.

Commissions earned less than one year should not be considered repayment income absent significant compensating factors. Exceptions may be made in those situations on a case by case basis where the applicant's compensation was changed from a salary to commission within a similar position with the same employer. An applicant may also qualify when that portion of earnings not attributable to commissions would still be sufficient to qualify the applicant for the mortgage.

Calculation of Commission Income: If the lender determines the amount of commission income is consistent, divide the total of the most recent two-years (minus business expenses when applicable) by 24 months. A written analysis of the income used to qualify the applicant must be retained in the mortgage file.

3. Part-Time, Second Job, Seasonal Income and Unemployment

Income from a second job or part-time job may be counted for repayment income if the applicant has worked this position uninterrupted for the past two years and will continue to do so. This type of income must be likely to continue for the next three years in order to consider the income for repayment. Second or part-time job income refers to jobs taken in addition to the normal, regular employment to supplement the applicant's income. If an applicant's regular employment is less than a typical 40-hour work week, the stability of that income should be evaluated as any other regular, ongoing primary employment. This would include as an example, a registered nurse that has been working 24 hours per week for the last year.

Seasonal employment (e.g., umpiring baseball games in summer or working at a department store during the Christmas shopping season) is considered uninterrupted and may be counted if the applicant has worked the same type of job for the past two years. Income from a part-time position that has been received for less than two years may be counted if the lender is able to determine through employer verification that the income's continuance is likely at the level of receipt verified in the past. Income from part-time positions not meeting these requirements may be considered as a compensating factor, as described in Chapter 11 of this Handbook.

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Unemployment compensation associated with seasonal employment may be considered repayment income if the applicant has a two-year history of receipt and the unemployment compensation is likely to continue for the next three years.

To utilize income from secondary employment (second or additional job), seasonal income or unemployment to qualify the applicant, the income must be reported on the applicant's individual federal income tax return for the most recent two year period.

4. Tax Exempt Income

The standard debt-to-income ratios are based on an assumption the income is taxable. If a particular source of income is not subject to Federal taxes, for example, certain types of disability payments or military allowances, the amount of continued tax savings attributable to the nontaxable income source may be added to the applicant's repayment income. Income that has been verified to be tax exempt may be "grossed up" by 25 percent, in other words, multiplied by 125 percent to "gross up" such income. No other adjustments for tax exempt income are authorized. Tax exempt income sources should not be grossed up when calculating annual income.

5. Military Income

In addition to base pay, military personnel may be entitled to additional forms of pay. Income from variable housing allowances, clothing allowances, flight or hazard pay, rations, and proficiency pay is acceptable provided it is verified as continuous and regular and likely to continue for the next three years. An additional consideration may be the tax-exempt nature of some of these payments.

If the applicant is a member of a reserve component of the United States Armed Forces, the lender may consider the reserve duty income for qualifying.

6. Retirement and Social Security Income

Retirement and Social Security income requires verification from the source (former employer or Social Security Administration), such as a copy of the current award letter or Federal tax returns. If any benefits expire within the first three years of the proposed loan, the income source may only be considered as a compensating factor in lieu of repayment income.

7. Alimony, Child Support or Maintenance Income

Income in this category may be counted if such payments are likely to be consistently received for the first three years of the mortgage. The applicant must provide a copy of the divorce decree, legal separation agreement, or voluntary payment agreement, and

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evidence that payments have been received during the last twelve months. Payment periods of less than twelve months may be acceptable if the lender can document the payer's ability and willingness to make timely payments. Acceptable evidence of payments received includes the most recent 12 months of cancelled checks, or deposit slips, or Federal tax returns, and court records.

When lenders are considering if this type of income is stable, consider the extent that payment is likely to be consistently made by the payor and can reasonably be expected to continue for at least the next three years based on documentation.

8. Interest and Dividends

Interest and dividend income may be counted for repayment income provided that documentation (tax returns or account statements) supports a two-year history of receipt. This income must be averaged over the two years. Any funds derived from these sources, and required for closing, must be subtracted before the projected interest or dividend income is calculated. Documentation of sufficient assets remaining after closing to support continuance of the dividends and interest income at the level used for qualification for the next three years is required.

9. Employer Differential Payments/Housing Allowances

If the employer subsidizes the mortgage payments through direct payments, this is a housing allowance. The amount of the payments should be considered gross income to calculate repayment ratios. It may not be used to directly offset the mortgage payment even if the employer pays the servicing lender directly. The lender must obtain documentation to demonstrate that the payments are pursuant to an established, ongoing and documented employer program to utilize this type of income for qualifying. The employer must not be an interested party to the transaction and the payment must continue for the next three years.

10. VA Benefits

Direct compensation from the U.S. Department of Veterans Affairs (VA), (e.g., regular payments for a service-related disability), can be counted if the VA verifies it. A VA education benefit, used to offset education expenses, is not an acceptable source of income. Any amount provided for living expenses may be counted as repayment income. Any student financial aid received for tuition, fees, books, equipment, materials, and transportation will not be considered in the repayment income calculation.

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11. Government Assistance Programs

Income received under a welfare program, unemployment income, worker's compensation, ~~payments for foster children,~~ or similar government assistance programs can be used for repayment income as expanded upon in this Chapter. It must be documented by the paying agency; the income has been received for the most recent two years and can be expected to continue for three years. If this income is not expected to last three years, it may be considered as a compensating factor. Unemployment income requires a two-year documentation of its receipt and reasonable assurance of its continuance. This may be appropriate for individuals employed on a seasonal basis, such as farm workers or resort area employees. Applicants with a sole source of unemployment benefits as their earnings are ineligible for a guaranteed loan.

Documentation from the applicable agency that indicates the amount, frequency and the length of time the benefit payments will be received is required.

12. Rental Income

Rental income received for a propert~~iesy~~ owned ~~and retained~~ by the applicant may be acceptable in limited circumstances, subject to proper documentation as noted in Chapter 8 of this Handbook. A separate schedule of real estate is not required provided that all properties are shown on the Uniform Residential Loan Application (URLA). The following is required to verify rental income:

- ***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. ~~for a term of at least 12 months after the loan is closed.~~ Net rental income is considered the two-year average of total rental real estate income reported on IRS Form 1040 Scheduled E. ~~A two-year average of~~ ~~D~~depreciation and depletion may be added back to the net income or loss shown on Schedule E less monetary obligations associated with the property (i.e. principal and interest payment, insurance premiums, property taxes, homeowner's association dues, etc.). Positive net rental income is considered as gross income for repayment purposes. Negative net rental income must be treated as a recurring liability and not as a deduction from repayment income. The lender must make certain the applicant still owns the property listed by comparing the Schedule E with the real estate owned section of the residential loan application.

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Data entry in GUS for long-term current leases. Requests submitted utilizing GUS that include the retention of a rental property require specific fields to be completed to assure accurate data is submitted. Complete the following steps in GUS:

- Complete the "Real Estate Owned" (REO) page in GUS to ensure rents are used to offset the existing mortgage obligation when applicable.
- GUS auto-calculates net rental income by employing at 25% vacancy factor. GUS uses 75% of the lender entered amount for gross rental income and subtracts the lender entered amounts for mortgage payments, insurance, maintenance and taxes.
- Lenders may override the auto-calculation on this page when the most recent two years of tax returns evidence a more precise amount of income receipt.
- On the "Assets and Liabilities" page of GUS, lenders should omit the mortgage obligation for the rental property shown on this page to avoid double counting the debt since it is also reported on the REO page.

- Non-GUS manually submitted files for long-term current leases. Lenders will utilize the two-year average as reported on the Schedule E to determine repayment income. Depreciation and depletion can be added back into the net rental income. Mortgage payments (if applicable), insurance maintenance and tax obligations will be subtracted from the calculation.

- ***Newly signed leases.*** A newly signed lease has no historical basis to conclude that the income is likely to continue. Rental income that has been received for less than 24 months will not be considered stable and dependable income for repayment purposes. Applicants who wish to purchase a new principal residence and retain or rent a residence must qualify with all mortgage liability payments. Income from newly signed leases cannot be used in repayment debt ratio calculations. The exclusion of rental income will ensure the applicant has sufficient monthly income to meet all mortgage and liability payments.

Data entry in GUS for newly signed leases. The "REO" page in GUS must be completed properly to ensure rents are not used to offset any existing mortgage liability. The following steps to assure accurate data in GUS are required:

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- On the REO page, lenders must leave the "Gross Rental Income" field blank when completing the "Mortgage Payments" (if applicable) and "Insurance, Maintenance, and Taxes" data fields.

- The mortgage obligation (if applicable) associated with the retained dwelling must be omitted on the "Assets and Liabilities" page in GUS. Omission of the mortgage obligation on the "Assets and Liabilities" page is necessary to avoid duplication/double counting of the debt since it is also reported on the "REO" page.

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- Non-GUS manually submitted files for newly signed leases. The existing mortgage obligation (including insurance, maintenance and taxes) associated with the retained dwelling must be counted as a long-term liability in the repayment ratio calculation. Rents received cannot be used to offset the mortgage obligation.

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13. Automobile Allowance and Expense Account Payments

The applicant must have a two-year consecutive history of receiving an automobile allowance and the automobile allowance must be likely to continue for the next three years in order to consider the income for repayment purposes.

The amount by which an applicant's automobile allowance or expense account payments exceed actual expenditures may be considered as income. The applicant must provide IRS Form 2106, "Employee Business Expenses," for the previous two years to establish the amount of income that may be added to gross income, along with verification from the employer that these payments will continue.

The monthly debt amount must be treated as a recurring debt. If the applicant uses the standard per-mile rate in calculating automobile expenses, as opposed to the "actual cost" method, the portion the IRS considers depreciation may be added back to ~~gross~~ repayment income. Additionally, the applicant's monthly car payment must be treated as a recurring debt and must not be offset by the car allowance.

14. Trust Income

Income from trusts may be counted for repayment income if guaranteed, if constant payment will continue for at least the first three years of the mortgage term, and if it is adequately documented. Documentation requirements include a copy of the Trust

Agreement or other trustee's statement confirming amount, frequency of distribution, and duration of payments.

15. Projected Income

Projected or hypothetical income is not acceptable for repayment purposes. However, exceptions are permitted for income from cost-of-living adjustments, performance raises, bonuses, etc. which is both verified by the employer in writing and scheduled to begin within 60 days of loan closing. For those applicants about to start a new job, if the applicant has a firm offer letter from the new employer indicating the job that will begin within 60 days of loan closing, the income is acceptable for qualifying, and repayment, purposes. The lender must also verify that the applicant will have sufficient income or cash reserves to support the mortgage payments and any other obligations during the interim between loan closing and the start of employment. This may be appropriate for situations such as a teacher whose contract begins with the new school year, or a physician beginning residency after the loan is scheduled to close. However, if the loan will close more than 60 days before the employment begins, the income cannot be counted for repayment purposes. Lenders should utilize full documentation on this type of income. In the absence of a payroll statement to support income earned for new jobs, a copy of the contract with the employer that validates the amount of income to be earned should be obtained.

16. Mortgage Credit Certificates

If a government entity subsidizes the mortgage payments, either through direct payments or through tax rebates, these payments can be considered as acceptable income if verified in writing. The subsidy must be used directly to offset the mortgage payment before calculating the qualifying ratios. See Paragraph 9.11 A of this Chapter for additional information on this subject.

17. Tip Income

The applicant must have a two year consecutive history of receiving income from tips in order to consider the income for qualifying. For tip income that fluctuates, the lender must evaluate the income trend and use the amount that is likely to continue for the next three years.

18. Section 8 Homeownership Assistance Payments

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Section 8 homeownership payments paid directly to the applicant or directly towards offsetting the mortgage payment may be considered qualifying income if the payments are likely to continue for the next three years. If the subsidy is paid directly to the applicant it may be "grossed up" by 25% to compensate for its non taxable status.

If the subsidy does not pass through the hands of the applicant it should be treated as an "offset" to the monthly PITI (i.e. reduce the monthly PITI payment by the amount of homeownership assistance provided prior to dividing by monthly repayment income to determine the debt-to-income ratio).

GUS may be utilized by lenders when the payment is paid directly o the applicant. If the payment is not paid directly to the applicant, the lender will be required to manually underwrite the mortgage file.

See Paragraph 9.11 C of this Chapter for additional information on this subject.

19. Unreimbursed Employee Expenses

Unreimbursed employee expenses are reported on IRS Form 2106, "Employee Business Expenses." The sum of columns A and B on Line 8 represents the total amount spent out of pocket. The amount of unreimbursed employee expenses must be deducted from repayment income.

B. Employment by Family-Owned Businesses

Applicants employed by businesses owned by family members are required to provide additional income documentation. Such applicants must provide the normal verification of employment and pay stubs, as well as evidence that he or she is not an owner of the business. This may include copies of the applicant's signed personal tax returns, current paystub or payroll ledger signed by the business accountant or payroll administrator, or a signed copy of the corporate tax return showing ownership percentages.

C. Self-Employed Applicants

An applicant with a 25 percent or greater ownership interest in a business is considered self-employed for the purpose of calculating repayment income. The business may be a sole proprietorship, a partnership (limited or general) or a corporation.

A self-employed applicant introduces an additional layer of risk to a mortgage loan request due to the uncertain nature of future income. GUS will not take this additional risk into consideration in the overall risk evaluation. The lender remains responsible to

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determine the income source utilized in qualifying is a stable, consistent source that will continue to be received at the level utilized for repayment income purposes.

1. Minimum Length of Self-Employment

Income from self-employment is considered stable and dependable if the applicant has been self-employed for two or more years. Because of the high incidence of failure during the first few years of a new business, income from individuals self-employed for between one and two years can only be counted if the individual has at least two years previous successful employment (or a combination of one year of employment and formal education or training) in a related occupation or profession at the same or greater level in the same or similar occupation. If the applicant cannot demonstrate self-employment earnings for the previous two years, the lender's underwriter must review the applicant's reasonable probability of earnings based on a market feasibility study or business plan and pro forma financial statements for the business. The lender must also consider the applicant's experience in the business prior to considering the income for qualifying purposes. If the underwriter is unable to support the income with the documentation required, the income should not be utilized for repayment income purposes. The income from applicants self-employed for less than one year cannot be counted as repayment income.

When additional income the applicant draws from the applicant's corporation, partnership or S-corporation is utilized for repayment income, additional documentation is required to verify the applicant has a legal right to the additional income. Lenders can obtain a corporate resolution or other comparable document that establishes that right. Also confirm the applicant's percentage of ownership of the business entity from a review of business tax returns, letter from the accountant for the business or similar documents. The analysis must support that the business is clearly capable of providing the applicant with the additional income used to qualify.

A written analysis of income utilized to qualify the applicant must be retained in the lender's mortgage file. As part of the analysis, any increase or decrease in business income must be documented and justified to support a determination that the income used to qualify the applicant is stable and likely to continue for the next three years. It may be necessary to obtain additional years' tax returns when the applicant's self-employment income fluctuates to determine the stability of income. If the applicant's income is not utilized to qualify the applicant for repayment, the individual federal tax return is required to determine if there is a business loss that may have an impact on the stable monthly income utilized for qualifying. If a business loss is reported, additional documentation may be necessary to evaluate the impact of a business loss on the income used for qualifying the applicant for repayment. For the purposes of computing annual income to qualify the household, business losses will be treated as zero in the

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calculation. Business losses when calculating repayment income will be deducted from repayment income prior to calculating debt ratios.

2. Documentation

The following documentation for self-employed individuals is required to establish capacity to repay the loan:

- Signed and dated individual tax returns, plus all applicable schedules, for the most recent two years. If the applicant has been self-employed for less than two years, the individual federal tax returns must reflect at least one full year of self-employment income. Lender's must use extreme discretion with applicant's who have been self-employed for less than two years;

- A year to date profit-and-loss (P&L) statement and balance sheet (not required to be audited);

- Signed copies of the Federal business income tax returns for the last two years, with all applicable schedules, if the business is a corporation, an "S" corporation, a partnership, or a limited liability corporation.

3. Analyzing Self-Employment Income

The lender must establish the applicant's earnings trend over the previous two years, but may average the income for repayment purposes over three years if all three years' tax returns are provided. If the applicant provides quarterly tax returns, the analysis can include income through the period covered by the tax filings. If the applicant is not subject to quarterly tax filings or does not file quarterly returns Form IRS 1040 ES, "Estimated Tax Payment Voucher," the income shown on the P&L may be included in the analysis provided the income stream based on the P&L is consistent with the previous years' earnings. If the P&L statements submitted for the current year show an income stream considerably greater than what is supported by the previous years' tax returns, the analysis of income must be predicated solely on the income verified through the tax returns.

Lenders must carefully analyze the individual business's financial strength, the source of its income, and the general economic outlook for similar businesses in that area to determine if the business can be expected to continue to generate sufficient income for

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the applicant's needs. Annual earnings that are stable or increasing are acceptable. Conversely, income for an applicant whose business shows a significant decline in income over the period analyzed may not be considered adequate, dependable, and stable.

There are five basic types of business structures (sole proprietorship, corporations, "S" corporations, partnerships, and limited liability corporations), each of which will require slightly different forms of analysis. Attachment 9-E contains detailed information about analyzing tax returns for self-employed applicants.

4. Calculation of Self-Employed Income

The lender's calculation of a self-employed applicant's average monthly income must be based on a review of the applicant's complete individual federal tax returns (Form 1040) including W-2's and K-1's (if applicable). Additionally the applicant's complete business tax returns (Forms 1120, 1120S and 1065), when applicable must be analyzed. A written analysis of the applicant's self-employed income on Fannie Mae Form 1084, "Cash Flow Analysis," and Fannie Mae Form 1088, "Comparative Income Analysis," (or a comparable form) is encouraged to document a trend analysis of the applicant's business. Non-cash items such as depreciation and depletion may be added back to adjusted gross income for the purpose of determining qualifying income.

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The following allowable IRS deductions may be added to net profit (item #31 on Schedule C, or item #36 on Schedule F):

- Depletion (item #12 on Schedule C)
- Depreciation (item #13 on Schedule C or item #16 on Schedule F)

Net Profit + Depletion + Depreciation = Repayment Income

5. How to Treat Business Debts

Traditionally, the primary business structure that many of our self-employed applicants engage in is a sole proprietorship. The success of this type of endeavor depends largely on the individual owner, and business income or loss is reported in the individual owner's personal tax return.

Also, although the individual owner has personal liability for all debts of the business in a sole proprietorship, business related debts are often paid with business funds, rather than personal income.

If a debt such as a car loan is paid through the business, the debt does not need to be included in debt ratio calculations as long as documentation is provided that the debt is being paid by the business. Documentation that the debt payments are made by the business may include 12 months of cancelled business checks.

D. Income from Assets

Only actual income derived from assets of parties to the note should be considered when computing repayment income.

9.11 ENHANCING REPAYMENT ABILITY

A. Mortgage Credit Certificates

Mortgage Credit Certificates (MCCs) may be considered in determining an applicant's repayment ability. The Tax Reform Act of 1984 authorizes MCCs to provide housing assistance through a tax credit to families with low and moderate incomes. The MCC enhances the applicant's repayment ability as it enables the applicant to take an income tax credit which can be used toward repayment of the mortgage loan. When the lender is participating in an MCC program the amount of the tax credit is considered as an additional resource available for repayment of the loan when the credit is taken on a

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monthly basis from withholding. This type of subsidy may be used to directly offset the mortgage payment before calculating the qualifying ratios. The agency issuing the MCC determines the amount of the tax credit. The amount of tax credit is limited to the applicant's maximum tax liability. No portion of the MCC is included in the annual income calculation. When the lender utilizes the MCC as a direct reduction in housing expense to qualify the applicant in the ratio analysis, ~~T~~the lender must provide the following documentation when applying an MCC:

- A copy of the MCC. The MCC must show the rate of credit allowed;
- The applicant's newly filed IRS W-4 "Employee's Withholding Allowance Certificate" form to reflect that the applicant is taking the tax credit on a pay-period basis; and
- Lender certification that the applicant completed and processed all necessary documents in order to receive the credit.

B. Temporary Interest Rate Buydown

Builders, sellers, lenders or another interested third-party can choose to prepay a portion of the interest an applicant will pay over the life of the loan in order to make the monthly mortgage payment more affordable to the purchaser during the early years of the loan. The lender's file must document the calculations for a buydown.

1. Overview

A funded buydown account is a prepaid arrangement designed to improve an applicant's repayment ability. The most familiar temporary interest rate buydown is the 2-1-0 buydown. It is a temporary reduction in the interest rate paid by the applicant, resulting in a reduction below note rate of two percent during the first year, a reduction below note rate of one percent the second year of the loan, after which the interest rate reverts to the full note rate for the remainder of the life of the loan.

To cover the shortfall between the reduced payments made by the applicant and the regular payments received by the lender, cash is withdrawn from a special escrow account set up for that purpose. The total payment received by the lender, consisting of the payment made by the applicant plus the withdrawal from the escrow account is the same as it would be in the absence of the buydown. The table below illustrates the mortgage payment for a 2-1-0 temporary interest rate buydown.

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2-1-0 Buydown Payments by Applicants and Payments From Escrow $100,000 loan; 30 Year Fixed 7% Mortgage			
Year	Payment Received by Lender	Payment by Applicant	Payment From Escrow
1	$665.31	$536.83	$128.48
2	$665.31	$599.56	$ 65.75
3 – 30	$665.31	$665.31	$ 00.00
Total Escrow			$2331.00

An applicant whose mortgage is subject to an interest rate buydown should have a high likelihood of remaining in the home without experiencing a default; therefore, lenders should document compensating factors when using buydown plans to qualify an applicant.

2. Buydown Requirements

The following requirements must be met in order for the Agency to guarantee a loan with a funded buydown of the interest rate:

- The mortgage loan must be underwritten at the full note rate.
- The interest rate cannot be bought down more than two percentage points below the note rate and must not result in more than a one percent annual increase in the interest rate.
- Funds to pay for the entire buydown must be placed in an escrow account with a financial institution supervised by a Federal or state agency. Payments are to be made directly to the lender or its servicing agent monthly.
- The escrow account must be fully funded for the buydown period.

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- A copy of the escrow agreement must accompany the loan application; however, the Agency may condition for the executed buydown agreement at closing.

- The applicant cannot fund the buydown with personal funds or funds borrowed from another source to establish the escrow account for the buydown.

- The buydown must not be paid for with loan funds. Temporary buydown funds may come from the seller, lender or other third party. ~~or premium pricing.~~

- If the qualifying ratios at the full note rate exceed those established in Chapter 11 of this Handbook, the lender must establish and document that the eventual increase in mortgage payments will not adversely affect the applicant. The underwriter must document that in year three the applicant will be able to pay the market rate of the loan by meeting one of the following criteria:

    - The applicant shows a potential for increased income due to job training or education in the applicant's profession or by a history of advancement in the applicant's career with increases in earnings that would offset the scheduled payment increases; or

    - The applicant has demonstrated an ability to manage financial obligations indicating that a greater portion of income can be devoted to housing expense. This may also include applicants whose long-term debt, if any, will not extend beyond the term of the buydown agreement.

    - The applicant has substantial assets available to cushion the effect of the increased payments.

C. Section 8 Homeownership Vouchers

Section 8 Homeownership Vouchers may be used for qualifying applicants. This income is not included in Annual Income. For repayment income purposes, the monthly subsidy from the Section 8 Homeownership Vouchers may be treated in either of the ways described below.

1. Repayment income

The subsidy may be paid directly to the applicant and added to the applicant's monthly repayment income in determining the homebuyer's qualifying ratios. The amount of this non-taxable subsidy may be "grossed up" by 25 percent as it is non-taxable income. The amount of the subsidy plus 25 percent may be added to the

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applicant's income from employment and/or other sources when calculating repayment income.

2. Offset to Principal, Interest, Taxes and Insurance (PITI)

Lenders may treat the monthly homeownership assistance payment as an "offset" to the monthly PITI, i.e. reduce the payment by the amount of the homeownership assistance payment before dividing by the monthly income to determine the debt-to-income ratios. However, in order to use this procedure for qualifying the applicant, the homeownership assistance funds must not pass through the hands of the homebuyer, i.e. the homeownership assistance payment must be paid directly to the servicing lender or placed into an account that only the servicing lender may access. If the homeownership assistance payment is made directly to the applicant, that amount may only be considered as repayment income in qualifying the applicant as described in the above "Repayment Income" paragraph.

9.12 DOCUMENTING REPAYMENT INCOME

The Agency does not re-underwrite the lender's decisions, yet the lender should submit written documentation regarding its determination of repayment income with the application. The underwriting criteria must be based on the Agency's established guidelines and all information pertaining to the underwriter's decision must be retained in the loan file so that the Agency can review the quality of the underwriting decision during the monitoring process.

The following sources are never counted when considering repayment income:

- Income sources from household members who are not a party to the promissory note.
- Student financial aid received for tuition, fees, books, equipment, materials and transportation.
- Amounts received that are specifically for, or in reimbursement of the cost of medical expenses for any family member.
- Temporary, nonrecurring, or sporadic income (including gifts).
- Lump sum additions to family assets such as inheritances, capital gains, insurance payments and personal or property settlements.

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- 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.
- Supplemental Nutrition Assistance Program (formerly the Food Stamp Program).

9.13 OPTIONAL DOCUMENTATION OF INCOME FORMS

Attachment 9-G of this Chapter provides optional verification forms for the lender's use in verifying non-employed income or possible deductions as follows:

- Verification of Pensions and Annuities
- Verification of Student Income and Expenses
- Verification of Medical Expenses
- Verification of Social Security Benefits
- Verification of Public Assistance
- Verification of Child/Dependent Care
- Verification of Unemployment Benefits
- Verification of Business Expenses
- Verification of Support Payments

Also available is an optional form to record an oral verification of employment.

- Record of Oral Verification of Employment

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ATTACHMENT 9-A

WORKSHEET FOR DOCUMENTING ELIGIBLE HOUSEHOLD AND REPAYMENT INCOME

Lender Instructions: *Determine eligible household income for the Single Family Housing Guaranteed Loan Program (SFHGLP) by documenting all sources/types of income for all household members. Qualify the loan by documenting all sources/type of income that is stable and dependable utilized to repay the loan.*

GENERAL INFORMATION

Applicant(s):	Lender:	Date:

Identify all Household Members		**Full-time Student Y/N?**	**Disabled Y/N?**	**Receives Income Y/N?**	**Source of Income**

ANNUAL INCOME CALCULATION (*Consider anticipated income for the next 12 months for* ***all*** *adult household members as describ*ed in Chapter 9 this Handbook. Website for instructions/administrative notices: http://www.rurdev.usda.gov/RegulationsAndGuidance.html

1. Applicant (*Wages, salary, self-employed, commission, overtime, bonus, tips, alimony, child support, pension/retirement, social security, disability, trust income, etc.).* **Calculate and record how the calculation of each income source/type was determined in the space below.**	$
2. Co-Applicant (*Wages, salary, self-employed, commission, overtime, bonus, tips, alimony, child support, pension/retirement, social security, disability, trust income, etc.).* **Calculate and record how the calculation of each income source/type was determined in the space below.**	$
3. Additional Income to Primary Income *(Automobile Allowance, Mortgage Differential, Military, Secondary Employment, Seasonal Employment, Unemployment.)* **Calculate and record how the calculation of each income source/type was determined in the space below.**	$
4. Additional Adult Household Member (s) who are not a Party to the Note (*Primary Employment from Wages, Salary, Self-Employed, Additional income to Primary Employment, Other Income*). **Calculate and record how the calculation of each income source/type was determined in the space below.**	$
5. Income from Assets (*Income from household assets as described in §3555.151 of 7 CFR 3555).* **Calculate and record how the calculation of each income source/type was determined in the space below.**	$
6. **Annual Household Income** (*Total 1through 5)*	$

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Applicant(s):

ADJUSTED INCOME CALCULATION (*Consider qualifying deductions as described in §3555.151 of 7 CFR 3555)*

7. Dependent Deduction *($480 for each child under age 18, or full-time student attending school or disabled family member over the age of 18*) - #_____ x $480	$
8. Annual Child Care Expenses (*Reasonable expenses for children 12 and under*). **Calculate and record the calculation of the deduction in the space below.**	$
9. Elderly Household *(1 household deduction of $400 if 62 years of age or older, or disabled and a party to the note)*	$
10. Disability (*Unreimbursed expenses in excess of 3% of annual income. See Chapter 9 of this Handbook for eligibility.* **Calculate and record the calculation of the deduction in the space below.**	$
11. Medical Expenses (*Elderly households only. Unreimbursed medical expenses in excess of 3% of annual income. See §3555.151 of 7 CFR 3555 for further information).* **Calculate and record the calculation of the deduction in the space below.**	$
12. **Total Household Deductions** (*Enter total 7 through 11*)	**$**

13. **Adjusted Annual Income** (Item 6 minus item 12*)* *Income cannot exceed Moderate Income Limit to be eligible for SFHGLP* *Moderate Income Limit: $_____ State: _____ County: _____*	**$**

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Applicant(s):
MONTHLY REPAYMENT INCOME CALCULATION (*Consider stable and dependable income of parties to the note as described in §3555.152(a) of 7 CFR 3555).*

14. Stable Dependable Monthly Income (*Parties to note only).* **Calculate and record how the calculation of each income source/type was determined in the space below.** Identify income type by party to note.

	Borrower	**Co-Borrower**	**Total**
Base Income	$_____ ***Calculation of Base Income:***	$_____ ***Calculation of Base Income:***	$_____
Other Income	$_____ ***Calculation of Other Income:***	$_____ ***Calculation of Other Income:***	$_____
Total Income	$_____	$_____	$_____

15. **Monthly Repayment Income** (*Enter total of 14*).	$

Date: _____ Prepared by: _____ Lender: _____
Name/Title

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ATTACHMENT 9-B

EXAMPLE CASE STUDY:
WORKSHEET FOR DOCUMENTING ELIGIBLE HOUSEHOLD AND REPAYMENT INCOME

Example Case Study – Documenting Eligible Household and Repayment Income

Household members:

Name	***Relationship***	***Comments***	***Household Income, Assets and Expenses***
David Example	Head of Household	Employed, party to note	$1,250/week wages; Savings account balance $2,000, annual interest income $140; Checking account balance (2 month average) $300, noninterest bearing account; Certificate of Deposit, cash value $4,000, interest income $400 annually
Betsy Example	Spouse	Employed, party to note	$15.50/hr wages – working 20 hours week; $100/month child support from her ex-husband (Kathy's father)
Cynthia Example	David's mother	Disabled, moved in when husband died	$800/month Social Security benefits and $600 in a noninterest bearing checking account
Janet Smith	Daughter	Full-time college student, employed	$600/month wages
Kathy Smith	Daughter	Full-time junior high school student, employed	$4.00/hour 8 hours/week wages
Chris Doe	Foster child	Full-time elementary student	County pays household $800/month to care for foster child.

<u>Eligible Household Income</u>: Calculate annual and adjusted income to determine eligibility of the household for the SGHGLP.
For Annual Income Calculation – Consider income of all household members:

- Count David's wages
- Count Betsy's wages
- Count child support (Betsy)
- Count only the first $480 of Janet's wages (Household member is greater than 18 years of age and an adult
- Do not count Kathy's wages (Household member is a minor and less than 18 years of age)
- Count Cynthia's Social Security
- Count actual income from assets from all members of the household
- Do not count income payments for care of foster child

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Consider assets of all household members for the annual income calculation. Therefore Cynthia's checking account balance is considered. The checking account balance is considered, however since it is noninterest bearing, there is no income. In addition, for annual income, the calculation of imputed income from assets must be made if assets exceed $5,000. In this example, the imputed income is less than the actual income received.

Adjusted Income Calculation:

Dependent Deduction

- Three dependent deductions are permitted for Kathy (a minor), Janet (an adult full-time student, who is not the head of household or spouse), and Cynthia (an adult individual with disabilities, who is not the head of household or spouse)
- A dependent deduction is not given for a foster child.
- Total household members are 5, excluding the foster child.
- A deduction of $1,440 in this example may be deducted ($480 for each member under 18 years of age; 18 years of age or older and disabled; a full-time student aged 18 or older).

Child Care Deduction

- Child care expenses are permitted for the care of a foster child, but must not exceed the amount earned by the family member enabled to work. Betsy earns $15.50/hour working 20 hours per week and pays $50/week for child care.
- Child care expenses are not permitted if another adult household member is available to care for the child. Janet is not available because she is a full-time student and Cynthia cannot care for the child because of her disability.
- The full amount of the child care may be deducted.

Elderly Household Deduction

Even though an elderly person is a part of the household, this is not an elderly household because neither the head nor spouse is 62 years of age or older or an individual with disabilities. If this were an elderly household a deduction of $400 would be allowed. No deduction can be made in this example.

Medical Expense Deduction

Family medical expenses cannot be deducted since this is not an elderly household.

Disability Assistance Expenses

No disability assistance expenses were claimed. To be allowed a deduction, the expenses would have to be necessary to enable a family member to work.

Repayment Income: Calculate the income utilized to repay the loan. Consider only income from parties to the note that is documented to be stable and dependable.

David and Betsy are parties to the note. David has worked the last two years earning $1,250 per week or $65,000 annually. Betsy has made $15.50/hour and worked 20 hours per week for the past five years consistently. Betsy receives child support for Kathy, paid through the court at $100 a month, or $1,200 annually. She has received support consistently for the past three years. Kathy is 14. David and Betsy have cared for foster children for the past three years. Chris Doe is 6 years of age. The county pays $800.00 per month, or $9,600 annually to the household to care for the foster child.

- David: $65,000 historical employment income divided by 12 = **$5,416.67**
- Betsy: $16,120 historical employment income divided by 12 = **$1,343.33**
- Betsy: $1,200 historical child support income divided by 12 = **$100.00** [3 year continuance since Kathy is 14]
- Additional stable and dependable income utilized for repayment: **$800** foster care income
- Total stable and dependable income in accordance with §3555.152(a) of 7 CFR 3555 = **$7,660.00**

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WORKSHEET FOR DOCUMENTING ELIGIBLE HOUSEHOLD AND REPAYMENT INCOME

Lender Instructions: *Determine eligible household income for the Single Family Housing Guaranteed Loan Program (SFHGLP) by documenting all sources/types of income for all household members. Qualify the loan by documenting all sources/type of income that is stable and dependable utilized to repay the loan.*

GENERAL INFORMATION		
Applicant(s): David and Betsy Example	Lender: ABC Lender	Date: XX/XX/XXXX

Identify all Household Members	**Age**	**Full-time Student Y/N?**	**Disabled Y/N?**	**Receives Income Y/N?**	**Source of Income**
David Example	**40**	**N**	**N**	**Y**	**XYZ Employment, interest on Assets**
Betsy Example	**40**	**N**	**N**	**Y**	**123 Employment, child support**
Cynthia Example	**67**	**N**	**Y**	**Y**	**Social Security, interest**
Janet Smith	**19**	**Y**	**N**	**Y**	**ABC Employment**
Kathy Smith	**14**	**Y**	**N**	**Y**	**PT Employment**
Chris Doe	**8**	**Y**	**N**	**N**	
	ANNUAL INCOME CALCULATION (*Consider anticipated income for the next 12 months for **all** adult household members as described in §3555.151 of 7 CFR 3555.* Website for instructions/administrative notices: http://www.rurdev.usda.gov/RegulationsAndGuidance.html				

1. Applicant (*Wages, salary, self-employed, commission, overtime, bonus, tips, alimony, child support, pension/retirement, social security, disability, trust income, etc.).* **Calculate and record how the calculation of each income source/type was determined in the space below.** **David - $1,250/wk x 52 = $65,000**	$65,000.00
2. Co-Applicant (*Wages, salary, self-employed, commission, overtime, bonus, tips, alimony, child support, pension/retirement, social security, disability, trust income, etc.).* **Calculate and record how the calculation of each income source/type was determined in the space below.** **Betsy - $15.50/hr x 20 hrs/wk x 52 = $16,120** **Betsy – child support - $100 x 12 = $1,200**	$17,320.00
3. Additional Income to Primary Income *(Automobile Allowance, Mortgage Differential, Military, Secondary Employment, Seasonal Employment, Unemployment.)* **Calculate and record how the calculation of each income source/type was determined in the space below.**	$
4. Additional Adult Household Member (s) who are not a Party to the Note (*Primary Employment from Wages, Salary, Self-Employed, Additional income to Primary Employment, Other Income*). . **Calculate and record how the calculation of each income source/type was determined in the space below.** **Cynthia- $800/month x 12 = $9,600~~; Janet (over 18/working – count all income) – $600/month x 12 = $7,200~~**	$~~16,800~~9,600.00
5. Income from Assets (*Income from household assets as described in §3555.151 of 7 CFR 3555).* **Calculate and record how the calculation of each income source/type was determined in the space below.** **Savings Account(David) = $140; Certificate of Deposit = $400**	$540.00
6. **Annual Household Income** (*Total 1through 5)*	$~~99,660~~92,460.00

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Applicant(s): David and Betsy Example

ADJUSTED INCOME CALCULATION (*Consider qualifying deductions as described in §3555.151 of 7 CFR 3555)*

7. Dependent Deduction *($480 for each child under age 18, or full-time student attending school or disabled family member over the age of 18)* - #____(3)_____ x $480	$1,440.00
8. Annual Child Care Expenses (*Reasonable expenses for children 12 and under*). **Calculate and record the calculation of the deduction in the space below.** **$50/week x 52 weeks/year = $2,600**	$2,600.00
9. Elderly Household *(1 household deduction of $400 if 62 years of age or older, or disabled and a party to the note)*	$
10. Disability (*Unreimbursed expenses in excess of 3% of annual income. See §3555.151 of 7 CFR 3555 for eligibility.* **Calculate and record the calculation of the deduction in the space below.**	$
11. Medical Expenses (*Elderly households only. Unreimbursed medical expenses in excess of 3% of annual income. See §3555.151 of 7 CFR 3555 for further information).* **Calculate and record the calculation of the deduction in the space below.**	$
12. **Total Household Deductions** (*Enter total 7 through 11*)	$4,040.00

13. **Adjusted Annual Income** (Item 6 minus item 12) *Income cannot exceed Moderate Income Limit to be eligible for SFHGLP* *Moderate Income Limit: $_____98,650_____ State: _____Oklahoma_____ County: ___Washington_____*	$~~95,620~~88,420.00

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Applicant(s): David and Betsy Example

MONTHLY REPAYMENT INCOME CALCULATION (*Consider stable and dependable income of parties to the note as described in §3555.152(a) of 7 CFR 3555.)*

14. Stable Dependable Monthly Income (*Parties to note only*). **Calculate and record how the calculation of each income source/type was determined in the space below.** Identify income type by party to note.

	Borrower	Co-Borrower	Total
Base Income	$ **5,416.67** ***Calculation of Base Income:*** David: $65,000 historical employment income divided by 12 = **$5,416.67**	$ **1,343.33** ***Calculation of Base Income:*** Betsy: $16,120 historical employment income divided by 12 = **$1,343.33**	$ **6,760.00**
Other Income	$ **800.00** ***Calculation of Other Income:*** Additional stable and dependable income utilized for repayment: **$800** foster care income	$ **100.00** ***Calculation of Other Income:*** Betsy: $1,200 historical child support income divided by 12 = **$100.00** [3 year continuance since Kathy is 14]	$ **900.00**
Total Income	$ **6,216.67**	$ **1,443.33**	$ **7,660.00**

15. **Monthly Repayment Income** (*Enter total of 14*). $ 7,660.000

Date: XX/XX/XXXX Prepared by: [Name/Title] Lender: [Lender]

Name/Title

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ATTACHMENT 9-C

ANNUAL INCOME SOURCES

I. SOURCES OF INCOME COUNTED FOR ANNUAL INCOME

For annual income, consider income from the following sources that are attributable to any household member.

1. The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation for personal services of all adult members of the household. For annual income count only the first $480 of earned income from adult full time students who are not the head of household or spouse.

2. The net income from the operation of a farm, business, or profession. The following provisions apply:

   i. 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.

   ii. Farm and nonfarm business losses are considered "0" in determining annual income.

   iii. 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 trade, farm, or business by a member of the household. The deduction must be based on an itemized schedule showing the amount of straight line depreciation.

   iv. Any withdrawal of cash or assets from the operation of a 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.

   v. 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.

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vi. 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.

3. Interest, dividends, and other net income of any kind from real or personal property, including:

i. The share received by adult members of the household from income distributed from a trust fund;

ii. 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; and

iii. 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 such assets based on the current passbook savings rate, as determined by the Agency.

4. 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.

5. Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay.

6. Public assistance except as indicated in Part II (15) of this attachment.

7. Periodic allowances, such as:

i. Alimony and child support awarded in a divorce decree or separation agreement, unless the applicant certifies the payments are not received, and the applicant provides documentation to the Agency that a reasonable effort has been made to collect the payments through the official entity responsible for enforcing such payments; or

ii. Recurring monetary gifts or contributions from an organization or person who is not a member of the household.

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8. 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.

9. Employer provided fringe benefits which are included as taxable income on an employee's pay statement or W-2 form.

II. SOURCES OF INCOME EXCLUDED FROM ANNUAL INCOME

The following sources are never considered when calculating annual income.

1. Income from the employment of persons under 18 years of age, except parties to the note and their spouses.

2. Income received by foster children or foster adults who live in the household, or live-in aides, regardless of whether the live-in aide is paid by the family or a social services program (Family members cannot be considered live-in aides unless they are being paid by a health agency and have an address, other than a post office box elsewhere).

3. Payments received for the care of foster children or foster adults (usually individuals with disabilities, unrelated to the applicant, who are unable to live alone).

4. Temporary, nonrecurring, or sporadic income (including gifts).

5. Lump-sum additions to family assets such as inheritances, capital gains, insurance payments included under health, accident, hazard, or worker's compensation policies, and settlements for personal or property losses.

6. Amounts that are granted specifically for, or in reimbursement of, the cost of medical expenses.

7. Earnings in excess of $480 for each full-time student 18 years old or older, except parties to the note and their spouses.

8. 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.

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9. Any earned income tax credit.

10. Adoption assistance payments in excess of $480 per adopted child.

11. Deferred periodic payments of supplemental security income and Social Security benefits that are received in a lump sum.

12. The amount of student financial assistance received by household members.

13. Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling unit.

14. Amounts paid by a State agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home.

15. Any other revenue which a Federal statute exempts shall not be considered income or used as a basis for determining eligibility for an Agency loan, payment assistance, or denying or reducing Federal financial assistance or benefits to which the recipient would otherwise be entitled. Additional financial assistance, which is considered exempt income under Federal statutes, includes:

i. The imminent danger duty pay to a service person applicant or spouse away from home and exposed to hostile fire. Amounts of imminent danger pay for military personnel stationed in the Combat Zone are excluded from annual income effective August 2, 1990. Any military pay received by persons serving in the Combat Zone received on or after January 17, 1991, is excluded from annual income. The Combat Zone, as defined by the Presidential Executive Order 12744 dated January 21, 1991, consists of the Persian Gulf, the Red Sea, the Gulf of Oman, that portion of the Arabian Sea that lies north of 10 degrees north latitude and west of 68 degrees east longitude, the Gulf of Aden, the total land areas of Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, and the United Arab Emirates. Immediately upon notification by the family, or based on information from a knowledgeable source that a member of the household was serving, in

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the Combat Zone, the Loan Approval Official shall re-determine the household income retroactive to January 17, 1991, and adjust the applicant's payment assistance accordingly.

ii. Payments to volunteers under the Domestic Volunteer Service Act of 1973, including, but not limited to:

a. National Volunteer Antipoverty Programs, which include Volunteers in Service to America (VISTA), Peace Corps, Service Learning Programs, and Special Volunteer Programs.

b. National Older American Volunteer Programs for persons age 60 and over who include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program, and National Volunteer Programs to Assist Small Business and Promote Volunteer Service to Persons with Business Experience, Service Corps of Retired Executives (SCORE), and Active Corps of Executives (ACE).

iii. Payments received after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the "In Re Agent Orange" product liability litigation, M.D.L. No. 381 (E.D.N.Y.).

iv. Payments received under the "Alaska Native Claims Settlement Act" or the "Maine Indian Claims Settlement Act."

v. Income derived from certain sub-marginal land of the United States that is held in trust for certain American Indian tribes.

vi. Payments or allowances made under the Department of Health and Human Services Low-Income Home Energy Assistance Program.

vii. Payments received from the Job Training Partnership Act.

viii. Income derived from the disposition of funds of the Grand River Band of Ottawa Indians.

ix. The first $2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the Court of Claims, or from funds held in trust for an American Indian tribe by the Secretary of Interior.

x. Payments received from programs funded under Title V of the Older Americans Act of 1965.

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xi. The value of the allotment provided to an eligible household under the Food Stamp Act of 1977.

xii. Any other income which is exempted under Federal statute.

16. Payments received on reverse amortization mortgages (these payments are considered a drawdown on the applicant's assets).

17. Employer provided fringe benefits which are not included as taxable income on an employee's pay statement or W-2 form.

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ATTACHMENT 9-D – Julian Calendar

Day of Mo.	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Day of Mo.	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1	1	32	60	91	121	152	182	213	244	274	305	335	1	366	397	425	456	486	517	547	578	609	639	670	700
2	2	33	61	92	122	153	183	214	245	275	306	336	2	367	398	426	457	487	518	548	579	610	640	671	701
3	3	34	62	93	123	154	184	215	246	276	307	337	3	368	399	427	458	488	519	549	580	611	641	672	702
4	4	35	63	94	124	155	185	216	247	277	308	338	4	369	400	428	459	489	520	550	581	612	642	673	703
5	5	36	64	95	125	156	186	217	248	278	309	339	5	370	401	429	460	490	521	551	582	613	643	674	704
6	6	37	65	96	126	157	187	218	249	279	310	340	6	371	402	430	461	491	522	552	583	614	644	675	705
7	7	38	66	97	127	158	188	219	250	280	311	341	7	372	403	431	462	492	523	553	584	615	645	676	706
8	8	39	67	98	128	159	189	220	251	281	312	342	8	373	404	432	463	493	524	554	585	616	646	677	707
9	9	40	68	99	129	160	190	221	252	282	313	343	9	374	405	433	464	494	525	555	586	617	647	678	708
10	10	41	69	100	130	161	191	222	253	283	314	344	10	375	406	434	465	495	526	556	587	618	648	679	709
11	11	42	70	101	131	162	192	223	254	284	315	345	11	376	407	435	466	496	527	557	588	619	649	680	710
12	12	43	71	102	132	163	193	224	255	285	316	346	12	377	408	436	467	497	528	558	589	620	650	681	711
13	13	44	72	103	133	164	194	225	256	286	317	347	13	378	409	437	468	498	529	559	590	621	651	682	712
14	14	45	73	104	134	165	195	226	257	287	318	348	14	379	410	438	469	499	530	560	591	622	652	683	713
15	15	46	74	105	135	166	196	227	258	288	319	349	15	380	411	439	470	500	531	561	592	623	653	684	714
16	16	47	75	106	136	167	197	228	259	289	320	350	16	381	412	440	471	501	532	562	593	624	654	685	715
17	17	48	76	107	137	168	198	229	260	290	321	351	17	382	413	441	472	502	533	563	594	625	655	686	716
18	18	49	77	108	138	169	199	230	261	291	322	352	18	383	414	442	473	503	534	564	595	626	656	687	717
19	19	50	78	109	139	170	200	231	262	292	323	353	19	384	415	443	474	504	535	565	596	627	657	688	718
20	20	51	79	110	140	171	201	232	263	293	324	354	20	385	416	444	475	505	536	566	597	628	658	689	719
21	21	52	80	111	141	172	202	233	264	294	325	355	21	386	417	445	476	506	537	567	598	629	659	690	720
22	22	53	81	112	142	173	203	234	265	295	326	356	22	387	418	446	477	507	538	568	599	630	660	691	721
23	23	54	82	113	143	174	204	235	266	296	327	357	23	388	419	447	478	508	539	569	600	631	661	692	722
24	24	55	83	114	144	175	205	236	267	297	328	358	24	389	420	448	479	509	540	570	601	632	662	693	723
25	25	56	84	115	145	176	206	237	268	298	329	359	25	390	421	449	480	510	541	571	602	633	663	694	724
26	26	57	85	116	146	177	207	238	269	299	330	360	26	391	422	450	481	511	542	572	603	634	664	695	725
27	27	58	86	117	147	178	208	239	270	300	331	361	27	392	423	451	482	512	543	573	604	635	665	696	726
28	28	59	87	118	148	179	209	240	271	301	332	362	28	393	424	452	483	513	544	574	605	636	666	697	727
29	29		88	119	149	180	210	241	272	302	333	363	29	394		453	484	514	545	575	606	637	667	698	728
30	30		89	120	150	181	211	242	273	303	334	364	30	395		454	485	515	546	576	607	638	668	699	729
31	31		90		151		212	243		304		365	31	396		455		516		577	608		669		730

The calendar is used to determine the number of days between two dates. For example – how many days are between March 3 and October 15? Calendar days accrued for March 3 is 62. Calendar days accrued for October 15 is 288. Therefore 288-62 = 266 days. The calendar may also be used for determining the days for YTD income. If the paystubs or employment verification indicates $45,000 as of October 15 (288 days) divide $45,000 by 288 to arrive at the average income per day of $156.25 and multiply by 365 to equal annual earnings of $57,031.25. Lenders must compare this figure to historical earnings and determine if this calculation method is accurate and represents projected 12 month earnings.

ATTACHMENT 9-E

INFORMATION FOR ANALYZING TAX RETURNS FOR SELF-EMPLOYED APPLICANTS

The self-employed applicant must submit current documentation of the business's income and expenses, including any applicable Federal tax returns that were filed with the IRS for the most recent two years in addition to year-to-date profit and loss and balance statements. Lenders are encouraged to use 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. Lenders may use the Fannie Mae forms or any documentation that provides the same information. Regardless of the analysis method used, and the documentation prepared by the lender, the loan file must contain clear and sufficient support for the lender's decision regarding the viability of the business and loan approval.

A. Individual Tax Returns (IRS Form 1040)

The amount shown on the IRS Form 1040 as "adjusted gross income" must be either increased or decreased based on the lender's analysis of the individual tax returns and any related tax schedules. Particular attention must be paid to:

- **Wages, salaries, tips**. If an amount is shown here, this may indicate the individual is a salaried employee of a corporation or has other sources of income. It may also indicate the spouse is employed, in which case the income must be subtracted from the adjusted gross income in the analysis.

- **Business income or loss (from Schedule C)**. The sole proprietorship income calculated on Schedule C is business income. Depreciation or depletion may be added back to adjusted gross income.

- **Rents, royalties, partnerships, etc. (from Schedule E)**. Any income received from rental properties or royalties may be used as income after adding back any depreciation shown on Schedule E.

- **Capital gain or loss (from Schedule D)**. This is generally a one-time transaction and should not be considered in determining repayment income. However, if the business has a constant turnover of assets resulting in gains or losses, the capital gain or loss may be considered in determining the income provided the applicant has at least three years' tax returns evidencing capital gains. An example would include an individual who purchases old houses, remodels them, and sells them for a profit.

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- **Interest and dividend income (from Schedule B)**. This income, both taxable and tax-exempt, may be added back to the adjusted gross income only if it has been received for the past two years and is expected to continue. (If the interest-bearing asset will be liquidated as a source of the cash investment, the lender must adjust accordingly).

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Farm income or loss (from Schedule F). Any depreciation shown on Schedule F may be added back to the adjusted gross income.

- IRA distributions, pensions and annuities, and social security benefits. The non-taxable portion of these items may be added back to the adjusted gross income if the income is expected to continue for the first three years of the mortgage.

- Adjustments to income. Certain adjustments to income shown on the IRS Form 1040 may be added back to the adjusted gross income. Among these are IRA and Keogh retirement deductions, penalties on early withdrawal of savings, health insurance deductions, and alimony payments.

- Employee business expenses. These are actual cash expenses that must be deducted from the applicant's adjusted gross income.

B. U.S. Corporate Income Tax Returns (IRS Form 1120)

Corporations are state chartered businesses owned by their stockholders. Compensation to its officers, generally in proportion to the percentage of ownership, is shown on the corporate tax returns and will appear on individual tax returns. If the applicant's percentage of ownership is not shown, it must be separately obtained from the corporation's accountant with evidence the applicant has the right to those funds. Once the adjusted business income is determined, it is to be multiplied by the applicant's percentage of ownership in the business.

In analyzing the corporate tax returns, lenders must adjust for the following:

- **Depreciation and depletion**. The corporation's depreciation and depletion must be added back to after-tax income.

- **Taxable income**. This is the corporation's net income before federal taxes. It must be reduced by the tax liability.

- **Fiscal year versus calendar year**. If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made by the lender to relate corporate income to the individual tax return.

- **Cash withdrawals**. The applicant's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating.

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C. "S" Corporation Tax Returns

An "S" corporation is generally a small, start-up business, with gains and losses passed onto stockholders in proportion to each stockholder's percentage of business ownership. The income for the owners comes from W-2 wages and is taxed at the individual rate.

The "compensation of officers" line on the IRS Form 1120S is transferred to the applicant's IRS Form 1040. Both depreciation and depletion may be added back to income in proportion to the applicant's share of income. However, income must also be deducted proportionately by the total obligations payable by the corporation in less than one year. The applicant's withdrawal of cash from the corporation may have a severe negative impact on the corporation's ability to continue operating which must be considered in the analysis.

D. Partnership Tax Returns

A partnership is formed when two or more individuals form a business and share in profits, losses, and responsibility for running the company. Each partnership pays taxes on his or her proportionate share of the partnership income.

Both general and limited partnerships report income on the IRS Form 1065 "U.S. Return of Partnership Income;" it must be reviewed by the lender to assess the viability of the business. The partner's share of income is carried over to Schedule E of IRS Form 1040. Both depreciation and depletion may be added back to income in proportion to the applicant's share of income. However, income must also be deducted proportionately by the total obligations payable by the partnership in less than one year. The applicant's withdrawal of cash from the partnership may have a severe negative impact on the partnership's ability to continue operating that must be considered in the analysis.

E. LLC Corporation Tax Returns

A limited liability corporation (LLC) can be formed by one or more individuals. Only Massachusetts and the District of Columbia require two or more individuals. Owners in a LLC are referred to as members. A member of a LLC normally has at risk only his or her share of capital paid into the business. Members are not personally liable for the debts of the LLC.

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There are three ways in which an LLC is taxed:

- Single-owner LLC - LLC owners are taxed on business profits each year on their individual income tax returns. The IRS treats the LLC as a sole proprietorship. Profits are reported on Schedule C of an individual 1040 tax return.

- LLCs – The IRS treats the LLC as a partnership. The LLC prepares and files IRS Form 1065, Partnership Information Return each year. LLC profits are allocated to each of the owners according to the profit-sharing arrangement set up in the LLC operating agreement. Each owner is given a Schedule K-1, which shows each owner's share of LLC income. The owner then reports and pays taxes on this income on the owner's 1040 income tax return.

- Check-the-Box Corporate Tax Treatment – Under these rules, any eligible business can elect to be taxed as a corporation by filing IRS Form 8832 "Entity Classification Election" and checking the corporate income tax treatment box on the form. After making this election, profits kept in the business are taxed at the separate income tax rates that apply to corporations.

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WORKSHEET FOR DOCUMENTING ELIGIBLE HOUSEHOLD AND REPAYMENT INCOME

Attachment 9-F

[Internal Use Only]

Agency Instructions: Recalculate income in the circumstances noted below. Retain this worksheet as part of the permanent SFHGLP file, when applicable. If the reviewer agrees with the lender income worksheet calculation, check the box indicating agreement with the lender's calculation; otherwise complete the recalculation of income in the space provided.

Eligible Household Income: *Recalculate the lender's determination of eligible income if the lender's adjusted annual income calculation is within 10 percent of the applicable published income limit for manually underwritten loans. The published income limits may be found at Appendix of the 7 CFR Handbook , or at the public website: http://eligibility.sc.egov.usda.gov/eligibility/*

Repayment Income: *Recalculate the lender's determination of repayment income for manually underwritten loans if the lender's repayment ratios are within 10 percent of the published debt ratio limit found at §7 CFR 3555.152. (i.e. greater than 26.0% principal, interest, taxes and insurance (PITI) OR greater than 37.0% total debt ratio (TD)).*

Definition- Manually Underwritten Loan Files*: 1) Loans submitted by lenders who have not utilized the automated underwriting system, GUS. 2) Loans submitted to GUS, that has received an underwriting recommendation of "Refer" or "Refer With Caution." GUS loans receiving a quality control lender message of 31063 are not considered manually underwritten loans.*

GENERAL INFORMATION

Applicant(s):	GLS Borrower ID:	Lender:

AGENCY WRITTEN ANALYSIS DOCUMENTING ELIGIBLE HOUSEHOLD INCOME (*Consider anticipated income for the next 12 months for **all** adult household members as described in §3555.151. Consider qualifying deductions as described in §3555.151 of 7 CFR 3555.*) Website for instructions/administrative notices: http://www.rurdev.usda.gov/RegulationsAndGuidance.html.

Calculate and record how the calculation of each income source/type and deduction was determined in the space below.

☐ I have reviewed the lender's calculation and compared it to income verifications. I agree with the lender's calculation of eligible household income.	$

By: _____

Date: _____

_____
(Title)

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Applicant(s):	GLS Borrower ID:	Lender:

AGENCY WRITTEN ANALYSIS MONTHLY REPAYMENT INCOME (*Consider the stable and dependable income of parties to the note as described in §3555.152(a) of 7 CFR 3555).* Website for instructions/administrative notices: http://www.rurdev.usda.gov/RegulationsAndGuidance.html.

Calculate and record how the calculation of each income source/type and deduction was determined in the space below.

☐ I have reviewed the lender's calculation and compared it to income verifications. I agree with the lender's calculation of stable, dependable repayment income.	$

By: _____

Date: _____

_____
(Title)

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ATTACHMENT 9- G

OPTIONAL VERIFICATION OF INCOME FORMS

VERIFICATION OF PENSIONS AND ANNUITIES

REQUEST FOR INFORMATION

APPLICANT IDENTIFICATION

Name _____ Social Security Number_____

REQUESTED INFORMATION

A. INCOME FROM ANNUITIES

1. $ _____ Current monthly gross amount received. Will the applicant continue to receive this monthly amount for the next twelve months? ___ Yes ___ No If, no please explain.

2. Describe any deductions from the gross amount that are taken.

B. VERIFICATION OF ASSETS

1. $_____ Current market value of assets held in the retirement or pension plan.
2. Can the applicant withdraw amounts from the retirement account without retiring or terminating employment? _____ Yes _____No. If yes, explain the terms of the withdrawal, including any penalties.

3. Can the applicant borrow against amounts in the retirement account? ___ Yes ____ No
If yes, explain the terms (maximum amount, interest rate, repayment term, purposes, etc.)

LENDER CERTIFICATION: Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.

Name:_____ Title:_____

_____ Telephone Number:_____

(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

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VERIFICATION OF STUDENT INCOME AND EXPENSES

REQUEST FOR INFORMATION

APPLICANT IDENTIFICATION

Name _____ Social Security Number_____

REQUESTED INFORMATION

1. Describe any financial assistance the above-reference student receives.

Amount	**Source**	**Purpose for Which Funds May Be Used**

2. Describe any expenses the above-referenced student has for:

$_____Tuition

$_____Housing

$_____Books

$_____Supplies and Equipment

$_____Transportation

$_____Misc. Personal Expenses

$_____Total

LENDER CERTIFICATION: Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.

Name:_____ Title:_____

_____ Telephone Number:_____

(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

DRAFT 10/1/14

VERIFICATION OF MEDICAL EXPENSES

REQUEST FOR INFORMATION

APPLICANT IDENTIFICATION

Name _____ Social Security Number_____

REQUESTED INFORMATION

1. Please list the purpose of any accumulated medical bills, identify to whom the amount is owed, and provide the amount to be paid during the coming 12 months.

Amount	**Owed To**	**Medical Expenses for**

2. Medical Insurance Premiums

$_____ Amount Paid Payment Period: __ per month, ___ per year

Medical Insurance Premiums

$_____ Amount Paid Payment period: __ per month, ___ per year

3. List other anticipated medical expenses

LENDER CERTIFICATION: Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.

Name:_____ Title:_____

_____ Telephone Number:_____

(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

DRAFT 10/1/14

VERIFICATION OF SOCIAL SECURITY BENEFITS

REQUEST FOR INFORMATION

APPLICANT IDENTIFICATION

Name _____ Social Security Number_____

REQUESTED INFORMATION

Social Security Data

_____ Date of Birth

_____ Gross Monthly Social Security Benefit Amount, Type of Benefit

_____ Gross Monthly Supplemental Security Income Payment Amount (including State Supplement) Type of Benefit

_____ Amount of Monthly Deductions for Medicare Paid by the Applicant

LENDER CERTIFICATION: Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.

Name:_____ Title:_____

_____ Telephone Number:_____

(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

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VERIFICATION OF PUBLIC ASSISTANCE

REQUEST FOR INFORMATION

APPLICANT IDENTIFICATION

Name _____ Social Security Number_____

REQUESTED INFORMATION

Number in Family: _____ Rate Per Month

Aid to Families with Dependent Children $_____

General Assistance $_____

Does this amount include Court Awarded Support Payments ☐ Yes ☐ No

Amount Specifically Designated for Shelter and Utilities $_____

Other Assistance - Type: _____ $_____

Total Monthly Grant $_____

Other Income - Source: _____ $_____

*Maximum Allowance for Rent and Utilities $_____

Amount of Public Assistance given during the past 12 months $_____

LENDER CERTIFICATION: Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.

Name:_____ Title:_____

_____ Telephone Number:_____

(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

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VERIFICATION OF CHILD/DEPENDENT CARE

REQUEST FOR INFORMATION

APPLICANT IDENTIFICATION

Name _____ Social Security Number_____

REQUESTED INFORMATION

Name of Person or Agency Providing Care: _____

Address: _____
_____
_____

Name(s) of person or Persons Cared for: _____
_____
_____

Specify Hours _____ and Days _____ of Care.

Average Amount Paid for Care: $_____ ☐ Week ☐ Month

Estimated Amount to be Paid in coming 12 months (including full-time summer care of school children, if applicable): $_____

Will any amount of this expense be reimbursed by an outside source: ☐ Yes ☐ No

LENDER CERTIFICATION: Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.

Name:_____ Title:_____

_____ Telephone Number:_____

(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

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VERIFICATION OF UNEMPLOYMENT BENEFITS

REQUEST FOR INFORMATION

APPLICANT IDENTIFICATION

Name _____ Social Security Number_____

REQUESTED INFORMATION

1. Are benefits being paid now? ☐ Yes ☐ No
2. If yes, what is Gross Weekly payment? $_____
3. Date of Initial Payment _____
4. Duration of Benefits _____ weeks

   Is claimant eligible for future benefits? ☐ Yes ☐ No
5. If yes, How many weeks? _____
6. If no, what is termination date of benefits? _____

LENDER CERTIFICATION: Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.

Name:_____ Title:_____

_____ Telephone Number:_____

(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

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VERIFICATION OF BUSINESS EXPENSES
REQUEST FOR INFORMATION

APPLICANT IDENTIFICATION
Name _____ Social Security Number_____

REQUESTED INFORMATION

Based on business transacted during _____ 20____, to _____ 20____

1. Gross Income		$_____
2. Expenses:		
(a) Interest on Loans	$_____	
b) Cost of Goods/Materials	$_____	
(c) Rent	$_____	
(d) Utilities	$_____	
(e) Wages/Salaries	$_____	
(f) Employee Contributions	$_____	
(g) Federal Withholding Tax	$_____	
(h) State Withholding Tax	$_____	
(i) FICA	$_____	
(j) Sales Tax	$_____	
(k) Other	$_____	
(l) Straight Line Depreciation	$_____	
Total Expenses	$_____	
3. Net Income		$_____

LENDER CERTIFICATION: Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.

Name:_____ Title:_____
_____ Telephone Number:_____
(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

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VERIFICATION OF SUPPORT PAYMENTS

REQUEST FOR INFORMATION

APPLICANT IDENTIFICATION

Name _____ Social Security Number_____

REQUESTED INFORMATION

Name of Person Paying Support: _____

Address: _____

_____

_____

For ( ) Former Spouse

( ) Children

Children Names are:

_____

_____

_____

_____

Amount of Support $_____ ☐ Week, ☐ Month, ☐ Year

LENDER CERTIFICATION: Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.

Name:_____ Title:_____

_____ Telephone Number:_____

(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

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RECORD OF ORAL VERIFICATION OF EMPLOYMENT

APPLICANT INFORMATION ☐ **Applicant** ☐ **Co-Applicant**
Name of Applicant/Co-Applicant: _____

EMPLOYMENT INFORMATION VERIFIED ☐ **Present** ☐ **Previous Employment**

Company: _____

Name and Title of Person Contacted: _____

Telephone Number: _____ Date: _____

Source of Telephone Number: _____

Date of Employment: _____ Position: _____

Probability of Continued Employment: _____

Salary: _____

Probability of continued bonus and/or overtime is likely to continue: _____

ADDITIONAL INFORMATION VERIFIED

_____ _____
Signature of Person Receiving Verification Date and Time

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

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CHAPTER 10: CREDIT ANALYSIS
7 CFR 3555.151

10.1 INTRODUCTION

To be eligible for a guaranteed loan, an applicant must have a credit history that demonstrates that they are reasonably able and willing to repay the loan and meet obligations in a manner that enables the lender to draw a logical conclusion about the applicant's commitment to the indebtedness. It is the applicant's overall credit management skill (e.g. including repayment patterns, credit utilization, and level of experience using credit), not solely the existence of delinquent credit accounts – that has an effect on the eventual default risk of a mortgage. The lender must analyze the entire credit history for each applicant listed on the mortgage application. The extent of the analysis will vary based on whether the lender uses a traditional method to underwrite the loan manually, or is assisted by the Agency's automated underwriting system.

This chapter discusses the Agency's minimum criteria for assessing an applicant's credit history. A lender may impose more stringent criteria. The lender must obtain several types of third-party verifications to determine whether the applicant's credit history meets the Agency's criteria. The lender must evaluate the credit history for each applicant who will be party to the note. An applicant's credit record does not have to be perfect to be eligible for a guaranteed loan as long as any isolated instance is fully explained and supported with documentation. A few instances of credit problems can be acceptable, if the lender determines that an applicant's overall credit record demonstrates an ability and willingness to repay obligations. This chapter discusses the credit documentation that is part of the loan application package for manually underwritten 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 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.

10.2 CREDIT ELIGIBLITY REQUIREMENTS

The lender must investigate all major indications of derogatory credit to determine whether the reported information is accurate, and whether there is an acceptable explanation for the problem that may justify an exception. Failure to understand the

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nature of a credit problem could cause an application to be rejected on the basis of inaccurate or incomplete information. Attachment 10-A illustrates the method used to evaluate an applicant's credit history when a loan is manually underwritten by an approved lender and does not qualify for ~~streamlined~~ abbreviated documentation noted ~~later~~ in ~~this~~ Chapter 15 of this Handbook. These indicators must be followed consistently; however, the lender can make exceptions in limited circumstances, as described in Paragraph 10.8. Attachment 10-B illustrates the hierarchy of the credit review.

In addition to analyzing the credit report, an applicant is automatically ineligible for a guaranteed loan if they are presently delinquent on a non-tax Federal debt.

If the applicant(s) has had a previous Agency loan that resulted in a loss to the Government, has been settled, or is subject to settlement, additional documentation may be required of the applicant(s) to determine if the loss incurred was beyond the control of the applicant and if any identifiable reasons for the loss still exist.

The lender must verify that the applicant has no delinquent Federal debt through the Credit Alert Verification Reporting System (CAIVRS). CAIVRS is a Federal government-wide repository of information on those individuals with delinquent or defaulted Federal debt, and those for whom a payment of an insurance claim or guarantee loss claim has occurred. **An applicant with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court, is *not* eligible for a guarantee unless otherwise stated in this Chapter.**

Lenders are responsible for screening all applicants using HUD's Credit Alert Verification Reporting System. When a lender utilizes the Agency's automated underwriting system, the CAIVRS confirmation is automatically retrieved once the application is entered. When a lender does not utilize the Agency's automated underwriting system, the lender must obtain and record in the lender's mortgage file the CAIVRS confirmation number. For manually underwritten loans, the Agency will obtain a CAIVRS confirmation number in GLS through the service available. Each request of the CAIVRS service for the same applicant will record different confirmation numbers.

Lender instructions for accessing CAIVRS are included in Appendix 7. The presence of delinquent non-tax Federal debt cannot be waived by a lender.

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. Types of credit reports include:

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

A. Automated Merged Credit Reports

An automated merged credit report – also known as a multi-merged credit report (MMCR) or Three-Repository Merged Credit Report (TRMCR) - combines in-file credit reports from multiple repositories into a single report. A joint merged credit report includes all credit repository credit data on two individual applicants who are married to each other.

The report must meet the requirements of Fannie Mae, Freddie Mac, FHA or VA, which include, but are not limited to the following requirements:

- The report should include all information from three different credit repositories, or two repositories, if that is the extent of the data available for the applicant.
- The report must include all credit and legal information reported for the applicant from the three (or two, if applicable) in-file credit reports not considered obsolete under the Fair Credit Reporting Act (FCRA), including information for the last seven years regarding bankruptcies, judgments, law suits, foreclosures, and tax liens.

B. Residential Mortgage Credit Reports

A residential mortgage credit report is a detailed account of the applicant's credit, employment and residency history, as well as public records information.

The report must meet the requirements of Fannie Mae, Freddie Mac, FHA or VA, which include, but are not limited to the following requirements:

- The report must include a certification that it meets the standards for a residential mortgage credit report.
- Include a check with the creditor within 90 days of the credit report for each applicant's account with a balance.
- Verify each applicant's current employment and income, if obtainable. If unable to verify and certify to the applicant's current employment, state a reason for not completing an interview with the applicant's employer.
- Provide a detailed account of the applicant's employment history.

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Any credit report must:

- Not be more than 120 days old when the loan is closed;
- Be accurate and complete;
- Provide an account of the credit, residence history, and public record information for each applicant who is a party to the note;
- Be submitted as an original document, either the original electronic version or the printed report delivered by the credit reporting agency;
- Have no whiteouts, erasures or alterations;
- Indicate the name and address of the consumer reporting agency;
- Show the primary repository from which the particular information was pulled for each account listed; and
- Show the name of the party ordering the report;

Lenders must order an RMCR if any of the following circumstances apply:

- An applicant disputes accounts;
- An applicant claims that collections, judgments, or liens reflected as open on the credit report have been paid and cannot provide separate supporting documentation;
- An applicant claims that a debt shown on the credit report has a different balance and/or payment and cannot provide a statement less than 30 days old; or
- The lender's underwriter determines that it would be prudent to utilize a RMCR rather than a tri-merged report to properly underwrite the loan.

If a credit report indicates other credit inquiries have been made by the applicant in the 90 days prior to the date of the credit report, the lender should determine why the inquiry was made and whether credit was obtained by the applicant.

10.4 CREDIT REPORT VERSIONS

For mortgages assessed through the Agency's automated underwriting system, a decision underwriting score is obtained for each applicant as further explained in

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Paragraph 10.7 of this Chapter. Credit scoring models consider the primary types of credit obtained by the applicant based on the mix of the applicant's various credit accounts. Among other things, scoring models consider the following risk factors when assigning a credit score to an applicant:

- Number and age of accounts
- Payment history (length of payment history and habit of payment)
- Credit utilization (the amount of debt, new credit obtained, type of credit, open credit cards)
- Recent attempts to obtain new credit (inquiries)

In obtaining those scores, the following scoring models are recognized in the Agency's automated underwriting system in the order listed. Any model other than the source noted below will not be recognized by the system.

Scoring Model Source	Description	Scoring Model Code
Experian	Experian/Fair Isaac risk Model v3	15
Experian	New Experian Fair Isaac Model (FICO II)	6
Equifax	Beacon 5.0	13
Equifax	Beacon 96	3
Transunion	FICO Risk Score Classic (04)	14
Transunion	FICO® Risk Score, Classic (98)	9

If lenders are not using the Agency's underwriting system, utilizing credit scores to underwrite manually underwritten mortgages is the preferred method. For manually underwritten loans, lenders should ensure the credit models noted above are utilized in the underwriting decision.

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10.5 ESTABLISHING THE APPLICANT'S CREDIT REPUTATION

At least one applicant whose income or assets are used for qualification must have at least three historical trade line payment references that have existed for at least 12 months to establish a credit reputation and validate the credit score. If not on the credit report, establish a minimum payment history through use of a non-traditional report as explained in Paragraph 10.6 of this Chapter. Non-traditional credit may not be used to enhance poor payment records or low credit scores.

Loans underwritten with the assistance of the Agency's automated underwriting system that receive an "Accept" recommendation are also subject to the credit score validation of this Paragraph. A trade line in a documented dispute with 12 months of history is considered an eligible trade line. The inability to validate credit scores used by GUS will require lenders to downgrade an "Accept" underwriting recommendation to a "Refer" and establish minimum payment history through use of a non-traditional report. .

10.6 OBTAINING NON-TRADITIONAL CREDIT HISTORY

Some applicants may not have an established credit history, but credit verified through alternative sources may indicate a willingness to pay recurring debts. Neither the lack of a credit history nor the applicant's decision to not use traditional credit can be used as a basis for rejection. For these applicants, the lender may develop a Non-Traditional Mortgage Credit Report (NTMCR). A NTMCR may be used as a substitute for an RMCR or MMCR/TRMCR. An NTMCR may not be used to offset derogatory references found in the applicant's RMCR or MMCR/TRMCR; it should not be utilized to enhance the credit history of a applicant with a poor payment record or to manufacture a credit report for a applicant without a verifiable credit history.

The preferred method is all nontraditional credit references be verified by a credit bureau and reported back to the lender as a nontraditional mortgage credit report in the same manner as traditional credit references. If a NTMCR is impractical, or such a service is unavailable, a lender may choose to obtain independent verification of trade references. Three trade references are required when at least one of the trade references includes verification of rental housing payments or mortgage loan payments. If unavailable, at least four trade references must be used to determine if an applicant has a sufficient credit history.

Acceptable forms of documentation for a NTMCR include:

- Cancelled checks;
- Third-party verifications; or

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- Non-traditional credit report for the following non-traditional credit sources that include the creditor's name, date the account was opened, account balance, monthly payment due, and payment history reported in 0x30, 0x60, 0x90 format. Subjective statements such as "satisfactory" or "acceptable" are not an acceptable format for repayment history confirmation. Rural Development will accept reports by providers who develop bill payment histories.

Acceptable 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 paid through payroll deductions) such as medical, automobile, life and household, or renter's insurance;
- Payments to child care providers – made to a business providing such a service;
- School tuition;
- Payments to local stores (department, furniture, appliance and specialty stores);
- Payments for the uninsured portions of any medical bills;
- Internet/cell phone services;
- Automobile leases;
- A personal loan from an individual (other than a family member) with repayment terms in writing and supported by cancelled checks or money order receipts to document repayment;
- A documented 12-month history of saving by regular deposits (at least quarterly/non-payroll deducted/no NSF checks reflected), resulting in a reserve account equal to three months of proposed mortgage payments (PITI) as a cash reserve post-closing; or
- Any other reference which gives insight into the applicant's willingness to make periodic payments on a regular basis for credit obligations.

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

Lenders should exercise caution when evaluating applicants with non-traditional credit histories. Generally these applicants may be considered a higher risk than applicants who have credit scores meeting the criteria in this Chapter. Applicants may only have one 30 day delinquency on any non-traditional trade line within the last 12 months. 60 and 90 day delinquencies, as well as reports of disconnection notices or collection accounts/court records (other than medical) filed in the past 12 months are unacceptable. Ratios for housing expense and debt-to-income expense should be minimal.

10.7 CREDIT SCORES

A credit score is a numeric representation of financial behavior, based on information found in a credit report. Credit scores are primarily based on five factors:

- Payment history
- Amounts owed
- Length of credit history
- New Credit, and,
- Types of credit used.

A lower score represents a higher credit risk, while a higher score indicates a lower credit risk.

Credit scores are an effective tool in evaluating an applicant's credit reputation. As a quantitative measurement of risk, credit scores enable an underwriter to process mortgage applications more accurately and quickly, and with a greater degree of confidence. The use of credit scores speed up the approval process for an applicant who represents a low credit risk and allows the underwriter more time to analyze the creditworthiness of a higher-risk applicant. These scores objectively evaluate all the information in the applicant's repository credit file at the time the credit score was created. A strong correlation between mortgage performance and credit scores has been identified. The use of credit scores in underwriting can reduce the risk of originating mortgages with unacceptable credit risk.

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A credit score in its self does not indicate that the applicant's credit reputation is acceptable. Even when the credit score exceeds the minimum requirement, the lender must determine that each applicant, individually, and all applicants collectively, have an acceptable credit reputation.

A. Acceptable Credit Scores

Applicants with credit scores of 640 or greater meet the minimum credit reputation provided the following indicators of unacceptable credit are not present in the applicant's credit file:

Indicators of unacceptable credit:

- Foreclosure within 3 years:
  - Including pre-foreclosure activity, such as a pre-foreclosure sale or short sale in the previous 3 years;
- Bankruptcy within 3 years:
  - Chapter 7 bankruptcy discharged in the previous 3 years;
  - Chapter 13 bankruptcy that has yet to complete repayment or has completed payment in the most recent 12 months;
- 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.

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

If the applicant's credit report has three scores, the middle score should be used as the representative score. If the applicant has two scores, the lower of the two should be used

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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.

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

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

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

B. Underwriting with Credit Scores

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

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weakness of one component to arrive at a conclusion. The lender must document the evaluation in the lender's permanent mortgage file. Whenever there is evidence of layered risk, more conservative underwriting standards must be utilized.

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

10.8 CREDIT EXCEPTIONS

Credit history problems do not always reflect an unwillingness to meet financial obligations. If the lender believes that the applicant is creditworthy, the lender should document on the underwriter's analysis the reasons that an exception is justified. Exceptions should be made only in the following types of situations.

- **Temporary situation.** The circumstances that caused the credit problems were temporary in nature, beyond the applicant's control, and the circumstances have been removed and resolved for the 12 months prior to application. Examples include a temporary loss of job, delay or reduction in benefits, illness, or dispute over payment for defective goods or services.

- **Reduced housing expenses.** The loan will significantly reduce the applicant's housing expenses, which will result in improved debt repayment ability. A significant reduction in housing expenses would be 50 percent or more.

It remains the lender's responsibility to underwrite the mortgage application request. The individual loan file should contain clear evidence that the lender evaluated the credit information for each applicant and arrived at a conclusion that the applicant's credit history (even if brief or non-traditional) demonstrates an ability to handle financial obligations successfully. No Agency-granted waiver or concurrence is required for credit exceptions. Applicants must provide supporting documentation that meets these requirements to ensure the lender's permanent loan file is well documented and supported. The lender must retain the underwriter's documentation as part of the case file that supports the decision to waive derogatory credit. Documentation will also be noted on the underwriting transmittal summary to include the supporting documentation provided by the applicant(s) to explain the reason(s) for derogatory information (e.g. undisclosed debts, judgments, bankruptcies, etc.) for all loans that do not qualify for ~~streamlined~~ abbreviated documentation noted ~~earlier~~ in ~~this c~~Chapter 15 of this Handbook. The lender must determine if the explanation and supportive documentation

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makes sense and whether it is consistent with other information in the credit report. The applicant(s) documentation should confirm the nature of the event that led to the derogatory credit deficiencies and illustrate that they had no reasonable options other than to default on their financial obligations. The event, the severity of the resulting hardship, and the extent of the applicant(s) efforts to resolve the situation should be taken into consideration when making an underwriting decision. Documentation provided by the applicant(s) may open new questions. The lender's underwriter must use careful underwriting judgment in evaluating loan requests involving derogatory credit.

The lender is not authorized to make an exception in the case of an applicant with a delinquency on a Federal debt, or with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court. Evidence of payment arrangements is acceptable for IRS Federal tax judgments. The approved lender's underwriter must determine if the elapsed portion of the repayment period is of appropriate duration. An applicant(s) who has been delinquent during the repayment period is ineligible for a guaranteed loan.

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.

Paying an outstanding collection account is not justification, in itself, that would establish an applicant's willingness to meet obligations in an acceptable manner. Payment of the collection account may cause the depletion of cash resources that may otherwise be available as reserves or for closing costs. The lender is responsible for determining which collection accounts, if any, should be paid in full by the applicant prior to or at loan closing. The repayment in full of unpaid collections is not a condition of mortgage approval. Whether a collection account represents a greater risk is entirely the lender's decision, regardless of the credit score. This decision will be based upon several factors including the credit profile of the applicant(s), the amount of meaningful financial reserves available, the unpaid balance of the collection accounts, and whether they pose a threat to the first mortgage lien and are likely to affect the applicant's equity or ability to repay the requested loan. Lenders must conclude the applicant did not disregard his or her financial obligations. Outside factors, such as disputes, illness, loss of job may have contributed. Lenders will evaluate all outstanding collection accounts. Lender

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underwriters should perform additional analysis when making credit determinations if they encounter collection accounts that have:

- A record of irregular payments; or
- No satisfactory arrangements for repayment; or
- Payment in full within the last 6 months just prior to application, unless the applicant had been previously making regular payments.

For a manually underwritten loan, the lender must document reasons for approving a loan request when collection accounts are present and remain unpaid. The preferred method to document a lender' 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.

For loans underwritten with GUS, a letter of explanation or documentation supporting the presence of unpaid collections is not required when the underwriting recommendation is an "Accept." The lender will document reasons for approving a loan request when collection accounts remain unpaid. The preferred method to record the lenders analysis/reasons for approving the loan is to document their justification on the credit liability line under "notes" on the "Assets and Liabilities" page beside each individual collection.

Unpaid open collections could affect the future ability of an applicant to repay a mortgage when creditors pursue collection. In an effort to minimize future risk of open collections left unpaid, the lender will consider the following during the capacity analysis of the loan request, regardless of the method utilized to underwrite:

1) Determine if the total outstanding balance of all collections accounts of all applicants is equal to or greater than $2,000. Unless excluded by state law, collection accounts of a non-purchasing spouse in a community property state are included in the cumulative balance of all collections.
2) Remove all medical collections and charge off accounts from the total balance. Medical collections and charge off accounts must be clearly identifiable on the credit report.
3) If the remaining outstanding balance of collection accounts are equal to or greater than $2,000, any of the following actions will apply:
    a. Payment in full of all collection accounts at or prior to closing.
    b. Payment arrangements are made with each creditor for each collection account remaining outstanding. A letter from the creditor or evidence on the credit report is required to validate the payment arrangements. The

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agreed upon monthly payment for each outstanding collection account will be included in the borrower's debt-to-income ratio.

c. In the absence of a payment arrangement, the lender will utilize in the debt-to-income ratio a calculated monthly payment. For each collection utilize 5% of the outstanding balance to represent the monthly payment.

10.10 JUDGMENTS

The presence of court-ordered judgments must be considered in the credit analysis. Unpaid judgments may represent an applicant's disregard for credit obligations. Lenders must document reasons for approving a mortgage when the applicant has judgments. Usually judgments are paid in full prior to loan eligibility. An exception to payment in full of outstanding judgments can be made when the applicant(s) have a payment arrangement with the creditor and have made regular and timely payments for the three months prior to loan application. Prepaying scheduled payments as a means of meeting minimum requirements is unacceptable. Lenders will obtain a copy of the payment agreement and validate payments have been made in accordance with the payment agreement. The payment agreement will be included in the debt-to-income ratio.

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

10.11 DISPUTED ACCOUNTS

Disputed accounts on an applicant's credit report are not considered in the credit score. For manually underwritten loans, all disputed accounts must have a letter of explanation and documentation supporting the basis of the dispute. 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.

Loans underwritten with the assistance of GUS that receive an underwriting recommendation of "Accept" will be downgraded to a manual "Refer" 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.

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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.

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 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

Some first time homebuyers do not have a verifiable housing or rent payment history. In such cases, a rent history is not required. If the applicant's and co-applicant's credit score is under 680 and the applicant(s)/co-applicant(s) has a rent payment history, the lender should obtain a rent payment reference either as part of credit report, or directly from the landlord, or through cancelled checks covering the most recent 12 months prior to the loan application. When a private individual is the applicant's present landlord, 12 months' worth of cancelled checks indicating a satisfactory rent payment history is preferred. Written verifications by independent management companies and private landowners may be accepted in lieu of canceled checks or money order receipts. If the applicant does not have a full 12 month history, verify any previous payment made in the last 12 months. Written verification must include creditor name, date of the rental agreement or when the contract began and the monthly payment due. Payment history must be reported in 0x30, 0x60, 0x90 day format. Statements such as "satisfactory" or "acceptable" are not valid.

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It remains the lender's responsibility to confirm the applicant's history of payment towards housing expense is acceptable. One rent or mortgage payment paid 30 or more days late within the last 12 months is an indicator of unacceptable credit unless the new mortgage loan request will reduce shelter costs significantly and contribute to improved repayment ability. Lenders may consider extenuating circumstances surrounding late rent payments under Paragraph 10.8 of this Chapter.

Lender's should carefully underwrite loan applicants who live rent free or do not have a recent 12-month history of paying rent.

Applicants with credit scores of 680 and above are not subject to verification of rent or housing history.

Loans underwritten with GUS that receive an "Accept" underwriting recommendation are not subject to verification of rent or housing history.

10.14 PAYMENT SHOCK

The term "payment shock" signifies the increase in housing expenses experienced by an applicant. Payment shock is defined as a percentage under the following formula:

(New Principal Interest Taxes and Insurance (PITI) ÷ Previous Housing Expense) – 1

EXAMPL	a. The applicant's new PITI is $187.00 and their former rent was $100.00. b. 187.00 ÷ 100.00 = 1.87; 1.87 – 1 = .87; .87 = 87 percent c. The payment shock in this example is 87 percent.
	a. The applicant's new PITI is $345.00 and their former rent was $150.00. b. 345.00 ÷ 150.00 = 2.30; 2.30 – 1 = 1.30; 1.30 = 130 percent c. The payment shock in this example is 130 percent.

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E **S**	a. The applicant's new PITI is $2,000.00 and their former rent $1,000.00 b. 2,000.00 ÷ 1,000.00 = 2.00; 2.00 **-** 1 = 1.00; 1.00 = 100 percent c. The payment shock in this example is 100 percent.

In cases where the applicant did not have a housing expenses prior to purchasing a home, such as if the applicant was living with relatives, payment shock cannot be measured as a percentage.

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

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

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

10.15 NON-PURCHASING SPOUSE CREDIT HISTORY

The non-purchasing spouse's credit history is not considered a reason to deny a loan application. In community property states, the non-purchasing spouse's obligations must be considered in the debt-to-income ratio unless excluded by State law. Lenders must comply with applicable lending laws in community property states. Lenders must obtain a credit report that meets the requirements of this Chapter for the non-purchasing spouse in order to determine the debts that must be counted in the debt-to-income ratio.

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The Agency's automated underwriting system will retrieve credit reports for applicants only. Therefore, lenders must obtain an acceptable credit report outside of the system. Liabilities for a non-purchasing spouse should be entered on the "Asset and Liabilities" page in the liability section. When recording the debt, lenders should reference the liability as a non-purchasing spouse debt in the "Notes" data field of the credit liability line. Lenders will retain a copy of the non-purchasing spouse credit report in their permanent mortgage file. Submit a copy to Rural Development when requesting a commitment for Loan Note Guarantee.

Community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin. Puerto Rico allows property to be owned as community property as do several Indian jurisdictions. Alaska is an opt-in community property state. Property is separate unless both parties agree to make it community property through a community property agreement or a community property trust.

10.16 PRUDENT UNDERWRITING

It is the Agency's expectation that lenders will act responsibly when originating and underwriting SFHGLP loans. Rural Development does not re-underwrite the mortgage loan application request. This remains the approved lender's responsibility. When lending to low- and moderate-income applicants, lenders are expected to use professional judgment and rely upon prudent underwriting practices to determine the likelihood of successful homeownership. The use of the Agency's automated underwriting system does not replace the judgment of experienced underwriters. The automated underwriting system is a tool that helps evaluate the credit risk of the loan request. The lender must evaluate and confirm the representation of accurate data. The Agency expects lenders to employ prudent underwriting judgment in assessing whether a loan should be approved and submitted to the Agency.

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ATTACHMENT 10-A

CREDIT UNDEWRITING

This attachment illustrates the approach to reviewing credit history when a loan is **manually underwritten** by an approved lender.

Credit score over 680: Perform a basic level of underwriting to confirm the applicant has an acceptable credit reputation. Perform additional analysis if the applicant's credit history has indicators of unacceptable credit as noted in Paragraph 10.7 of this Chapter.

Credit score 679 to 640: Perform a comprehensive level of underwriting. Underwrite all aspects of the applicant's credit history to establish the applicant has an acceptable credit reputation. Credit scores in this range indicate the applicant's reputation is uncertain and will require a thorough analysis by the underwriter of the credit to draw a logical conclusion about the applicant's commitment to making payments on the new mortgage obligation. The applicant's credit history should demonstrate his or her past willingness and ability to meet credit obligations.

Credit score less than 640: Perform a cautious level of underwriting. Perform a detailed review of all aspects of the applicant's credit history to establish the applicant's willingness to repay and ability to manage obligations as agreed. Unless there are extenuating circumstances documented in accordance with this Chapter, a credit score in this range is generally viewed as a strong indication that the applicant does not have an acceptable credit reputation.

Little or no credit history: The lack of credit history on the credit report may be mitigated if the applicant can document a willingness to pay recurring debts through other acceptable means such as third party verifications or cancelled checks. Due to impartiality issues, third party verifications from relatives of household members are not permissible. Lenders can develop a Non-Traditional Credit Report for applicants who do not have a credit score in accordance with Paragraph 10.6 of this Chapter.

An applicant with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court, is *not* eligible for a guarantee unless otherwise stated in this Chapter.

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ATTACHMENT 10-B

THE CREDIT REVIEW

This attachment illustrates the order and importance of a credit review when evaluating how payments by an applicant ~~are~~ will be made. Applicants are expected to have acceptable credit, a stable income and no recent unsupported debt problems. To meet these requirements, applicants must prove they are creditworthy and unlikely to default on the loan requested. ~~It~~ This attachment is intended to assist lenders in their analysis of the credit file when combining the presence of the following items with the applicant's credit score in the underwriting decision. Exceptions are noted for files that are underwritten with the assistance of the Agency's automated underwriting system.

Previous Rental or Mortgage Payment History

- The applicant's housing obligation payment history holds significant importance when evaluating credit. It is an indicator of the applicant's ability to pay the mortgage payment in the future. Applicants who make rental or mortgage payments equal to or above the anticipated mortgage payment generally demonstrates the applicant can pay the future mortgage loan payment. Other eligibility requirements also apply. Generally, unless there is major derogatory credit noted in the credit file, an applicant is considered to have an acceptable credit history if she/she does not have late housing payments.

  - Applicants who live rent-free prior to purchasing a home may require the lender to cautiously approach a loan decision. Sometimes applicants live rent free for supported reasons. For example, applicants may still live at home with parents while in college, may have lived in military provided housing, or living with someone having a lease and wasn't on the lease. Living rent free and proposing to exceed the repayment ratios outlined in Chapter 11 of this handbook may represent a high risk when unsupported. Lenders must approach this type of applicant prudently if approving an application.

  - Automated underwriting files that receive an "Accept" underwriting recommendation are not subject to additional rental or mortgage payment history documentation.

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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 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.

  - 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. Lenders must apply due diligence when reviewing the documentation in the loan file to determine if there is any

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potentially derogatory or contradictory information that is not part of the data submitted to GUS or if there is erroneous information in the data submitted to GUS. If the lender is aware of any contradictory, derogatory or erroneous information, lenders are obligated to take action. For example if the lender is aware of debts, late payments or derogatory information that has not been made available to the data submitted to GUS, or there is a Federal judgment, a risk analysis decision of "Accept" must be manually downgraded and the file manually underwritten.

Collections and Judgments

- Collections and judgments indicate an applicant's regard for credit obligations, and must be considered in the creditworthiness analysis.

- The lender must document reasons for approving a mortgage when the applicant has collection accounts or judgments. The applicant must explain, in writing and/or provide supportive documentation, for all collections and judgments as outlined in Paragraph 10.9 and 10.10 of this Chapter.

Paying off Collections and 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.

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Previous Mortgage 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.

Chapter 7 Bankruptcy

- 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 2 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.

- 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 credit in the applicant's evaluation. A loan underwritten with the assistance of GUS will not be required to be manually down-graded when the bankruptcy discharge included the mortgage debt.

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- 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 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.

Chapter 13 Bankruptcy

- A Chapter 13 bankruptcy plan in progress does not disqualify an applicant from obtaining a mortgage loan, provided the lender documents 12 months of the debt restructuring plan has elapsed, the applicant's payment performance has been satisfactory, and all required payments were made on time. The applicant must receive written permission from the bankruptcy court/trustee to enter into a mortgage transaction. A credit waiver by the lender will be required for a manually underwritten loan.

- A completed Chapter 13 bankruptcy plan will not require a credit waiver provided the applicants have demonstrated a willingness to meet obligations when due for the 12 months prior to the date of loan application.

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, the applicant's payment performance has been satisfactory and all required payments have been made on time. 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. 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.

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- 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.

Evaluating Credit Involving Short Sales

- 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, 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 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 not eligible for a new mortgage loan for three years from the date of pre-foreclosure sale.

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CHAPTER 11: RATIO ANALYSIS

11.1 INTRODUCTION

Ratios are used to determine whether the borrower's repayment income can reasonably be expected to meet the anticipated monthly housing expense and total monthly obligations involved in homeownership. Weighing the circumstances that affect the borrower's ability and willingness to meet mortgage payments is an important part of the underwriter's ratio analysis. The Agency has established standards for principal, interest, taxes and insurance (PITI) and total debt (TD) ratios; however, there is flexibility in applying these standards. It is the Agency's intent to permit ratios to be exceeded when significant and valid compensating factors exist and clearly demonstrate unusual strengths exceeding basic program requirements.

11.2 THE RATIOS

The primary consideration when determining whether an applicant can afford to purchase a home is the applicant's repayment income. Repayment income, as described in Chapter 9 Section 2 of this Handbook, is the amount of dependable and stable income parties to the note will have available to repay the debt.

However, other household expenses and debts also greatly affect an applicant's repayment ability. To qualify for a guarantee, borrowers must meet the Agency's standards for both the PITI and TD ratios.

A. The PITI Ratio

Applicants are considered to have repayment ability if they do not have to pay more than 29 percent of repayment income for monthly housing expenses. Monthly housing expenses include the following:

- Principal and interest payment on the mortgage;
- Hazard insurance premiums, whether escrowed or not;
- Real estate taxes, whether escrowed or not;
- Monthly escrow required for annual fee;
- Homeowners association dues;

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- Flood insurance premiums, whether escrowed or not; and
- Special assessments.

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 debts incurred through the note date must be included in the calculation of debt payment-to-income ratio. Monthly obligation expenses include:

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

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- Child support, alimony, garnishments. Applicants obligated to pay child support, alimony, garnishments, or other court ordered debts must have payment included in the total debt ratio. If the applicant has a release of liability from the court/creditor, and acceptable evidence is obtained, the debt can be excluded. Lenders will utilize select pages from the applicable agreement/court order to document the required monthly payment due and the duration of the debt. For GUS transactions, the lender will manually enter the obligations on the "Additional Expenses" on the "Assets and Liabilities" page. A manual entry of obligation does not require an underwriting recommendation of "Accept" to be downgraded to a "Refer." Lenders will ensure repayment agreements are current.

- Child care expenses. Child care expenses are not required to be considered as a recurring liability when calculating the total debt ratio.

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

- 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.

- Co-signed non-mortgage debt/obligations. Debts which have been co-signed by the applicant for another party will be considered in the total debt ratio unless the applicant provides evidence another party has made the payment in the previous 12 months prior to loan application. Acceptable evidence 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

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the monthly liability to be included in the long-term repayment ratio of the applicant. Lenders must confirm the applicant is an actual co-signor as opposed to a joint obligor to the debt in question. When jointly obligated, the debt will be included in the total debt ratio. Debts identified as "individual" 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; loan in applicant's name). The legal obligation resides with the applicant when identified as "individual."

- Business debts. Business debts (for example – car loan) reported on the applicant's personal credit report may be excluded from the debt ratio if the debt is paid through a business account. An example of acceptable evidence the debt is paid through a business account includes canceled business checks or bank statements for the previous 12 months.

- 401(k) loans/personal asset loans. Loans pledging personal assets, such as a 401(k) account, retirement funds, savings account or other liquid assets are not considered in the total debt ratio.

- Debts of a non-purchasing spouse (NPS). For applicants who reside or are purchasing in a community property state, the debts of the NPS must be included in the applicant's total debt ratio unless specifically excluded by state law.

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

- Self-employed. Negative income (loss) for a business will be deducted from repayment income prior to calculating the total debt ratio.

- Automobile Allowances and Expense Account Payments~~expense~~. The amount of actual expenditures exceeding the amount of automobile allowance or expense account payments will be treated as recurring debt. Lenders will utilize IRS Form 2106, *Employee Business Expenses*, for the previous two years and employer verification that the payments will continue as documentation to support the calculation. ~~Additionally t~~The applicant's monthly car payment will be treated as recurring debt and will not be offset by any car allowance. If an applicant utilizes the standard per-mile rate as opposed to the actual cost method on IRS Form 2106, the portion that the IRS considers depreciation may be added back to income for repayment purposes.

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~~• Unreimbursed employee expenses. Unreimbursed employee expenses reported on on IRS Form 2106, "Employee Business Expenses" will be deducted from repayment income prior to calculating the total debt ratio.~~

• Rental loss. Negative net rental income will be treated as a recurring liability and included in the total debt ratio.

• 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.

• Payments that will come due in the next 24 months, including personal loans with deferred ~~loans~~ 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 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.

11.3 DEBT RATIO WAIVERS AND COMPENSATING FACTORS

An applicant's PITI ratio may exceed 29 percent and the total debt ratio may exceed 41 percent if the lender determines that strong meaningful compensating factors demonstrate that the household has higher repayment ability.

A. Debt ratio waivers

Manually underwritten loans – purchase transactions. Agency concurrence with a lender request for debt ratio waiver may be granted if all of the following conditions are met:

1. Either:

   a. The PITI ratio is greater than 29 percent, but less than or equal to 32 percent, accompanied by a TD ratio not exceeding 44 percent; or

   b. The TD ratio is greater than 41 percent, but less than or equal to 44 percent, accompanied by a PITI ratio not exceeding 32 percent;

   And:

2. The credit score of all applicant(s) is 680 or greater; and

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3. At least one of the acceptable compensating factors listed below is identified and supporting documentation is provided to the Agency.

Acceptable Compensating Factors and Supporting Documentation:

- The proposed PITI is equal to or less than the applicant's current verified housing expense for the 12 month period preceding loan application. Verification of housing expenses may be documented on a verification of rent (VOR) or credit report. The VOR or credit report must include the actual payment amount due and report no late payments or delinquency for the previous 12 months. Rent or mortgage payment histories from a family member will not be considered unless 12 months of canceled checks, money order receipts, or electronic payment confirmations are provided. A history of less than 12 months will not be considered an acceptable compensating factor.

- Accumulated savings or cash reserves available post loan closing are equal to or greater than 3 months of PITI payments. A verification of deposit (VOD) or two most recent consecutive bank statements document the average balance held by the applicant are required. Cash on hand is not eligible for consideration as a compensating factor.

- The applicant(s) (all employed applicants) has been continuously employed with their current primary employer for a minimum of 2 years. A "Request for Verification of Employment" (VOE) (Form RD 1910-5, comparable HUD/FHA/VA or Fannie Mae form, or other equivalent), or VOEs prepared by an employment verification service (e.g., The Work Number.) must be provided. This compensating factor is not applicable for self-employed applicants.

Debt Ratio Waiver Request and Agency Approval:

Debt ratio waivers must be requested and documented by the approved lender. The lender requests Agency concurrence with the debt ratio waiver by submitting a signed underwriting analysis that cites one or more of the above acceptable compensating factors. Lenders may utilize Fannie Mae 1008 / Freddie Mac 1077, "Uniform Underwriting and Transmittal Summary," or similar form. Evidence of the compensating factor, such as a VOR, VOD, and/or VOE, must be submitted to the Agency for review.

Manually underwritten loans –refinance transactions. The debt ratio waiver requirements in this Paragraph do not apply to refinance transactions. See Section B below on compensating factors to consider when requesting a debt ratio waiver for a refinance transaction.

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GUS underwritten loans receiving an "Accept." The debt ratio waiver requirements in this Paragraph do not apply to GUS files that receive an "Accept" underwriting recommendation or an "Accept" underwriting recommendation that requires a "Full Documentation" loan submission as part of a quality control message on the GUS Underwriting and Findings Report.

B. Compensating factors for refinance transactions.

For manually underwritten refinance loans, the lender must thoroughly document the compensating factors that justify an exception. Higher repayment ratio exceptions are feasible when an applicant demonstrates compensating factors indicating the capacity, willingness and ability to pay mortgage payments in a timely manner. The presence of compensating factors does not strengthen a ratio exception when multiple layers of risk, such as marginal credit history, are present in an application. The following are examples of compensating factors:

- Credit score of 680 or higher. Credit scores of 680 and higher can be documented as a standalone compensating factor for a debt ratio waiver request, if no additional risk layers are present (e.g., adverse credit, or payment shock, etc.).

- The borrower(s) has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new mortgage over the past 12 months.

- The borrower(s) has demonstrated a conservative attitude toward the use of credit.

- The borrower(s) has demonstrated an ability to accumulate savings comparable to the difference between current housing costs and projected costs.

- Cash reserves post closing. The use of retirement accounts as compensating factors and as cash reserves is limited to 60% of the vested amount of the retirement asset to offset potential withdrawals by the applicant(s). Retirement accounts that restrict withdrawals to circumstances involving the borrower's employment separation, retirement or death should not be considered as a compensating factor or as cash reserves.

- Continuous employment with the current primary employer.

The Agency will consider all requests for exception and weigh the proposal based on any additional layers of risk. Written approval by the Agency is represented if a Conditional Commitment for Loan Note Guarantee is issued by Rural Development in

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response to the lender's request. Lenders who utilize the Agency's automated underwriting system and receive an underwriting recommendation of "Accept" will not be required to document the need for a repayment ratio waiver.

11.4 MORTGAGE CREDIT CERTIFICATES

Authorized State or local housing finance agencies may issue a mortgage credit certificate that documents a Federal income tax credit to a qualified first-time homebuyer and/or low- or moderate-income homebuyer. Lenders may consider the tax credit available to the borrower as ~~additional borrower income~~ a deduction from the monthly PITI payment.

Lenders using the tax credit to qualify the applicant for the loan must determine the amount of the mortgage credit available. Loan files must contain copies of the mortgage credit certificate, a copy of the lender's calculation of the adjustment to income, and a copy of the IRS Form W-4 that was given to the borrower's employer. See Chapter 9, Section 9.11A of this Handbook for additional information regarding mortgage credit certificates.

11.5 FUNDED BUYDOWN ACCOUNTS

Funded buydown accounts are designed to temporarily reduce the borrower's monthly payment during the initial years of the loan. Buydown funds may come from the seller, lender or other interested third party. The borrower is not permitted to fund the escrow account and must not be required to repay the funds. Lenders should not use funded buydowns to qualify a borrower who would not otherwise qualify for a mortgage. Careful evaluation should be made of the borrower's ability to manage the payment increases that will occur under the terms of the buydown agreement.

Funded buydown accounts must meet the following requirements:

- The mortgage loan must be underwritten at the note rate;
- Buydown funds may come from the seller, lender or other third party;
- Buydown funds may not come from the borrower;
- A buydown rate will not reduce the interest rate more than two percent below the note rate;
- The assistance may not result in more than a one percent annual increase in the interest rate and the increase may only occur once a year;

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- The borrower must agree in writing that the buydown funds will be placed in an escrow and paid directly to the lender each month to reduce the monthly mortgage payment;

- If the qualifying ratios exceed 29 and/or 41 percent at the full note rate, the lender must establish that the eventual increase in mortgage payments will not affect the borrower adversely and lead to default. The lender must document the compensating factors which indicate the borrower's ability to meet the expected increases in loan payment such as:

    - The borrower has a potential for increased income that would offset the scheduled payment increases, as indicated by job training or education in the borrower's profession or by a history of advancement in the borrower's career with increases in earnings.

    - The borrower has demonstrated ability to devote a greater portion of income toward housing expenses.

    - The borrower has substantial assets available to cushion the effect of the increased payments.

- The buydown account must be fully funded at origination; and

- The funds must be placed in an escrow account with a financial institution supervised by a Federal or state agency.

A copy of the escrow agreement, signed by the borrower and the provider of the funds, must be retained in the lender's loan file. The underwriter's documentation that establishes whether the borrower is likely to be able to handle the payment increases and the possible "payment shock" associated with such financing arrangement will be provided with the request for guarantee. Additional information regarding a temporary interest rate buydown can be found at Chapter 9, Paragraph 9.11 B. of this Handbook.

11.6 SECTION 8 HOMEOWNERSHIP VOUCHERS

Section 8 Homeownership Vouchers may be used for qualifying applicants. This income is not included in Annual Income. For repayment income purposes, the monthly subsidy from the Section 8 Homeownership Vouchers may be treated in either of the ways described below.

A. Repayment income

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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.

B. Offset to Principal, Interest, Taxes and Insurance (PITI)

Lenders may treat the monthly homeownership assistance payment as an "offset" to the monthly PITI, i.e. reduce PITI by the amount of the homeownership assistance payment before dividing by the monthly income to determine the debt-to-income ratios. However, in order to use this procedure for qualifying the borrower, the homeownership assistance funds must not pass through the hands of the homebuyer, i.e. the homeownership assistance payment must be paid directly to the servicing lender or placed into an account that only the servicing lender may access. If the homeownership assistance payment is made directly to the borrower, that amount may only be considered as repayment income in qualifying the borrower as described in paragraph 11.6 A. above.

11.7 OBLIGATIONS NOT INCLUDED IN DEBT-TO-INCOME RATIOS

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

- 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;
- Commuting costs;
- Union dues;
- Open accounts with zero balances;
- Child care; and
- Voluntary deductions.

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CHAPTER 12: PROPERTY AND APPRAISAL REQUIREMENTS

12.1 INTRODUCTION

Lenders must ensure the property to be purchased is eligible for the SFHGLP. The Agency's minimum property requirements serve to protect the borrower's interest, minimize the lender's loss, and reduce the potential risk to the government in the event of liquidation. It is the lender's responsibility to ensure that the property meets the Agency's standards.

Before loan approval, the lender must confirm that the property currently meets, or will meet (following planned construction or repairs), all applicable Agency site, dwelling, and environmental requirements. This is accomplished through determinations made directly by the lender and the lender's review of opinions or determinations made by others, such as appraisers, local building officials, architectural, engineers, or trades professionals.

Section 1 covers site requirements, including rural area definitions and the definition of a modest site. Section 2 discusses appraisals, road maintenance, and water/waste systems. Section 3 explains the dwelling requirements, and Section 4 of this Chapter details the environmental requirements. Section 5 outlines requirements of condominiums and properties in planned unit developments. Section 6 outlines the provisions allowed when a property meets the standards of the Rural Energy Plus loan program. Section 7 outlines the construction-permanent new construction feature of the SFHGLP.

SECTION 1: UNDERWRITING THE PROPERTY

[7 CFR 3555.201]

12.2 OVERVIEW

The lender must ensure the subject property meets the Agency's site guidelines. The site must be developed according to state or local government standards, which often are contained in zoning ordinances, building codes, subdivision regulations, and/or construction standards. In particular, sites must be in rural areas; meet community standards regarding utilities, including water and wastewater systems; meet street and road access and maintenance requirements; and contain other amenities essential to the continued marketability of the home. This section addresses each of these standards.

The use of the property must comply with zoning and use restrictions. If the existing property does not comply with current zoning regulations, but is accepted by the zoning

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authority, it is considered a legal nonconforming property. The property is not eligible for an Agency guarantee when the use is not legal. The appraisal must reflect any adverse effect of the legal nonconforming use on the value and marketability of the property.

The economic life of a property must meet or exceed the term of the proposed loan. The appraiser may reject the property if the future economic life of the property is shortened by obvious and compelling pressure to a higher use, making a long-term mortgage impractical.

12.3 RURAL AREA DESIGNATION [7 CFR 3555.201(a)]

Only loans secured by properties located in areas designated by the Agency as rural are eligible to receive a loan guarantee. This section discusses rural areas designations, how lenders are notified of changes in rural area designations, and clarifies rare situations in which loans for properties in areas no longer designated as rural may receive a loan guarantee.

A. Rural Area Definition

An area's rural designation is determined by the Agency and may be changed as a result of periodic review or after the decennial census of population. The Agency conducts reviews every five years to identify areas that no longer qualify as rural. In areas experiencing rapid growth and in eligible communities within Metropolitan Statistical Areas (MSAs), reviews take place every three years. Public notification will be given at least 30 days before the date of the final determination in order to give interested parties an adequate chance to comment. Refer to section 3550.10 of 7 CFR 3550 and Handbook Chapter 5, Paragraph 5.3 of 7 CFR 3550 for additional information regarding rural area designations.

In general, rural areas are defined as:

- Open country that is not part of, or associated with, an urban area.
- Any town, village, city, or place, including the immediately adjacent densely settled area, which is not part of, or associated with, an urban area, and which:
    - Is rural in character with a population of less than 10,000; or
    - Is not contained within an MSA and has a population above 10,000 but below 20,000 and has a serious lack of mortgage credit for lower and moderate-income families. Any area classified as "rural" or a "rural area"

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prior to October 1, 1990, and determined not to be "rural" or a "rural area" as a result of data received from or after the 1990, 2000, or 2010 decennial census, and any area deemed to be a "rural area" any time during the period beginning January 1, 2000, and ending December 31, 2010, shall continue to be classified until the receipt of data from the decennial census in the year 2020 if such area has a population in excess of 10,000 but not in excess of 35,000, is rural in character, and has a serious lack of mortgage credit for lower and moderate-income families.

- Two or more towns, villages, cities, or places that are contiguous may be considered separately for a rural designation if they are not otherwise associated with each other, and their densely settled areas are not contiguous.

B. Notification of Rural Area Designation

The public website noted below provides maps of all ineligible areas in the lender's service area when the lender is approved to participate in the SFHGLP. The Agency will inform lenders of changes in rural area designations. Users who utilize the public website will receive one of three property eligibility decisions when inputting an actual address – "Eligible," "Ineligible," or "Unable to Determine." In areas not clearly delineated, users will receive an "Unable to Determine." With this type of determination, the lender must confirm with Agency staff the property is located in a rural area and eligible for a guarantee prior to requesting an appraisal.

Agency staff and lenders may use the following Internet site to determine whether a specific site is in an eligible area:

http://eligibility.sc.egov.usda.gov/eligibility/

Attachment 12-A of this Chapter provides guidance on utilizing the public website to determine eligible rural areas.

C. Making Loans in Areas Changed to Non-rural

If an area's designation changes from rural to non-rural, loans that meet the following criteria may be approved in that area:

- The application and purchase contract was complete, the loan was underwritten by an approved lender and a complete application for loan note guarantee was submitted to the Agency prior to the area designation change.

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- Existing conditional commitments that have been issued will be honored provided the commitment was issued prior to the area designation change.

- SFHGLP REO property sales and transfers with assumption may be processed in areas that have changed to non-rural.

- A supplemental loan may be made in conjunction with a transfer and assumption of a guaranteed loan.

- ~~SFHGLP loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made.~~

12.4 SITE REQUIREMENTS [7 CFR 3555.201(b)]

Sites must be modest and developed in accordance with any standards imposed by a State or local government. Therefore, the lender must verify that the following requirements are met at the time of application.

- **Site size.** The site size must be typical for the area.

- **Income-Producing Buildings.** The property must not include buildings designed and to be used principally ~~used~~ for income-producing purposes. For example ~~(e.g.~~ barns, silos, greenhouses, or livestock facilities used primarily for income producing agricultural, farming or commercial enterprise are ineligible~~)~~. However, barns used for storage and outbuildings such as storage sheds are permitted if they are not used primarily for income producing agricultural, farming or commercial enterprise. A minimal income-producing activity, such as maintaining a garden that generates a small amount of additional income, does not violate this requirement. Home-based operations such as childcare, product sales, or craft production that do not require specific features are not restricted. A qualified property must be predominantly residential in use, character and appearance.

- **Income-Producing Land.** The site must not have income-producing land that will be used principally for income producing purposes. Vacant land or properties used primarily for agricultural, farming or commercial enterprise are ineligible. ~~Farm-related property cannot be acquired under this program.~~ Sites that have income-producing characteristics (e.g. large tracts of arable land ready for planting) are considered income-producing property. However maintaining a garden for personal use is not in violation of this requirement. A minimal

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income-producing activity, such as a garden that could generate a small amount of additional income does not violate this requirement. A qualified property must be predominantly residential in use, character and appearance.

- **Site Specifications.** The site must be contiguous to and have direct access from a street, road, or driveway. Streets and roads must be hard surfaced or all weather surfaced and legally enforceable arrangements must be in place to ensure that needed maintenance will be provided.

- **Utilities.** The site must be supported by adequate utilities and water and wastewater disposal systems.

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SECTION 2: APPRAISALS

[7 CFR 3555.107(d)]

12.5 RESIDENTIAL APPRAISAL REPORTS

High quality appraisals that are completed by a qualified appraiser that is independent and objective are key to ensuring adequate security for the proposed loan, an appraisal of the property serving as security for the proposed loan will be completed and submitted to the Agency for review. The lender may pass the cost of the appraisal on to the borrower. The appraisal must have been completed within 120 days of loan closing.

A. Qualified Appraiser.

Approved lenders are responsible for selecting qualified and competent appraisers that are properly licensed or certified, as appropriate, in the State in which the property is located in, along with the integrity, accuracy and thoroughness of the appraisals used for the loan guarantee. The appraiser must comply with the current edition of the Uniform Standards of Professional Appraisal Practice (USPAP). Lenders may verify that an appraiser is licensed or certified by checking the Appraisal Subcommittee website found at https://www.asc.gov/Home.aspx.

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B. Appraisal Report.

All appraisals must comply with the reporting requirements of USPAP available at www.appraisalfoundation.org. The appraisal report (for existing and proposed construction) must not be more than 120 days old at loan closing. All appraisal reports must include a Market Condition Addendum (Form FNMA 1004MC) and will meet the Uniform Appraisal Dataset (UAD) requirements set forth by Fannie Mae and Freddie Mac. To read definitions of condition and quality ratings, refer to the *"Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification Version 1.2"* located online at: https://www.efanniemae.com/sf/lqi/umdp/pdf/uadspec.pdf.

The appraisal forms currently applicable are:

- Uniform Residential Appraisal Report (FNMA Form 1004/FHLMC Form 70) for one unit single family dwellings;
- Manufactured Home Appraisal Report and addendum (FNMA Form 1004C/FHLMC Form 70B) for all manufactured homes;

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- Individual Condominium Unit Appraisal Report (FNMA Form 1073/FHLMC Form 465) for all individual condominium units.

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.

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- 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.

- The "Estimated Reproduction Cost-New of Improvements" 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 ~~through 50~~ year~~s~~. 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.

An appraisal prepared for REO purposes, or for any other purpose other than for a purchase transaction, is not acceptable for a loan guarantee. A new appraisal with the intent to arrive at an opinion of value for a purchase transaction must be obtained.

Appraisal transfer. An appraisal ordered by another lender for the applicant can be transferred to the lender who will complete the purchase transaction. The initial lender must agree to the transfer of the report. A letter from the initial lender who ordered the appraisal report must be retained in the permanent loan file as evidence the lender transferred the report to the lender completing the purchase transaction. The receiving lender must assume full responsibility for the integrity, accuracy and thoroughness of the appraisal report including the methods that the original lender used to acquire the appraisal. The appraisal report must be no older than 120 days at loan closing to be valid.

Appraisal update. Lenders may extend the validity period of an appraisal-with an appraisal update report that will be no greater than 240 days from the effective date of the initial appraisal report at loan closing (120 days for the original appraisal plus 120 days for the Appraisal Update Report). Appraisals with no update will be no greater than 150 days from the effective date of the appraisal report at loan closing (120 days validity period plus a 30 day extension period). The 30 day extension period cannot be used when the original appraisal report is updated. An original appraisal report can be updated one time with an Appraisal Update Report.

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USPAP considers the term "Appraisal Update" as a business term but regardless of the nomenclature used, when a client seeks a more current value or analysis of a property that was the subject of a prior assignment, this is not an *extension* of that prior that was already completed it is simply a new assignment. Refer to USPAP Advisory Opinion 3 for additional clarification available at www.appraisalfoundation.org.

All Appraisal Update Reports must include a completed Market Conditions Addendum (Fannie Mae Form 1044MC/Freddie Mac Form 71) for the subject property that is reflective of market conditions as of the effective date of the Appraisal Update Report.

USPAP (Advisory Opinion 3) states that there are three ways that the reporting requirements can be satisfied for this type of assignment;

1. Provide a new report *without incorporation* of the prior report.
2. Provide a new report that *incorporates by attachment* specified information/analysis from the prior report.
3. Provide a new report that *incorporates by reference* specified information/analysis from the prior report.

The appraiser may use a pre-printed form or a narrative report to provide the appraisal update, but whichever reporting format is used it must be in compliance with USPAP.

Fannie Mae Form 1004D/Freddie Mac Form 442, "Appraisal Update and/or Completion Report" may be utilized by the lender to report the completion of a repair and/or satisfaction of requirements and conditions noted in the original appraisal report.

C. Agency Review.

The Agency will review appraisals involving all guarantee loan requests by completing *Form RD 1922-15, "Administrative Appraisal Review."* If the Agency reviewer detects concerns, the appraisal will be referred to an Agency licensed appraiser for a technical desk or technical field review. Should the Agency licensed appraisers determine the appraisal is not adequate, the lender will be informed of corrections needed prior to issuance of the conditional commitment for loan guarantee. The Lender will be required to correct or complete any appraisal returned by the Agency for corrective action. The Lender is responsible for communicating and initiating corrective action with the appraiser. The corrected appraisal will be subject to the same review process described in this section. The Agency retains the right to determine an appraiser is ineligible based upon their failure to comply with requirements of this section. The

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Agency will notify the Lender when appraisals completed by ineligible appraisers will no longer be accepted for the SFHGLP.

D. State Director Responsibilities.

The State Director will designate or delegate authority to the Housing Program Director or other qualified personnel to conduct administrative appraisal reviews. Technical appraisal reviews must be completed by an Agency certified or licensed appraiser and need only be licensed or certified in one State or territory to perform real estate appraisal duties as Federal employees in all states and territories. Review appraisers, must have recent, documented appraisal experience or other factors which clearly establish their qualifications as a reviewer.

State Directors will determine and establish the training needs for Rural Development staff completing appraisal reviews. The State Director will also assure that an adequate amount of reviews are being completed.

E. Types of Agency Reviews.

There are three types of reviews for appraisals; "Administrative," "Technical Desk" and "Technical Field." An administrative review will be completed for all transactions involving the submittal of an appraisal report. A sufficient number of technical desk and technical field reviews will be completed to ensure the Agency is getting quality appraisals for the Guaranteed Loan Program. An explanation of the review types are as follows:

1. Administrative Reviews

Administrative reviews are performed by the Agency loan approval official or qualified designee on all appraisals prior to issuance of the Conditional Commitment. This review determines if there are inconsistencies in the appraisal report that may have to be addressed, or if a technical review should be completed by the Agency staff appraiser prior to issuance of the Loan Note Guarantee. Indicators that a ~~future~~ technical review may be required will be documented on *Form RD 1922-15*.

- Administrative reviews are completed by the Agency on *Form RD 1922-15*. This form will be signed, dated, and retained in the Agency file for scanning. This review should be completed prior to issuance of the Conditional Commitment.

- If there is a deficiency with an appraisal, the loan approval official should communicate the deficiency to the lender. These deficiencies should include

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items that affect loan security, value conclusions, or unacceptable property conditions.

2. Technical Desk Reviews

A technical review is performed to determine whether the appraisal was complete, was clearly reasoned, and had adequate support for the conclusion of value. Technical reviews are performed by Agency licensed/certified appraisers. Technical reviews completed by Agency appraisers must follow current USPAP.

- Technical desk reviews may be documented in any format that complies with USPAP and is acceptable for use by RD. Technical reviews should be selected in a "spot check." ~~method established by the State Director.~~ The schedule of the "spot checks" should vary annually to ensure adequate controls are established for program operations. Field offices will be advised of these schedules and any changes.

- ~~The State Director will establish the percentage of appraisals that will have technical reviews. The National Office recommends a minimum of 5 percent or more. These reviews ensure that appraisers continue to meet the requirements of USPAP. They also provide a method of internal control for the appraisal review staff.~~

A technical review may be requested by Field staff when problems are detected on the administrative review that cannot or will not be addressed by the submitting lender or original appraiser. These problems must be significant and result in an appraisal which does not support the value conclusion. Field staff will document the nature of their concerns on *Form RD 1922-15*. The Field staff will then forward the appraisal to the State Office appraisal review staff or other reviewers for a technical and/or field review prior to approval of the loan.

3. Technical Field Reviews

Field reviews will involve on-site visits to the subject property and the comparable properties used in the report. Field reviews are completed by State Appraisal staff on a random, spot-check basis to determine if the appraiser has followed accepted appraisal techniques and arrived at a logical conclusion. ~~The State Director will establish the number of field reviews to be completed.~~

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- USPAP Standard 3 Review is used for technical field reviews. The reviewer may use any reporting format that complies with USPAP and is acceptable for use by RD. The State Director and the appraisal review staff are responsible for the administration of residential appraisal compliance and training within the geographic jurisdiction of the State Office. Appropriate actions will be initiated by the State Director and appraisal review staff to ensure compliance with USPAP and National Office policies governing the residential appraisal process.

~~The State Director is required to establish internal management controls and systems to document and substantiate residential appraisal compliance activities, which will be evaluated during State Internal Reviews, Single Family Housing program reviews, or Management Control Reviews.~~

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4. Internal Control by States

- The State Director will establish internal management controls and systems to document and substantiate residential appraisal compliance activities, which will be evaluated during State Internal Reviews, Single Family Housing program reviews, or Management Control Reviews. The determination of completing technical desk or field reviews will be established by the State Director. The National Office requires a minimum (desk and field combined) of 5 percent or more. These reviews provide a method of internal control for the appraisal review staff and ensure that appraisers are in compliance with USPAP and Agency regulations.

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F. Appraisals in Remote Rural Areas, On Tribal Lands, or in Areas Lacking Market Activity.

In remote rural areas, on Tribal lands, or areas with a lack of market activity, as identified by the State Director, it may be difficult to obtain adequate comparable sales to appraise a property. When the sales comparison approach cannot be developed for a credible opinion or conclusion~~s~~ regarding value, the lender's appraiser may use other methods in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP) and perform an appraisal without completing the Sales Comparison approach to value. Appraisers must explain the exclusion of the Sales Comparison approach to value and document their efforts to obtain comparable market data along with an explanation for any sales data not used. The primary method that the appraiser is relying on should be summarized to the extent that the user or a review appraiser can understand the reasoning and support of the valuation and conclusions.

Remote rural areas are identified by the State Director and are defined as areas with all of the following characteristics:

- Scattered population;
- Low density of residences;
- Lack of basic shopping facilities;
- Lack of community and public services and facilities; and
- Lack of comparable sales data.

If the appraiser is using the cost approach external depreciation based on the remoteness of the site must not be considered; however, factors that impact the site such as immediate proximity to a feedlot, factory, or other similar considerations should be included. If the appraiser is using the income approach they must explain why the income and expenses used are comparable to the subject property. When a market is established in these areas, the Agency will again require the sales comparison approach to be used.

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12.6 WATER AND WASTEWATER DISPOSAL SYSTEMS [7 CFR 3555.201]

The site must have acceptable water and wastewater disposal systems to ensure the property is decent, safe, sanitary, and meets community standards. Public water and wastewater disposal systems are presumed to meet state and local requirements with no additional documentation or inspections. Private well and wastewater systems may require inspections or documentation as discussed in this section. Evidence will be retained in the lender's permanent loan file.

A. Water

Water systems, for existing or new construction, that require continuous or repetitive treatment to be safe bacterially or chemically are not acceptable. Individual dwelling water purification units are not an acceptable alternative; however, they may be used if the ~~water~~ individual water system, with purification, meets the requirements of the state department of health or other comparable reviewing and regulatory authority. ~~already meets the health authority standards before the water enters the purification unit.~~

1. Individual Privately Owned

- Individual water systems are owned and maintained by the homeowner and subject to compliance with all requirements of the local and/or State Health Authority codes. Individual water supply systems may be acceptable when the cost to connect to a public or community water system is not reasonable as defined by the lender. The lender is responsible for determining if connection is feasible. Water quality tests are required as follows:

  - The water quality of the well must meet the requirements of the state or local authority. If the state or local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply.

  - The local health authority or a state certified laboratory must perform a water quality analysis. The Safe Water Drinking Act does not apply to private wells. Contact the Environmental Protection Agency (EPA) at (800) 426-4791 for referral to certified labs and other inquiries.

  - The water analysis report must be no greater than 120 days old at loan closing. If the Agency is aware of any recent environmental impacts that may render the previous analysis invalid (for example – chemical spills, natural disasters, etc.) a new report may be required.

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- 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 approach of the local and/or State Health Authority codes or HUD Handbook 4150.2.

- Individual water systems/wells should be located on the subject property site. If located on an adjacent property, evidence of water rights and recorded maintenance agreement must be retained in the lender's permanent loan file as acceptance of the well as the primary source of water.

- Properties served by cisterns are not acceptable.

2. Individual Privately Owned Shared

If the property is served by a shared well or off-site facility, the lender must ensure the private system will provide a continuous and adequate supply of safe and potable water. The following requirements must also be met.

- The well serves properties that cannot feasibly be connected to an acceptable public or community water supply system. It is the lender's responsibility to make this determination.

- A shared well must have a valve on each dwelling.

- The water supply is adequate for all families served. A shared well must service no more than four living units or properties.

- The water quality of the well must meet the requirements of the state or local authority. If the state or local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply.

- The well must have an agreement that meets the following requirements.

  - Is binding upon all signatory parties and their successors in title.

  - Is recorded or will be recorded no later than the closing date.

  - Makes provisions for maintenance and repair of the system and the sharing of costs to do so. These provisions must include a permanent easement that allows access for maintenance and repair.

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3. Community Owned

If the property is served by a community water system operated by a private corporation or nonprofit property owners association, the lender must ensure the following conditions are met.

- The system and the water supply meet all applicable Federal, State and local requirements.
- The system has the capacity to provide a sufficient water supply during periods of peak demand.
- The system is operated under a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service.

4. Required Inspections and Documentation

The lender must obtain documentation the water quality meets state and local standards as discussed in this section. Lenders will retain all documentation in their permanent loan file. Inspection and documentation requirements are discussed later in this chapter.

B. Wastewater

1. Individual Privately Owned

Individual sewage systems may be acceptable when the cost to connect to a public or community sewage system is not reasonable as defined by the lender. The lender is required to obtain a septic evaluation. A FHA roster appraiser who certifies the property meets required HUD Handbooks, a government health authority, a licensed septic system professional, or a qualified home inspector may perform the septic evaluation. The inspector may require additional inspections as a result of the inspection. The separation distances between a well and septic tank, and the property line should comply with HUD guidelines or state well codes. The septic system must be free of observable evidence of failure. Existing dwellings appraised by a HUD roster appraiser, who has indicated the dwelling meets the required HUD handbooks does not require further septic certification.

If the property is served by an individual sewage disposal system, the lender must ensure the system:

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- Meets any applicable requirements of the state or local health authority with jurisdiction.

- Is located entirely on the subject property. If any part of the system is located on an adjacent property (for example leach lines), evidence such as a perpetual encroachment easement must be recorded to establish the rights of the property owner's permitted use.

- Is operating properly and has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health.

2. Community Owned

If the property is served by a community wastewater system operated by a private corporation or nonprofit property owners association, the lender must ensure that the system:

- Meets any applicable requirements of the state or local health authority with jurisdiction.

- Is licensed, operating properly and has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health.

- Is subject to a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service.

3. Required Inspections and Documentation

The lender must obtain documentation the wastewater system meets state and/or local standards. Lenders will retain all documentation in their permanent loan file. Inspection and documentation requirements are discussed later in this chapter.

12.7 STREET ACCESS AND ROAD MAINTENANCE [7 CFR 3555.201]

A. Access

The site must be contiguous to, and have direct access from, a public or private street, road, or driveway. If the driveway is shared, there must be a permanently recorded easement for ingress and egress. This agreement must be binding to successors and title. A copy of a title report, retained in the lender's mortgage file, may be used to evidence the easement. Private streets must have a permanently recorded easement ~~and joint maintenance agreements,~~ or be owned and maintained by a Home Owners Association

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(HOA). All recorded easements must be reviewed and approved by the approved lender's underwriter and documented in the lender's permanent loan file.

B. Maintenance

Streets and roads must be hard surfaced or all-weather surfaced. An all-weather surface is a road surface over which emergency and the area's typical passenger vehicles can pass at all times. ~~In addition, arrangements must be in place to ensure that needed maintenance will be provided.~~ A publicly maintained road is automatically assumed to meet this requirement. If a HOA is responsible for maintaining streets and roads, it must meet the criteria set forth by Fannie Mae, Freddie Mac, the U.S. Department of Housing and Urban Development (HUD), or U.S. Department of Veterans Affairs (VA).

SECTION 3: DWELLING REQUIREMENTS [7 CFR 3555.202]

12.8 MODEST HOUSING

There are no maximum mortgage limits for property financed under the SFHGLP. However, the Agency will not guarantee loans to purchase or improve buildings designed to accommodate a business or income-producing enterprise as outlined earlier in this chapter. Home-based operations such as childcare, product sales, or craft production that do not require specific features are not restricted.

12.9 EXISTING AND NEW DWELLINGS

A. Existing Dwellings [7 CFR 3555.202(b)]

The objective of the SFHGLP is to assist eligible rural households in obtaining adequate, safe, and sanitary homes. Information regarding financing existing manufactured and modular homes may be found in Chapter 13 of this Handbook.

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

- HUD Handbook 4150.2, *Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four-Unit Dwellings* (Appraisal Handbook), and
- HUD Handbook 4905.1, *Requirements for Existing Housing-One to Four Family Living Units*.

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An existing dwelling has been completed for more than 12 months or has been completed less than 12 months but has been previously occupied.

Required repairs under the noted handbooks are limited to those repairs necessary to preserve the continued marketability of the property and to protect the health and safety of the occupants. Applicants are encouraged to obtain a detailed home inspection of the property in dependent of the inspection noted above.

As stated in HUD Handbook 4150.2, the responsibility for enforcing code rests with the local municipalities. All repair items required by the appraiser or underwriter must be inspected and the clearance documented and retained in the lender's permanent loan file.

Licensed or certified appraisers who are on the Federal Housing Administration (FHA) roster of approved appraisers can certify the HUD Handbook standards have been met. Licensed or certified appraisers who are not FHA roster appraisers may also certify the HUD Handbook standards have been met if the lender determines the non-FHA roster appraiser is thoroughly familiar with HUD Handbooks 4905.1 and 4150.2. Appraisers who are not thoroughly familiar with the HUD Handbook standards should not certify that a property meets those standards. Doing so would constitute a misrepresentation. If the licensed or certified appraiser is not a FHA roster appraiser or familiar with the HUD Handbook standards, the lender may obtain a home inspection report provided by a home inspector deemed qualified by the lender. Lenders will be responsible for determining whether any, repairs will be required to meet HUD Handbook standards. Lenders are reminded they are responsible for the acts of their agents, including appraisers.

- HUD Handbooks and forms can be downloaded over the internet at http://www.hudclips.org or obtained by calling 1-800-767-7468.
- FHA roster appraisers can be identified at https://entp.hud.gov/idapp/html/apprlook.cfm

The appraiser may certify the requirements of HUD Handbooks 4905.1 and 4150.2 (also known as "HUD Handbooks") have been met on page three of the appraisal form in the "comment" section. Alternately, the appraiser may make their certification in an addendum to the appraisal.

Termite/pest inspections are not required unless the lender, appraiser, inspector or State law requires the inspection to confirm the property is free of active infestation.

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An inspection to confirm thermal standards is not required for existing dwellings. The Agency may approve dwellings with in-ground swimming pools.

A property which an FHA roster appraiser indicates is in average or good condition may be considered in good repair, though repairs may still be required by the lender. Regardless of whether the appraisal is performed by an FHA roster appraiser or not, the appraiser must report all readily observable property deficiencies as well as any adverse conditions discovered performing the research involved in completing the appraisal. When lending to low- and moderate-income borrowers under the SFHGLP, lenders are expected to use professional judgment and rely upon prudent underwriting practices in determining when a property condition requires additional inspections or repairs. Conditions that would warrant additional repairs include those that pose a threat to the safety of the occupants, jeopardize the soundness and structural integrity of the property, or adversely affect the likelihood of a low- or moderate-income borrower from becoming a successful homeowner.

B. New Dwellings [7 CFR 3555.202(a)]

New dwellings must be designed and constructed in accordance with certified plans and specifications. Certifications may be accepted from individuals or organizations trained and experienced in the compliance, interpretation, or enforcement of the applicable development standards for drawings and specifications. Information regarding financing new manufactured and modular homes may be found in Chapter 13 of this Handbook.

The lenders permanent loan file must contain evidence of certified plans and specifications by any one of the following options:

- Certification from a qualified individual or organization that the reviewed documents comply with applicable development standards. Lenders may utilize *Form RD 1924-25*, “Plan Certification” as an optional format to document certification. Qualified individuals or organizations are:
    - Licensed architects;
    - Professional engineers;
    - Plan reviewers certified by a national model code organization listed in7 CFR 1924, Part A, in Exhibit E.

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- Local building officials authorized to review and approve building plans and specifications; and.

- National codes organizations.

- Building Permit. State Directors determine if local communities or jurisdictions qualify to use this form of applicable evidence in accordance with RD Instruction 1924-A, section 1924.5(f)(1)(iii)(C)(2). State Directors will publish a state supplement if this is a permissible option to documenting plan certifications.

- Certificate of Occupancy. State Directors determine if local communities or jurisdictions qualify to use this form of applicable evidence in accordance with RD Instruction 1924-A, section 1924.5(f)(1)(iii)(C)(2). State Directors will publish a state supplement if this is a permissible option to documenting plan certifications.

In general, the lender has primary responsibility for all loan origination activities. The Agency has primary responsibility to review lenders' actions and monitor participants' compliance with program requirements. The Agency will not require the lender to routinely submit documentation maintained in the lender's file regarding new construction that is not required to be submitted under program guidelines, such as:

- Copies of plans, drawings, and specifications;

- Certifications regarding the plans, drawings, and specifications (although lenders may voluntarily elect to use *Form RD 1924-25*, this form is not a required form for the SFHGLP. The certification may be on the plans and drawings, a separate form, or on any document that conveys the necessary information);

- Building permits;

- Copies of new construction inspections;

- Occupancy certificates; and

- Copies of construction warranties.

The Agency has the option to request any of these documents in appropriate situations such as:

- The Agency is performing a processing review of a newly approved lender;

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- The Agency is performing a periodic review of the lender's compliance with program regulations;
- The Agency believes the lender is not fulfilling the obligations of the Lender Agreement and/or program guidelines; or
- The Agency is reviewing a loss claim.

New home purchase transactions that cannot meet the minimum required plan certification, inspections and warranty document requirements outlined in this paragraph are limited to a 90 percent loan to value (LTV). The lender may loan the one time upfront guarantee fee in addition to the limiting 90 percent LTV.

The following charts were developed as a guide for the certification of plans and specifications, documentation of construction inspections and certification of thermal standards.

Evidence of construction inspections.

The Lender's file must contain copies of the documents described in one of the following three options:

1. Certificate of Occupancy issued by a local jurisdiction that performs at least 3 construction phase inspections, including inspections noted in option 2 below and a 1-year builder warranty plan acceptable to Rural Development.

-OR-

2. Three construction inspections performed when:
   - Footings and foundation are ready to be poured and prior to back-filling.
   - Shell is complete, but plumbing, electrical and mechanical work is still exposed.
   - Final inspection of completed work prior to occupancy.
   - A 1-year insured builder warranty plan acceptable to Rural Development. Builders may utilize their own warranty form, HUD-92544 or Form RD 1924-19. Applicants who build their own homes cannot provide a self-warranty.

-OR-

3. Final inspection <u>and</u> a 10-year insured builder warranty plan acceptable to Rural Development. See RD Instruction 1924-A, Exhibit L for acceptable 10-year insured builder warranty plans.

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New Construction Certified Plans and Specifications

The Lender's file must contain evidence the plans and specifications comply with all development standards* applicable to the new construction. Acceptable evidence includes:

1. Copy of the certification from a qualified individual or organization that the reviewed documents comply with applicable development standards. Form RD 1924-25 is an acceptable format, but may not be required by the Agency for guaranteed loans.

-OR-

2. Certificate of Occupancy issued by a local jurisdiction.**

-OR-

3. Building Permit (or equivalent) issued by local jurisdiction.**

The lender may accept certifications from individuals or organizations trained and experienced in the compliance, interpretation or enforcement of the applicable development standards* for drawings and specifications. Plan certifiers may be any of the following:

(1) Licensed architects;
(2) Professional engineers;
(3) Plan reviewers certified by a national model code organization;
(4) Local building officials authorized to review and approve building plans and specifications; or
(5) National codes organizations.

* Applicable development standards. The current International Code council (ICC) standards or current state adopted ICC code(s) for residential construction.

** If this method is used, the State Director must determine whether local communities or jurisdictions qualify to use this form of "acceptable evidence" under RD Instruction 1924-A. The State Director will publish a state supplement if this method can be utilized to document plan certifications.

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Evidence of thermal standards for new construction.

The Lender's file must contain evidence thermal standards meet or exceed the International Energy Conservation Code (IECC) in effect at the time of construction. Documentation of conformance may be by one of the following options:

1. The builder may certify confirmation with the IECC standards.

2. A qualified, registered architect or a qualified, registered engineer may certify confirmation with IECC standards.

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

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 the following conditions are met:

- The cost of any remaining work, exterior or interior, is not greater than ~~25~~10 percent of the final loan amount;
- The livability of the dwelling is not affected;
- A signed contract between the borrower and the contractor is in effect for the proposed work and the funds to be escrowed are not less than the contract;
- The HUD-1 reflects the holdback;
- The development will be complete within 180 days of closing; and
- The escrow account is established in a federally supervised financial institution.
- Certification of completion is required to verify the work was completed and must:
  - Be completed by the appraiser;
  - State that the improvements were completed in accordance with the requirements and conditions in the original appraisal report;
  - Be accompanied by photographs of the completed improvements; and
  - The individual performing the final inspection of the property must sign the completion report.

The lender is responsible for monitoring the completion of the work and the release of funds for payment. Documentation supporting the development work and confirmation of the completion will be retained in the lenders permanent mortgage file. Funds remaining in the escrow account upon completion of the work will be used to reduce the unpaid principal balance of the mortgage.

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

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:

- The cost of any remaining interior work is not greater than 10 percent of the final loan amount;
- The livability of the dwelling is not affected;
- A signed contract between the borrower and the contractor is in effect for the proposed work and the funds to be escrowed are not less than the contractor's contract;
- The HUD-1 reflects the holdback;
- The development will be complete within 180 days of closing; and
- The escrow account is established in a federally supervised financial institution.
- Certification of completion is required to verify the work was completed and must:
  - Be completed by the appraiser,
  - State that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and
  - Be accompanied by photographs of the completed improvements.
  - The individual performing the final inspection of the property must sign the completion report.

The lender is responsible for monitoring the completion of the work and the release of funds to pay for the work. All documentation supporting the development and confirmation of the completion will be retained in the lender's permanent mortgage file. Any funds remaining in the escrow account upon completion of the work will be used to reduce the unpaid principal balance of the mortgage.

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E. Escrow Completion without the Assistance of a Contractor

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

- The estimated cost to complete the work is less than 10 percent of the total loan amount;
- The escrow amount is less than or equal to $10,000; and
- The lender has determined the borrower has the knowledge and skills necessary to complete the work.

All remaining requirements as noted at Paragraph 12.9 C and 12.9 D are applicable. The lender is responsible for monitoring the completion of the work and the release of funds for payment of the work. All documentation supporting the planned development and completion will be retained in the lender's permanent mortgage file. Funds remaining in the escrow account upon completion of the work will be used to reduce the unpaid principal balance of the mortgage.

SECTION 4: ENVIRONMENTAL REQUIREMENTS
[7 CFR 3555.5]

12.10 HAZARD IDENTIFICATION

A. Due Diligence

Lenders are required to utilize due diligence with regard to potential environmental hazards to ensure the property is decent, safe and sanitary, and has sufficient value to adequately secure the loan. The property must be free of known hazards that may have adverse effects on the health and safety of the occupants. The structural soundness of the dwelling must ensure customary use and enjoyment of the property by the occupants. While the Agency does not specify how the lender's due diligence must be conducted, the level of review must be equivalent to the standards established by Fannie Mae, Freddie Mac, the Federal Housing Authority (FHA), or the United States Veterans Administration (VA).

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Appraisers play an important role in identifying potential environmental hazards by notifying the lender of concerns identified during their visit to the property. The appraiser is required to note readily observable conditions. If the lender knows or is informed by another party of a potential hazard, the information must be disclosed to the appraiser. Lenders must follow up on all potential environmental hazards identified by an appraiser to determine the nature and scope of the problem, and the impact the problem is likely to have on the property's value. If potential environmental hazards are noted, the lender must carefully document the suspected problem and the findings of its investigation.

If the lender's investigation reveals an environmental hazard does exist, the lender must ensure the hazard is mitigated before requesting the loan guarantee.

B. Flood Hazards

The lender must complete, or arrange for a contractor to complete, *FEMA Form 086-0-32, "Standard Flood Hazard Determination Form (SFHDF)"* to determine whether the dwelling is located in a Special Flood Hazard Area (SFHA) in accordance with the National Flood Insurance Reform Act of 1994.

Existing dwellings are eligible under the SFHGLP only if flood insurance through FEMA's National Flood Insurance Program (NFIP) is available for the community and flood insurance whether NFIP, "write your own", or private flood insurance, as approved by the lender, is purchased by the borrower. Lenders are required to accept private flood insurance policies that meet the requirements of 42 USC 4012a(b)(1)(A). Insurance must be obtained as a condition of closing and maintained for the life of the loan for ~~an~~ existing residential structures ~~property~~ when any portion of the ~~residential improvements~~ structure is determined to be located in a SFHA, including decks and carports, etc. However, according to the Homeowner Flood Insurance Affordability Act (HFIAA) of 2014, flood insurance is not required for any additional structures that are located on the property but are detached from the primary residential structure and do not serve as a residence, such as sheds, garages, or other ancillary structures.

New or proposed construction in an SFHA is ineligible for a loan guarantee unless:

- A final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) removes the property for the SFHA is obtained from FEMA, or;
- The lender obtains a FEMA National Flood Insurance Program Elevation Certificate (FEMA Form ~~81-31~~086-0-33). The flood elevation certificate must document that the lowest floor (including the basement) of the residential building, and all related improvements/equipment essential to the value of the property, are built at or above

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the 100-year flood elevation in compliance with National Flood Insurance Program (NFIP) criteria. The flood elevation certificate must be prepared by a licensed engineer or surveyor.

Note: Part of the site may be located in the SFHA without triggering these requirements, as long as no part of the dwelling is located in the SFHA. At the lender's discretion they may require ~~national~~ flood insurance even if the residential building and related improvements to the property are not located within the SFHA, but the lender has reason to believe that the building and related improvements to the property may be vulnerable to damage from flooding.

Flood insurance must cover the lesser of the outstanding principal balance of the loan or the maximum amount of coverage allowed under FEMA's National Flood Insurance Program (NFIP). Unless a higher ~~maximum~~ 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.

SECTION 5: CONDOMINIUMS

[7 CFR 3555.205]

12.11 CONDOMINIUMS AND PLANNED UNIT DEVELOPMENTS

A. Condominiums

Condominium projects typically consist of multi-unit buildings governed by an HOA. Each unit is individually owned, and the common areas such as hallways and recreational facilities are owned by all the unit owners.

Although less common, it is possible for condominium projects to consist of detached or attached single family dwellings. In these cases, it is the HOA and not the individual unit owner who is responsible for maintaining the exterior of the dwellings in addition to the common areas.

HOA dues for dwellings in a condominium project must be included in total debt-to-income. Units in a condominium project are eligible for a guarantee if the condominium has been approved or accepted by HUD/FHA, VA, Fannie Mae or Freddie Mac. Lenders who meet the conditional authority and who have staff with knowledge and expertise in reviewing and approving condominium projects in accordance with HUD/FHA, VA,

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Fannie Mae or Freddie Mac, as applicable, may determine the acceptability of the condominium project. Lender representation and certification of project approval may be accepted as long the lender meets the self-certification criteria set forth by HUD/FHA, VA, Fannie Mae or Freddie Mac and is done so consistently with standards and regulations set forth by each entity. By submitting the request for Conditional Commitment for Loan Note Guarantee, the lender represents the condominium project meets the requirements set forth by HUD/FHA, VA, Fannie Mae or Freddie Mac. Lenders must retain evidence they have reviewed condominium documentation that supports the project's approval or acceptance by HUD/FHA, VA, Fannie Mae, or Freddie Mac and that the documentation remains available in the lender file for verification purposes. When requested, the lender must provide such documentation to Agency staff for verification of compliance with HUD/FHA, VA, Fannie Mae, or Freddie Mac regulations.

Applicants remain responsible to obtain individual homeowners insurance or flood insurance as applicable. The lender is responsible for ensuring that the HOA obtains and maintains adequate flood and hazard insurance for buildings in a condominium projected located within a SFHA. A Condominium Rider must supplement the Mortgage or Deed of Trust.

1. Ineligible Condominiums

Certain types of condominium projects are not eligible under HUD, Fannie Mae, Freddie Mac, or VA guidelines. They are:

- Condominium hotels.
- Timeshares.
- Houseboat projects.
- Multi-dwelling unit condominiums that permit an owner to hold title to more than one dwelling by a single deed and mortgage.
- Any project for which the owner's association is named a party to current litigation or for a project that has not been turned over to the association for which the project sponsor or developer is named a party to current litigation.

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- Condominiums that represent a legal, but non-conforming use of the land, if zoning regulations prohibit rebuilding the improvements to current density in the event of their full or partial destruction.

- Investment Securities – A project in which ownership is characterized or promoted as an investment opportunity; and/or projects that have documents in file with the Securities and Exchange Commission.

- Common interest apartments or community apartment projects – Any project or building that is owned by several owners as tenants-in-common or by a HOA in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific apartment in the building.

- A project with non-incidental business operations owned or operated by the owners' association such as, but not limited to, a restaurant, spa, health club, etc.

2. Site Condominium Eligibility

Project approval may not be required for site condominiums if they meet the following criteria:

- Single Family totally detached dwelling encumbered by a declaration of condominium covenant or condominium form of ownership.

- The unit has no shared garage or any other attached buildings (i.e. archways, breezeways).

- The condominium unit consists of the entire structure, site and air space and are not considered to be common areas or limited common areas.

Appraisal data will continue to be collected on Uniform Residential Appraisal Report (FNMA Form 1004/FHLMC Form 70). A Condominium Rider must supplement the Mortgage or Deed of Trust. Insurance and maintenance costs will be the responsibility of the unit owner. Site condominiums that do not meet the criteria must follow Section 12.11 A above for condominium approval.

~~2.~~3. Underwriting with a Condominium Unit:

For all loans secured by a condominium unit in a condominium project, the lender must perform an underwriting review of the condominium project to ensure the unit

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~~meets~~ is approved or accepted by HUD/FHA, VA, Fannie Mae, or Freddie Mac ~~guidelines~~. Participating lenders may certify to Rural Development that they have reviewed the condominium documentation that supports project approval or acceptance, and that the condominium is in compliance with HUD/FHA, VA, Fannie Mae, or Freddie Mac guidelines~~, once the lender performs sufficient analysis~~. The lender may indicate compliance by stating the project classification on the Uniform Underwriting and Transmittal Summary (FNMA Form 1008, FHLMC Form 1077). ~~certifying the condominium unit meets the requirements.~~ The lender may utilize Rural Development's Attachment 12-B to this Chapter, "Rural Development Condominium Certification." Use of the Condominium Certification Form is optional. Those lenders who utilize the Agency's automated underwriting system, GUS and receive an~~d~~ "Accept" underwriting recommendation may be requested to present documentation confirming the condominium unit meets the eligibility criteria of this section.

Lenders may refer to HUD/FHA, VA, Fannie Mae or Freddie Mac for additional guidance in performing their underwriting review of the condominium project. Aside from the lender certification to Rural Development, all condominium documentation should remain in the lender's permanent loan file and should be available upon request. Full documentation will be requested if the lender fails to certify the condominium unit meets the requirements of HUD/FHA, VA, Fannie Mae or Freddie Mac ~~guidelines~~ project approval or acceptance.

When there is an indication that a condominium unit or project does not meet the requirements of HUD/FHA, VA, Fannie Mae or Freddie Mac, the Agency will request additional documentation from the lender. If the condominium unit or project does not meet the stated requirements as certified or warranted by the lender, the Agency may refuse to issue a conditional commitment or loan note guarantee.

Underwriters are cautioned regarding the additional layer of collateral risk associated with a condominium unit that would not be present in a detached single family housing dwelling. Each component of underwriting (credit reputation, capacity and collateral) must be considered in the underwriting analysis and determined by the lender if overall risk layering is acceptable. A conservative underwriting approach must be taken when there is evidence of layered risk.

B. Planned Unit Developments [7 CFR 3555.207]

A planned unit development (PUD) is a project or subdivision that includes common property that is owned and maintained by a home owner's association (HOA) for the

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benefit of use by the individual PUD unit owners. A PUD can consist of condominiums, townhomes or detached single family homes that are served by a HOA.

HOA dues for dwellings in a PUD must be included in total debt-to-income calculations.

The mortgage industry, including other Government housing programs like FHA, now recognize that PUD dwellings do not pose any more risk than single family dwellings not part of a PUD. Loans may be guaranteed for PUD single family dwellings the same as for single family dwellings not in a PUD.

SECTION 6: RURAL ENERGY PLUS LOANS

[7 CFR 3555.209]

12.12 RURAL ENERGY PLUS PROVISIONS

Rural Energy Plus loans are available to eligible applicants who purchase a home that is energy efficient.

Property Eligibility

Eligibility considerations are provided when new and existing properties meet the energy-efficient criteria outlined below:

- New homes built to meet the 2009 IECC standard or a subsequent comparable code as identified by the Agency.
- Existing homes that meet or are retrofitted to meet the 2009 IECC standard or a subsequent comparable code as identified by the Agency.
- The lender will certify the home meets the 2009 IECC standards or a subsequent comparable code. This certification will be made as part of the underwriting analysis submitted to Rural Development when requesting the Conditional Commitment for Loan Note Guarantee.

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SECTION 7: COMBINATION CONSTRUCTION PERMANENT LOANS [7 CFR 3555.105]

A combination construction permanent loan can be offered to eligible applicants by approved lenders with appropriate construction lending experience and adequate controls for interim construction cost disbursements. The criteria for this type of loan, often referred to as a "single-close loan" are described in the following sections below.

12.13 SINGLE-CLOSE FEATURES

A combination construction permanent loan (single-close loan) combines the features of a construction loan, which is a short-term interim loan for financing the cost of construction, and the traditional long-term permanent residential mortgage. This type of loan provides funds during the construction period and then converts to a permanent loan upon its completion. The approved lender makes the loan to an eligible applicant. Since there is only one closing, which can save considerable closing costs, for upfront guarantee purposes, this type of loan is considered a purchase transaction by the Agency. Closing occurs prior to the start of construction. At closing funds are disbursed to cover the cost of land. The lender will be responsible for managing the disbursement of the loan proceeds to the builder or contractor for the balance of mortgage proceeds as construction progresses. The lender must obtain written approval from the borrower prior to each draw payment. The permanent mortgage loan interest rate is established at closing. The interest rate cannot float beyond closing. The Loan Note Guarantee may be issued once the interim construction loan is closed without waiting for completion of the subject property. An optional checklist, Attachment 12-C of this Chapter, has been developed to assist lenders with their project review.

12.14 LENDER REQUIREMENTS

Approved lenders will be responsible for monitoring construction of the subject property, overseeing disbursement of mortgage proceeds, and obtaining documentation that confirms the construction of the subject property is complete. The lender must meet the following conditions to offer this loan feature:

- An approved lender with a fully executed *Form RD 3555-16* lender agreement must have demonstrated they have two or more years experience making and administering construction loans.

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- The approved lender must submit an executed construction contract with each single-close request.

- The approved lender will be responsible for conducting investigations and obtaining documentation to confirm the eligibility of construction contractors/builders.

- The approved lender will be responsible for the approval of construction contractors or builders upon submittal and review of evidence the contractor/builder meets requirements set forth in Paragraph 12.15 of this Chapter.

- The lender will be responsible for resolving any issues that arise as a result of the contract.

- The lender must agree to retain evidence of contractor/builder approval for future review by the Agency.

- The loan will be closed prior to commencement of construction. Proceeds may be disbursed for the cost of the land, or the balance owed on the land. Any balance of the mortgage proceeds must be placed into an escrow account.

- The approved lender will be responsible for approval and disbursement of mortgage proceeds with prior written approval by the borrower and confirmation of work completion prior to disbursement. The lender must maintain a draw and disbursement ledger for each single close loan.

The lender is representing they meet the criteria of this paragraph when requesting a commitment for loan note guarantee.

12.15 CONSTRUCTION CONTRACTOR-BUILDER REQUIREMENTS

A key to the success of the loan feature will be the financial stability and reputation of the builder constructing the home. The approved lender will be responsible for approving participating builders. Each builder seeking to participate will be subjected to a process that involves license verification, insurance validation, credit examination, reference verification and a criminal background check. Minimum credit examination will include obtaining a Dun and Bradstreet credit report on the business. Owner-builders are ineligible for this loan feature. Lenders are required to document their determination for eligibility of the builder to participate in the Rural Development mortgage transaction as further described in Handbook Chapter 15, Section 15.2.

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Construction contractors or builders of homes financed with the single close loan must have:

- Two or more years experience building or constructing all aspects of single family dwellings similar to the type of project being proposed.
- Evidence of a state-issued construction or contractor license, as required by state law or local law.
- Evidence of commercial general liability insurance with a minimum coverage of $500,000.
- The builder/contractor must have an acceptable credit history free of judgments, collections or liens related to previous construction projects. An individual credit report is required in addition to a commercial report on the business from Dun and Bradstreet. Publically held entities must submit to an individual credit report of their Chief Executive Officer, Chair or Senior Executive of the publically held company.
- The builder/contractor must not have a previous criminal record. -A background check will be performed by the approved lender. Publically held entities must submit their Chief Executive Officer, Chair or Senior Executive of the publically held company to a criminal background check.
- A builder is limited to 25 units per year under this program. Production beyond 25 units nationwide requires National Office approval.
- Contractors or builders who are constructing their own residence are ineligible.

The lender is representing the builder meets the criteria of this paragraph when requesting a commitment for loan note guarantee.

12.16 ELIGIBLE LOAN COSTS

The loan will be used to finance the construction of a new single family housing residence, which can include modular home construction. Condominiums or manufactured homes are ineligible for this type of loan feature. Loan costs will be reasonable and customary construction costs such as:

Land

- Acquisition cost of the land

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- Payoff the balance of land to be utilized in the construction of the dwelling

Construction Hard Costs

- Costs inside the contract to be detailed on the construction budget agreed upon by the builder and borrower.
- Costs outside of the contract, paid to subcontractors, for contributive work such as well and septic installation, roads/driveways, utility hookups, landscaping, etc.

Construction Soft Costs

- Appraisal fees
- Inspection fees
- Survey
- Permits
- Plan review fees
- Architecture or design fees
- Engineering fees
- Title updates
- Lender construction administration fees
- Contingency reserve
- Interest reserve
- Tax and insurance reserve

Other reasonable and customary closing costs are allowable as defined in Chapter 6 of this Handbook, as long as the costs do not exceed the maximum loan to value described in Chapter 7.

Any item included in the cost to construct the home must be commonly and customarily included in the cost to construct other homes in the area where the subject

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property is located. A contingency reserve to cover expenses for unplanned problems with construction may be utilized. If used, the reserve is limited to ~~2~~10% of the cost of construction (including labor, materials and soft costs). Reserve funds must be deposited into the construction escrow account. The cost to construct must not include items such as furniture, electronic and home entertainment equipment or other personal items.

12.17 PLAN AND THERMAL CERTIFICATION

Certification of plans and confirmation of thermal requirements are required in accordance with Paragraph 12.9.B of this Chapter.

12.18 APPRAISALS

The fair market value of the proposed (to-be constructed) subject property will be utilized to establish the maximum loan amount. Land value is based on the value as reported in the Appraisal Report, with no seasoning requirement.

12.19 BUILDER WARRANTY

A builder's warranty will be provided the borrower in accordance with Paragraph 12.9.B of this Chapter.

12.20 LOAN APPROVAL PROCESS

Issuance of a Conditional Commitment will be in accordance with Chapter 15 of this Handbook.

12.21 LOAN CLOSING

Standard industry closing documents are utilized when closing a combination construction-permanent loan. The date of closing will be the date the interim construction loan is closed. A Construction Rider or Allonge to the Note and a Construction Loan Agreement is required in addition to standard documentation. These construction documents may be in any form acceptable to the lender, but must provide that all special construction terms end at the time the construction loan converts to a permanent loan. The Construction Loan Agreement must outline the terms and conditions of the construction loan and its conversion to a permanent loan. After conversion, only the permanent loan terms continue to be effective.

The term of the loan is thirty years. When construction is complete as evidenced by a Certificate of Occupancy or final inspection, the loan must be amortized to achieve full repayment within its remaining term. Lenders must also provide an executed Loan

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Modification Agreement to confirm the existence of the permanent loan and the corresponding amortizing interest rate on the mortgage loan. The permanent mortgage loan interest rate is established at closing and must be in accordance with Chapter 7 of this Handbook.

Amortization must begin no later than the first of the month, following 60 days from the final inspection. The Finance Office will require notification of the modified loan amount. Funds that remain after full disbursement of construction costs will be applied by the lender as a principal payment prior to the loan modification.

The approved lender monitoring the construction of the subject dwelling will be required to submit a copy of the loan modification and a certification stating the dwelling has been completed properly and can be occupied by the borrower, required construction phase inspections have been made and the required warranty coverage has been obtained. Attachment 12-D of this Chapter is an example of a lender certification.

12.22 AGE OF DOCUMENTS

Credit and verification documents must be dated within 120 days of the original closing date to be valid. If the documentation exceeds the condition time frame, the lender must obtain updated credit and/or appraisal documents and re-qualify the borrower before the loan note guarantee can be requested and/or issued.

12.23 ISSUANCE OF THE LOAN NOTE GUARANTEE

The loan guarantee may be issued by Rural Development prior to the construction of the home being complete. The loan guarantee will be for the full amount of the loan closed. The guarantee fee structure for a construction to permanent loan will be equal to a purchase transaction. Prior to requesting the guarantee, the lender is responsible for ensuring that the loan is properly closed, closing conditions are met and the guarantee fee is collected. Loan closing instructions in accordance with Chapter 16 of this Handbook are applicable.

12.24 CONSTRUCTION DRAWS

Draws and disbursements will be managed by the approved lender. The lender is required to maintain a draw and disbursement ledger for any loan guarantee request. The borrower and lender will be jointly responsible for approving disbursements to the builder during the construction phase. Total disbursements should not exceed the value of the realized material cost and the percentage of work in place. When funds are disbursed, the lender is warranting to Rural Development the work was done as specified.

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12.25 CHANGE ORDERS

Lenders will approve any change orders during construction. The borrower(s) will be responsible for any cost overruns related to change orders.

12.26 INTEREST DURING CONSTRUCTION

During construction, interest on the construction loan is payable monthly either directly from the borrower or indirectly drawn from an established interest reserve. Real estate taxes, property insurance premiums and the monthly amount of the annual fee (as applicable) due during the construction period may also be paid using the same draw process. Annual guaranteed fees will begin to accrue upon loan closing and will be due and payable each year upon the anniversary of the initial loan closing. If the borrower will pay these expenses directly, clear documentation that they possess the ability to do so must be demonstrated in the application package.

The borrower begins making regularly scheduled (amortized) principal and interest payments on the loan after construction is complete. Only interest payments on the advanced construction loan balance will be due and paid during the construction phase.

12.27 CASH BACK TO BORROWER

Lenders must apply any excess funds from the construction proceeds to reduce the principal balance of the permanent loan. The borrower is not to receive funds after closing. In the event funds remain after closing from unused prepaid expenses including, but not limited to per diem interest to the end of the month on the new loan, hazard insurance premium deposits, and/or real estate tax deposits needed to establish the escrow accounts, the borrower may receive cash back in the event the borrower paid these items from their personal funds and they do not represent loan funds.

12.28 MORTGAGE FILE DOCUMENTATION

The lender's permanent mortgage file must contain the following information to support the single close transaction, in addition to documentation outlined in this Handbook:

- Sufficient documentation to validate the actual cost to construct the subject home. (For example purchase contracts with the builder, Construction Loan Agreement, plans and specifications, receipts, invoices, lien waivers, etc.)

- Appropriate documentation to verify the acquisition and transfer of ownership of the land if the borrower acquired the land as a gift or inheritance.

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- All HUD-1 forms and closing documents executed by all parties to the transaction and evidencing all costs to the homebuyer and property seller at the time of loan closing.

- If the land has been owned for less than 6 months at the time of closing, the complete and fully executed purchase contract for the land or other documentation to establish acquisition.

- If the land has been owned for 6 months at the time of closing, evidence the borrower has been the owner for at least 6 months.

- Certification by the borrower after conversion to the permanent loan, that the mortgaged property is free and clear of all liens other than the mortgage and all construction costs have been fully drawn.

- The lender will retain all canceled checks, paid receipts, etc for all property-related requirements for new construction.

- The lender must retain in its individual loan file, the appraiser's certificate of completion and a photograph of the completed property.

- All inspections and warranties as defined in this Chapter.

12.29 UNPLANNED CHANGES DURING CONSTRUCTION

Should a life change occur with the borrower, such as loss of job or death occurs, the lender remains responsible to work with the builder to complete the home. The loan will be serviced in accordance with Chapters 18 through 20 of this Handbook, as applicable.

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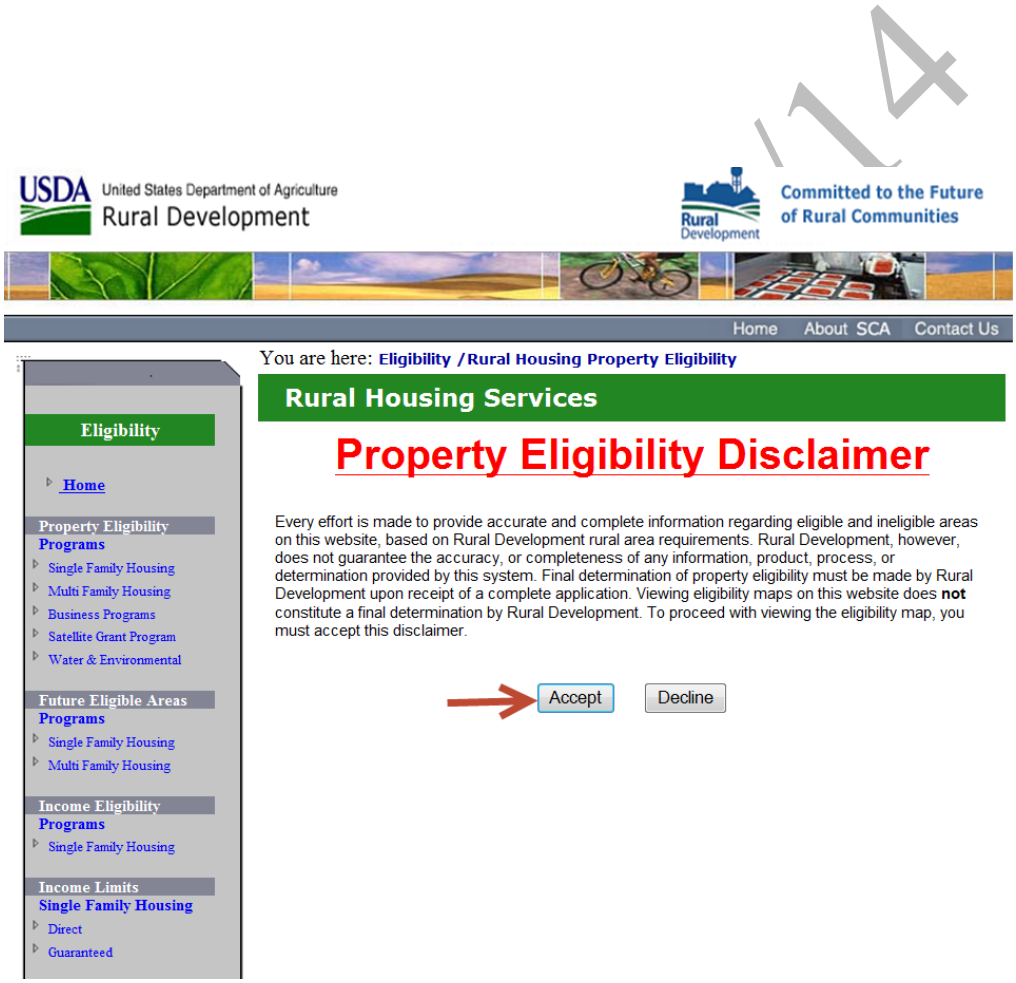
ATTACHMENT 12-A
Determining Eligible Areas Using the Public Website

http://eligibility.sc.egov.usda.gov/eligibility/

Select "Single Family Housing" under "Property Eligibility"

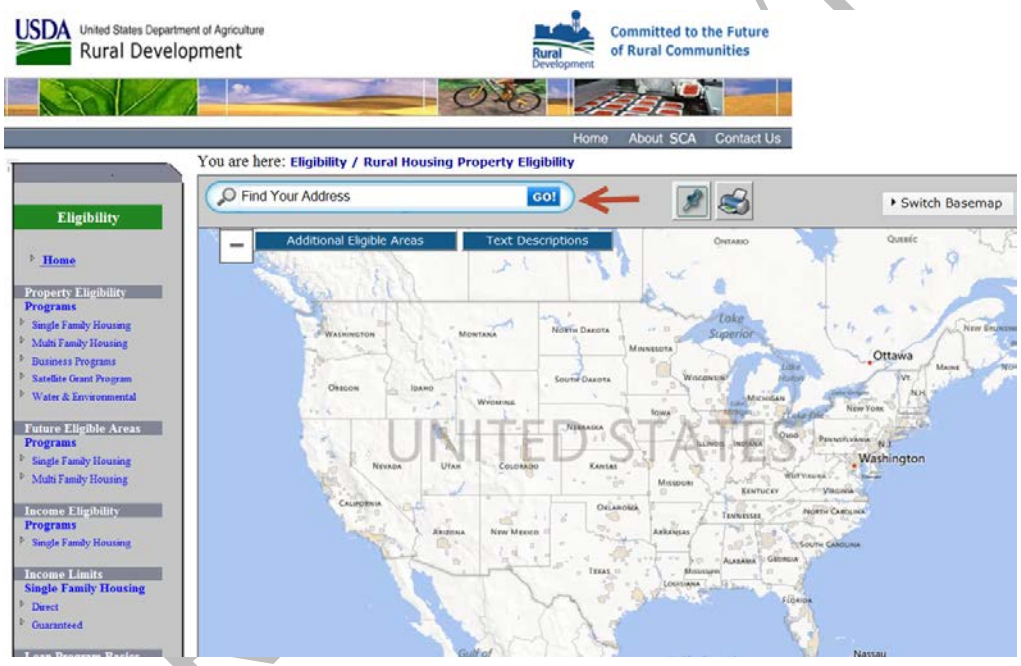
All addresses may not be mapped. Every effort is made to provide accurate information. Accept the disclaimer to continue your property match.



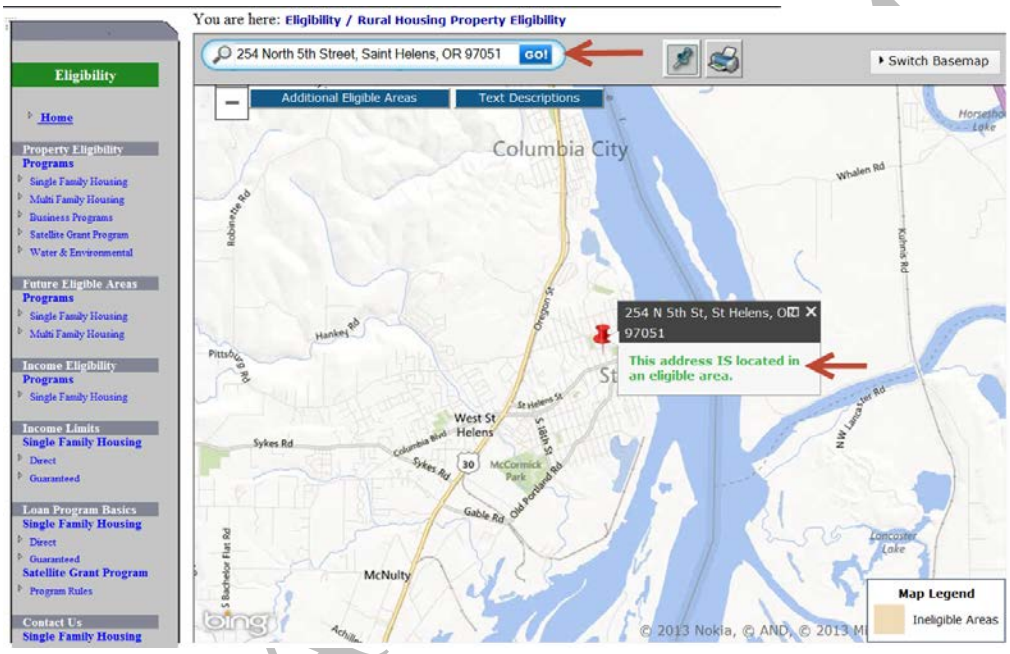
For an exact address match, complete information under the "Find Your Address" search type.

To view eligibility boundaries in a State, select the State from the US map.

For a text description, select "Text Description."



To map an exact address, input address with an accurate zip code and select "Go." Do not use periods when abbreviating street names (i.e. St (no period) = Street). Generally the United States Postal Service (USPS.com) display of the address is a best practice.



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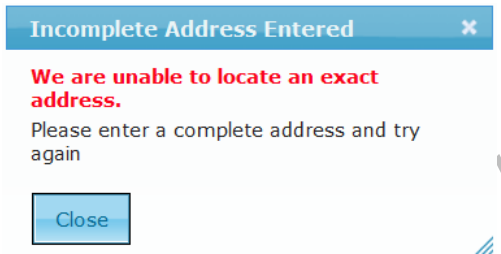
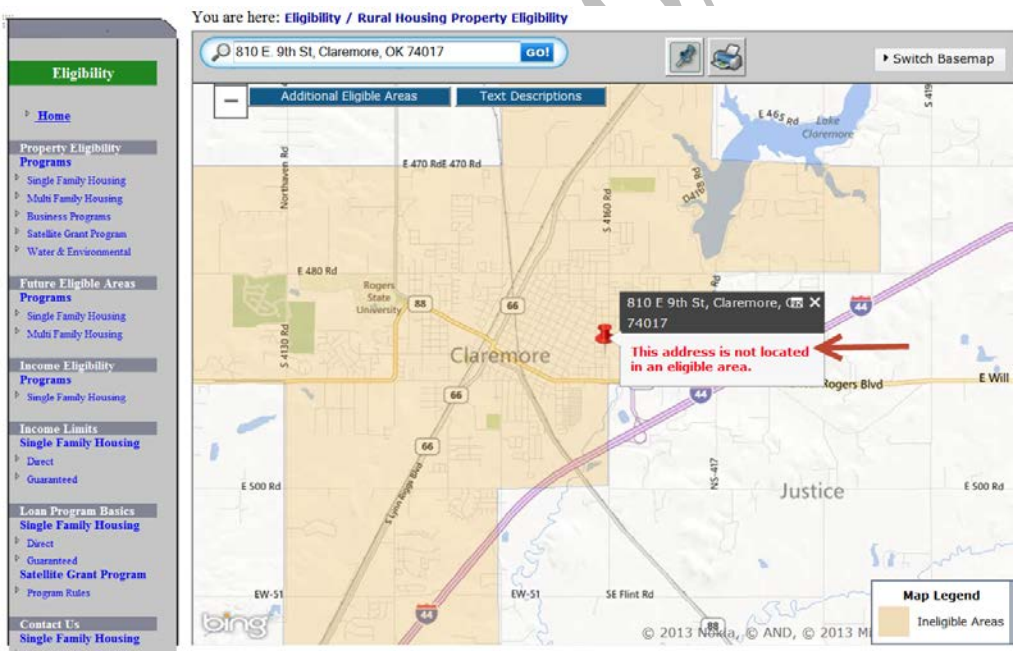
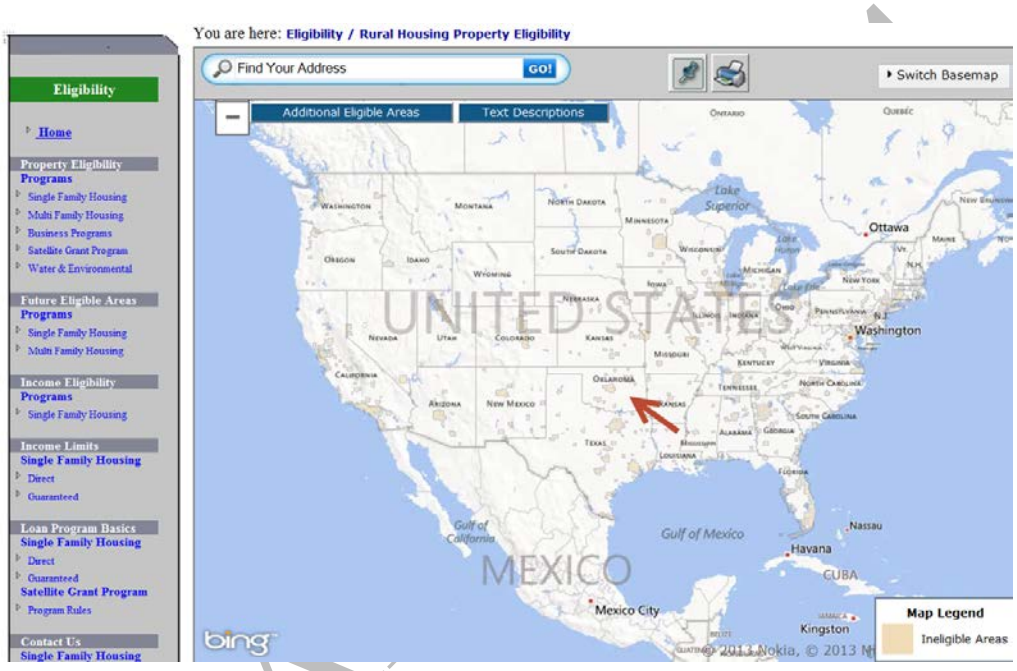
Other possible responses:





To browse the state for a particular eligiblity boundary, select the state.



And zoom to see ineligible areas

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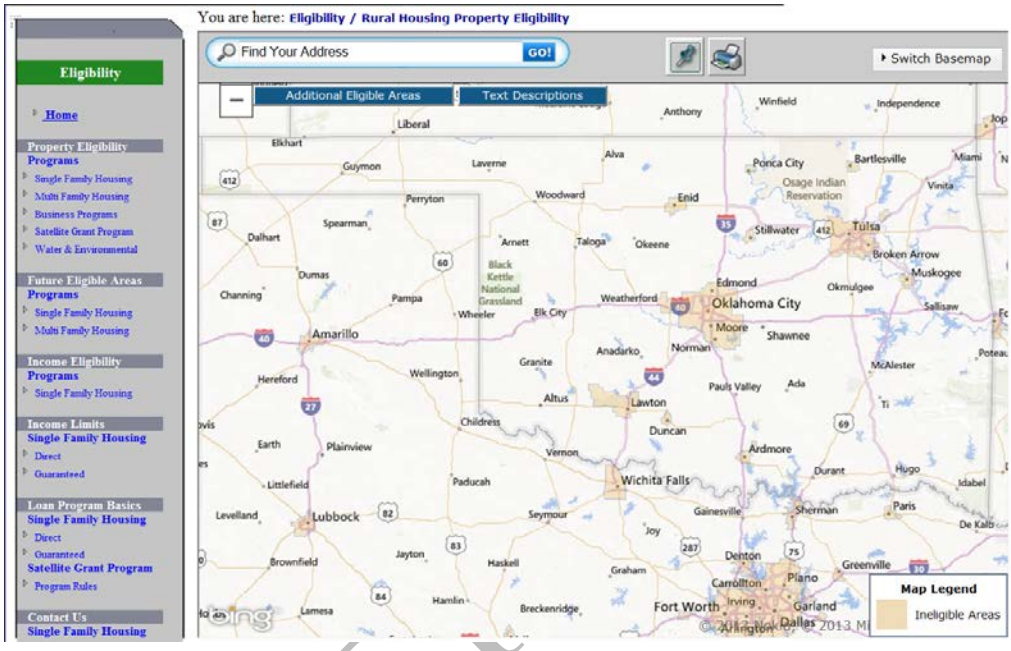
You are here: Eligibility / Rural Housing Property Eligibility
Find Your Address
GO!
Switch Basemap
Additional Eligible Areas
Text Descriptions
Eligibility
Home
Property Eligibility Programs
Single Family Housing
Multi Family Housing
Business Programs
Satellite Grant Program
Water & Environmental
Future Eligible Areas Programs
Single Family Housing
Multi Family Housing
Income Eligibility Programs
Single Family Housing
Income Limits
Single Family Housing
Direct
Guaranteed
Loan Program Basics
Single Family Housing
Direct
Guaranteed
Satellite Grant Program
Program Rules
Contact Us
Single Family Housing
Map Legend
Ineligible Areas
Oklahoma City
Tulsa
Amarillo
Lubbock
Wichita Falls
Fort Worth
Dallas
Enid
Lawton
Norman
Edmond
Moore
Shawnee
Stillwater
Ponca City
Bartlesville
Muskogee
Broken Arrow
Sherman
Denton
Plano
Garland
Irving
Carrollton
Greenville
Paris
Ardmore
Duncan
Altus
Woodward
Liberal
Guymon
Perryton
Pampa
Hereford
Plainview
Levelland
Brownfield
Littlefield
Childress
Vernon
Seymour
Haskell
Graham
Breckenridge
Hamlin
Lamesa
Paducah
Wellington
Granite
Anadarko
Weatherford
Elk City
Wheeler
Dumas
Dalhart
Spearman
Channing
Elkhart
Anthony
Winfield
Independence
Alva
Laverne
Arnett
Taloga
Okeene
Okmulgee
Sallisaw
McAlester
Pauls Valley
Ada
Durant
Hugo
Idabel
De Kalb
Gainesville
Joy
Jayton
Earth
Osage Indian Reservation
Black Kettle National Grassland
Miami
Vinita
Poteau
Ti
© 2013 Mi

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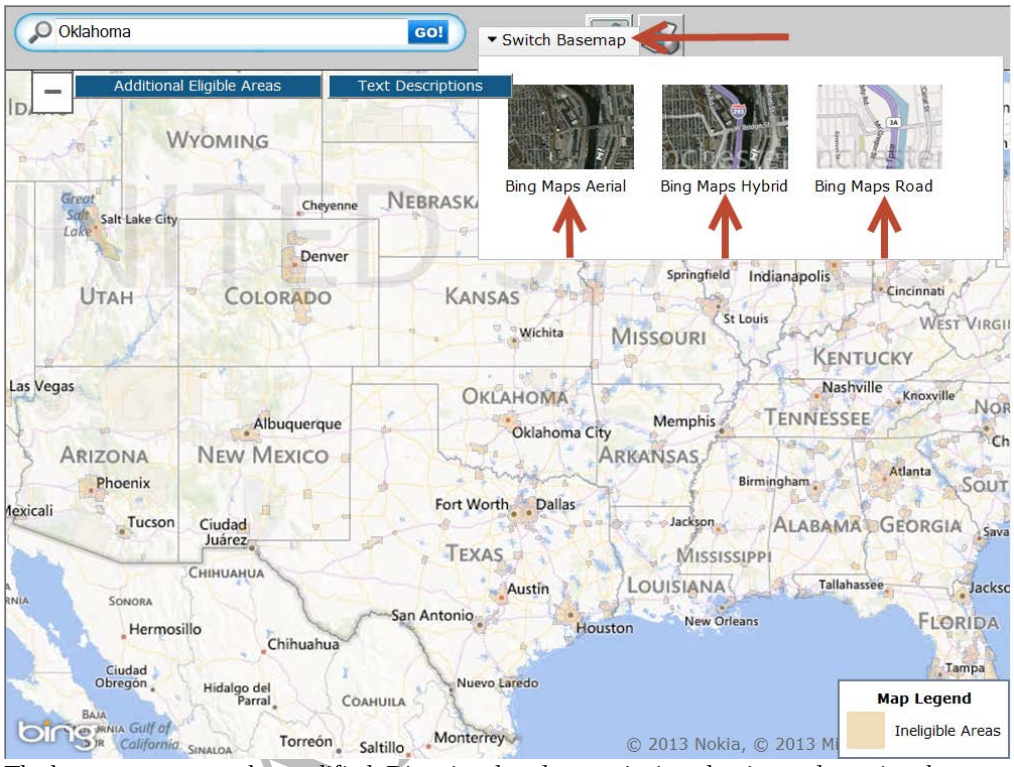

The basemap type may be modified. Directional tools to assist in enlarging and panning the state are available. Dark tan areas are ineligible.

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ATTACHMENT 12-B

RURAL DEVELOPMENT CONDOMINIUM CERTIFICATION

This warranty certifies the dwelling served by the homeowners association and identified below has been approved or accepted by HUD, VA, Fannie Mae, or Freddie Mac. Documentation supporting this certification will be maintained in the lender's files and will be available for inspection by Rural Housing Service, United States Department of Agriculture upon request.

Borrower(s): _____ _____

Property Address: _____

_____

Lender: _____

Lender Representative Name: _____

Representative Signature: _____

Date: _____

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ATTACHMENT 12-C

PROJECT REVIEW

☐ **Documentation of contractor-builder requirements.**

See Paragraph 12.15 of Chapter 12.

☐ **Budget – Cost Breakdown**

- Must match Construction Contract.
- Must be eligible loan costs. See Paragraph 12.16.
- Contingency reserves are limited to 2% of construction costs.

☐ **Plans, Drawings and Specifications**

- Must be certified in accordance with Paragraph 12.9B.
- Must fully describe work to be completed.

☐ **Construction Contract**

- Evidence of all pages.
- Must contain a time frame for work to be completed (start/end).
- The cost of change orders will be the responsibility of the borrower.
- Must be signed by the contractor-builder and borrower.
- Amount must match the total amount of budget-cost breakdown.

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ATTACHMENT 12-D

APPROVED LENDER CERTIFICATION

Completion of New Construction

Borrower:	_____
Co-Borrower:	_____
Property Address:	_____
City, State, Zip Code:	_____

In accordance with Paragraph 12.21 of Chapter 12, HB-1-3555, I enclose a **loan modification** for the above transaction and certify the following:

1. Construction is complete in accordance with approved plans, specifications and change orders.

2. The property can be occupied by the borrower.

3. The following is complete. Evidence is retained in the our permanent loan case file for further review by Rural Development:

    a. Plans, drawings and specifications have been certified in accordance with Paragraph 12.9B of Chapter 12, HB-1-3555. Evidence is retained in the lender's permanent loan case file.

    b. Required construction phase inspections have been completed in accordance with Paragraph 12.9B of Chapter 12, HB-1-3555. Evidence is retained in the lender's permanent loan case file.

    c. Thermal standards meet or exceed the 200~~6~~9 International Entergy Conservation Code (IECC) or subsequently issued code. Evidence is retained.

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d. Construction warranties have been issued the borrower.

e. Evidence of the construction contract, cost breakdown and construction ledger related to the construction of this home.

Approved Lender Certification:

I am dully authorized to represent this organization. I certify that we have originated, underwritten, closed and monitored the completion of new construction of the above loan in accordance with all Agency loan requirements of 7 CFR 3555.

_____
Lender's Signature

_____
Title of Lender's Representative

_____
Date Executed

_____
Name of Approved Lender

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CHAPTER 13: SPECIAL PROPERTY TYPES

13.1 INTRODUCTION

This chapter describes the requirements for processing loans for special property situations. Section 1 of this Chapter deals with processing requirements for community land trusts and leasehold estates. Section 2 describes the specific processing requirements for loans made for manufactured homes. Section 3 outlines loan processing requirements for modular housing.

SECTION 1: SPECIAL FORMS OF OWNERSHIP

13.2 OVERVIEW

This section discusses processing requirements for guaranteed loans for dwellings that fall under two types of special ownership: community land trusts and leasehold estates. Unless otherwise indicated in this section, the same basic requirements for loan guarantee approval discussed elsewhere in this handbook applies to these loans.

13.3 LOANS FOR UNITS IN A COMMUNITY LAND TRUST [7 CFR 3555.206]

Loans to finance the purchase of dwellings located on land owned by a community land trust may be guaranteed if the conditions described in this paragraph are met, and if the applicant and the property otherwise meet the requirements outlined in this handbook.

A. Definition

A community land trust is defined as a private not-for-profit community housing development organization that owns and leases land at affordable prices. A community land trust sells the property improvements (i.e., buildings, streets, sewers) that normally increase the land's value, but leases the land under a long-term ground lease to low- and moderate-income households. The organization must:

- Be organized under State or local laws.
- Have no part of its net earnings benefiting any member, founder, contributor, or individual.
- Comply with financial accountability.

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- Maintain, through significant representation on the organization's governing board, accountability to low-income community residents with regard to decisions on the design, siting, development, and management of affordable housing.

- Have its corporate membership open to any adult resident of a particular geographic area specified in the by-laws of the organization.

- Be established to carry out all of the following activities:

    - Acquire parcels of land, held in perpetuity, primarily for conveyance under long-term ground leases.

    - Transfer ownership of any structural improvements located on such leased parcels to the lessees.

    - Retain a pre-emptive option to purchase any such structural improvements at a price determined by a formula that is designed to ensure that the improvement remains affordable to low- and moderate-income people in perpetuity.

The lender must ensure that the lease contains provisions for continued use of the land for low- and moderate-income housing.

- The lender's mortgage file must contain documentation that the community land trust has received local market acceptance, as evidenced by market acceptance of comparable community land trust projects in the area.

- The lender must verify that the community land trust has broad-based community representation, and that the Community Land Trust has a two-year record of providing affordable housing.

B. Protection of Lender Rights and Lien Position

The relevant legal documents must contain language that ensures that all restrictions relating to community land trusts will automatically and permanently terminate upon foreclosure or lender acceptance of a deed in lieu of foreclosure. Language that merely subordinates the restrictions to the mortgage is not sufficient. The restrictions also cannot be forced upon subsequent purchasers following resale by the lender.

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C. Restrictions on Resale Price

Restrictions on the limits to the resale price of the property or recapture of equity are permitted. A maximum sales price may be imposed or the sales proceeds due the borrower may be limited, with any excess payable to a governmental body or nonprofit organization for reuse in the community land trust. When such restrictions apply, the requirements listed below must be met. Any other arrangements for sharing appreciation must be approved by the State Director.

- The borrower must be permitted to recover at least the original purchase price, sales commission, and cost of capital improvements when the borrower sells the property.

- If the program permits the borrower to sell the property at market value but recaptures part of the equity, the Agency considers a reasonable share of appreciation to be at least 50 percent. The Agency does not object to situations whereby the borrower's share of appreciation is on a sliding scale beginning at zero, provided that within two years the homeowner would be permitted to retain 50 percent of the appreciation.

- The borrower must be permitted to recover a reasonable amount of appreciation as determined by the lender. Appreciation is measured by the difference between the original purchase price and the actual price at which the property is resold.

- If the program sets a maximum sales price restriction, the borrower must be permitted to retain 100 percent of the appreciation.

D. Right of First Refusal

One method commonly used to ensure that housing remains part of an affordable housing program is for the community land trust to hold a "right of first refusal" or an "option right" that can be exercised when the borrower proposes to sell the home to a purchaser not eligible for the program benefits. Such a provision is permitted if all of the requirements listed below are met.

- The rights must be held only by a governmental body or eligible nonprofit organization and exercised by them or someone they have identified as an eligible purchaser.

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- Any right must be exercised within 45 days after the holder of these rights may exercise them (for example, the rights are often triggered by a notice of sale from the borrower).

- Any option price must allow the borrowers to recover their investments plus reasonable shares of appreciation.

E. Appraisals

A property located on a site owned by a community land trust must be appraised as a leasehold interest.

13.4 LOANS ON LEASEHOLD ESTATES [7 CFR 3555.203(b)]

Loans to finance the purchase of dwellings located on leasehold estate may be guaranteed if the conditions described in this paragraph are met, and the applicant and the property otherwise meet the requirements outlined in this handbook.

A. Definition

A leasehold estate is the right to use and occupy real estate for a stated term and under certain conditions that have been conveyed by a lease. In most cases, improvements to real estate are purchased in fee simple, subject to ground rent. Rent is paid for the right to use and occupy the land.

The lender's mortgage file must have documentation indicating that the appropriate legal documents have been reviewed for compliance with Agency regulations.

B. Lease Requirements

Mortgages subject to leasehold estates must meet the following conditions:

- The mortgage must cover both property improvements and the leasehold interest in the land;

- The leasehold estate must constitute real property, be subject to the mortgage lien, and be insured by a title policy;

- The estate's term runs fifteen or more years beyond the maturity date of the loan closing, except in the case of properties located on American Indian restricted land where the lease must have an unexpired term at least equal to the term of the loan. Leases on American Indian land for a period of 25 years which are renewable for a second 25 years are permissible;

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- The leasehold estate must be assignable or transferable; and
- The lease cannot be terminated except for nonpayment of lease rents.

The lease must:

- Provide for lender notification of any default by the borrower and the option to cure the default.
- Provide that the borrower will pay taxes, insurance, and association dues on the land and retain voting rights in the association;
- Provide that the leasehold can be transferred, mortgaged, and sublet without restriction;
- State rental increases in exact dollar amounts;
- Be recorded and constitute an interest in real estate;
- Permit mortgaging of the leasehold;
- Provide for written notice of default; and
- Provide renewal options for the leasehold mortgagee.

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SECTION 2: MANUFACTURED HOMES

[7 CFR 3555.208]

13.5 DEFINITION

Manufactured housing units are single-or multi-width units constructed partially off-site and then transported to a site to be completed and attached to a permanent foundation. Manufactured homes are built to different construction standards and codes and have different inspection requirements than those manufactured structures generally referred to as "modular" or "panelized" homes.

13.6 AUTHORIZED LOAN PURPOSES

When a real estate mortgage or deed of trust covers the unit and the site, a loan to finance the following may be guaranteed.

- Site development work that conforms to the standards imposed by the state and local government.

- Purchase of an eligible new unit, transportation and set-up costs, and purchase of an eligible site if not already owned by the applicant. Manufactured units must be less than 12 months old and never occupied and will include the site. The date of the purchase agreement must be within one year of the manufactured date displayed on the plat attached to the unit. The following criteria outlines an eligible unit for guarantee with the SFHGLP:

  - To be an eligible unit, the new unit must have a floor area of not less than 400 square feet.

  - The unit must meet the Federal Manufactured Home Construction and Safety Standards (FMHCSS).

  - The unit must be placed on a permanent foundation built to FHA guidelines in effect at the time of certification. Guidelines are presently published in the "Permanent Foundation Guide for Manufactured Housing" (HUD-4930.3G) which is found at http://www.huduser.org/portal/publications/destech/permfound.html.

  - Certification the foundation design meets HUD Handbook 4930.3, "Permanent Foundations Guide for Manufactured Housing (PFGMH)." The foundation certification must be from a licensed

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professional engineer, or registered architect, who is licensed/registered in the state where the manufactured home is located and must attest to current guidelines of the PFGMH. The certification must be site specific and contain the engineers or registered architect's signature, seal and/or state license/certification number.

- The manufactured home must be classified and taxed as real estate. Lenders are responsible for ensuring the title has been purged and the manufactured home has been officially converted from chattel to real property, as state law allows.

- The mortgage must cover both the unit and its site.

- Purchase of a unit on hand that has not been installed, or occupied at any other site or location. Manufactured units may be moved only from the manufacturers or dealer's lot to the site on which the unit will be guaranteed. This type of unit is eligible as long as the purchase agreement is dated within 12 months of the date the unit was manufactured. The date of manufacture is available on the factory installed plate on the unit. Manufactured home units with a manufacture date exceeding 12 months of the purchase agreement contract will be ineligible for a guaranteed loan.

- The Agency will not guarantee the purchase of an existing manufactured home that has been moved from another site.

- Alteration or remodeling of the unit when the initial loan is made (i.e. garages). All alternations and modifications must meet FMHCSS.

13.7 LOAN RESTRICTIONS

The Agency will not guarantee loans to finance the following:

- The purchase of a site without also financing a new unit;

- A unit that does not meet FMHCSS;

- Repairs not associated with a transfer, Real Estate Owned (REO) sale, or unit that is already financed with a Section 502 loan; or

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- Furniture, including movable articles of personal property such as drapes, beds, bedding, chairs, sofas, divans, lamps, tables, televisions, radios, stereo sets, and other similar items of personal property. Furniture does not include wall-to-wall carpeting, refrigerators, ovens, ranges, washing machines, clothes dryers, heating or cooling equipment, or other similar equipment.

13.8 ADDITIONAL LOAN PROCESSING PROCEDURES FOR PROPOSED CONSTRUCTION INVOLVING A NEW MANUFACTURED HOME

For the purpose of underwriting and for payment of the guarantee fee, a newly constructed manufactured home is considered a purchase loan transaction and is subject to the fee further outlined in Chapter 6 of this Handbook.

In addition to the documents required for a guaranteed loan, the lender must obtain the following prior to loan approval. The documentation will be retained in the lender's permanent loan file. Lenders may utilize Attachment 13-A as an option in support of applicable documentation.

- An itemized cost breakdown of the total package, including the base unit, eligible options, site development, installation, set-up, lot costs, and any credit for wheels and axles.

- A statement signed by the dealer indicating that any cash payment or rebate as a result of the purchase will be deducted from the price of the unit and not paid to the applicant.

- A statement signed by the dealer that the proposed cost is the full price of the unit and if furniture is being purchased by the applicant with personal funds, that a lien will not be filed against the security property.

- The label number of the unit shown on the FMHCSS data plate on the exterior of each section.

- A signed statement by the dealer confirming thermal requirements in effect at the time of purchase are met.

13.9 ADDITIONAL LOAN PROCESSING PROCEDURES FOR EXISTING PROPERTIES INVOLVING A MANUFACTURED HOME

The lender must document the following relative to an existing manufactured unit:

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- The unit is presently financed with a Section 502 direct or guaranteed loan, is being sold from Agency inventory, or is being sold from the Lender's inventory after being acquired through a loan guaranteed by the Agency.

- The unit must be installed on its initial installation site on a permanent foundation complying with the manufacturer's guidelines and the guidelines published in the PFGMH. The PFGMH guide can be ordered by calling (800) 245-2691 or from the web at http://www.huduser.org/portal/publications/destech/permfound.html.

The Agency will not guarantee an existing manufactured home, which has had additions or structural modifications made to the original home.

13.10 CONSTRUCTION AND SITE REQUIREMENTS

Manufactured homes must meet several specific site and dwelling requirements in addition to those required for other properties guaranteed under the SFHGLP. The unit must meet the requirements for new dwellings as contained in Chapter 12 of this Handbook. Plans and certifications will be retained in the lender's permanent case file. The lender is responsible for ensuring that:

- The unit is to be placed on a permanent foundation that meets the guidelines published in the PFGMH. The PFGMH guide can be ordered by calling (800) 245-2691 or from the web at http://www.huduser.org/portal/publications/destech/permfound.html. The foundation plan will be retained in the lender's permanent file.

- A plot plan and site development plan are prepared for the proposed construction.

- Certification of site and foundation designs in accordance with Chapter 12.

- Inspections for new construction are performed.

- Alterations or modifications upon placement must be supported with plans and specifications as provided in Chapter 12 of this Handbook.

- The unit must meet or exceed the Federal Manufactured Home Construction and Safety Standard (FMHCSS) Uo Value Zone for the geographic area the unit will

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be placed. The Uo Value Zone will be indicated on the Comfort Heating and Cooling Certificate.

- The unit must have a floor area of 400 square feet or more.

13.11 LOAN CLOSING FOR MANUFACTURED HOUSING

In general, loan closing procedures are the same whether the guarantee is made for the purchase of a manufactured home or another type of single family home. However, the lender should be aware of the following requirements.

A. Warranty Requirement

A dealer must provide the borrower with a copy of all manufacturers' warranties. The warranty must identify the unit by serial number. The dealer must certify that the unit sustained no hidden damage during transportation.

The borrower will contract with a licensed homebuilder to complete the access, set up of the unit, utilities, appendages, etc. The general contractor will be responsible for providing the borrower with a warranty that meets the requirements of new construction outlined in Chapter 12 of this Handbook and HUD for new manufactured homes on permanent foundations. If the home was manufactured in separate sections, the contractor will certify that the sections were properly joined and sealed according to the manufacturer's specifications. Additionally, the contractor will certify the home sustained no hidden damage during transportation and erection.

A copy of all warranties and certifications will be retained in the lender's permanent file.

B. Certification Requirements

Lenders may utilize Attachment 13-A to document manufacturer dealer certifications required of this Chapter and Attachment 13-B to document contractor certifications required of this Chapter.

C. Lien Release Requirements

The dealer must furnish a manufacturer's certificate of origin indicating that the unit is free and clear of all legal encumbrances. A copy of the manufacturer's statement or certificate of origin should be retained in the lender's mortgage file.

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D. Real Estate Tax Requirement

Whether manufactured homes are considered personal or real property may vary state-to-state. When the loan closes, the unit and site must be taxed as real estate by the jurisdiction in which it is located, if such taxation is permitted under applicable law. If applicable state law so permits, any certificate of title to the manufactured home must be surrendered to the appropriate state government authority. If the certificate of title cannot be surrendered, the lender must indicate its lien on the certificate.

E. Title and Lien Requirements

Both the unit and the land must be evidenced by a recorded mortgage or deed of trust. A combination of a chattel and real estate mortgage is not acceptable. The manufactured home must be legally classified as real property under applicable state law and if state law permits, any certificate of title to the manufactured home must be surrendered to the government authority. If state law does not permit, the certificate of title must reference the lender's lien. A standard real property insurance and any other manufactured home endorsement requirement in the applicable jurisdiction is required. The borrower must execute a written statement acknowledging that the unit is a fixture and part of the real estate securing the mortgage. Documentation will be retained in the lender's permanent file.

F. Eligibility of Manufactured Homes in SFHAs

The finished grade level beneath the manufactured home shall be at or above the 100-year base flood elevation and is subject to the requirements of Section 12.10 of Chapter 12 of this Handbook.

SECTION 3: MODULAR HOMES

Modular homes are sectional prefabricated houses that consist of multiple modules or sections which are typically manufactured in a remote facility and delivered to their site of intended use. They differ from manufactured homes largely in their absence of axles or frame. Modular dwellings are commonly transported to their site by means of flat-bed trucks and set in place with the assistance of a crane. Permanent on-frame homes do not meet the definition of modular homes.

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13.12 LOAN PROCESSING PROCEDURES FOR NEW PROPERTIES INVOLVING MODULAR HOMES

New modular/panelized homes are to be treated as stick built housing. Follow the requirements outlined in Paragraph 12.9 B of Chapter 12 of this Handbook.

13.13 LOAN PROCESSING PROCEDURES FOR EXISTING PROPERTIES INVOLVING MODULAR HOMES

Existing modular homes will be required to meet the inspection requirements outlined in Paragraph 12.9 A of Chapter 12.

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ATTACHMENT 13-A

Dealer Certification – New Manufactured Home

Name(s) of Purchaser/Owner	Manufactured Home Dealer Name, Address and Telephone
Property Address	
Manufacturer, model, data plates of unit purchased	

The undersigned hereby certifies that any cash payment or rebate as a result of the purchase of the manufacture unit identified has been deducted from the price of the unit and was not paid to the identified purchaser/applicant.

The proposed cost of the identified unit represents the full price of the unit, excluding any purchase with personal funds by the purchaser for furniture.

If furniture was purchased in conjunction with this transaction, we certify a lien will not be filed against the security property.

Thermal requirements in effect at the time of purchase have been met.

Signature _____	
Title	Date

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ATTACHMENT 13-B

Certification of Builder/Contractor

Name(s) of Purchaser/Owner	Builder/Contractor's Name, Address and Telephone
Property Address	
Manufacturer, model, data plates of unit purchased	

The undersigned hereby warrants:

- The manufactured unit identified has been erected on the subject identified property.
- The property development complies with construction plans.
- The unit, if manufactured in separate sections were properly joined and sealed according to the manufacturer's specifications.
- The manufactured home sustained no hidden damage during transportation and erection.

Signature: _____	
Title: _____	Date: _____

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CHAPTER 14: FUNDING PRIORITIES

14.1 INTRODUCTION

Congress appropriates funds to the Agency for loan guarantees for each fiscal year basis (October 1 through September 30) and not as funds are needed. If Congress has not approved appropriated funds at the beginning of a fiscal year, the program may continue to be authorized and delivered under a Continuing Resolution until appropriated funds for the fiscal year are approved by Congress. Fund distribution under a Continuing Resolution may be based upon the previous year actual obligations during the Continuing Resolution, compared to each state's obligations during the same time frame of the previous funding year.

This chapter describes the funding priority process and Agency actions when funds are limited. It also outlines the Agency procedure to request funds from the National Office reserve.

14.2 PROGRAM FUNDING PROCESS

Funds are allocated and distributed to the Agency at the beginning of each fiscal year through the Program Funds Control System (PFCS). Upon receipt of the annual allocation, the National Office distributes funds to each state based on a predetermined formula. A pooling date is established when funds are allocated and distributed to the Agency at the beginning of each fiscal year. The pooling date, if utilized, typically occurs at FY end. Pooling of funds is a technique used to ensure that available funds are used in an effective, timely and efficient manner. At the time of pooling those funds within a State's allocation for the fiscal year that has not been obligated by the State are placed in the National Office reserve. Pooling funds permits funding requests to be processed on a first-come first-serve basis. This process allows all states to have access to available funds as long as funds remain available.

After the pooling date, if unallocated funds remain, the National Office will provide specific direction to states as to usage of the remaining funds. When adequate funds remain to allow distribution to all states, the National Office will do so. The National Office will keep lenders and Agency staff apprised of the potential for a shortage of available funds with advance notice.

14.3 PRIORITIZATION OF FUNDING

When funding is not sufficient to fund all applications, a priority system is used to ensure that applicants who meet the priorities established for the program are selected for

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processing first. The priority system is used to determine the order in which applications will be processed. If funds are limited the Agency will prioritize requests to first-time homebuyers or veterans. In the case of applications with equivalent priority status that are received on the same day, preference in funding will be given to those qualifying for veteran's preference. The following outlines the criteria to meet the prioritization:

A. Households that Qualify for First-Time Homebuyers Preferences

A household qualifies for a first-time homebuyer preference if any applicant meets any one of the following criteria:

- An individual who has had no ownership interest in a principal residence during the three-year period ending on the date of loan closing.

- An individual, who is a displaced homemaker and who, except for owning a home with a spouse, has had no ownership interest in a principal residence during the three-year period ending on the date of loan closing. A displaced homemaker is unemployed or underemployed, and experiencing difficulty in obtaining or upgrading employment. In recent years they have worked primarily without remuneration to care for the home and family and have not worked full-time, full-year in the labor force.

- An individual, who is a single parent and who, except for owning a home with a spouse, has had no ownership interest in a principal residence during the three-year period ending on the date of loan closing. Single parents include any individual who is unmarried or legally separated from a spouse; and has custody or joint custody of one or more children, or is pregnant.

B. Households that Qualify for Veterans Preferences

A household qualifies for a veteran's preference if any applicant has served on active duty and has been discharged or released from the active forces on conditions other than dishonorable from the United States Army, Navy, Air Force, Marine Corps, or Coast Guard. The preference applies to the serviceperson, or the family of a deceased serviceperson, who died in service before termination of such war or such period or era. The applicable time frames are:

- During the period of April 6, 1917, through March 31, 1921;

- During the period of December 7, 1941, through December 31, 1946;

- During the period of June 27, 1950, through January 31, 1955;

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- For a period of more than 180 days, any part of which occurred after January 31, 1955, but on or before May 7, 1975;
- During the period beginning August 2, 1990 through January 2, 1992; or
- Any other prescribed by Presidential Proclamation or law.

14.4 AGENCY ACTIONS – SHORTAGE OF FUNDS

The following actions will be taken by the Agency when program funding is limited:

A. Agency Actions When Funds Are Not Available - Pooling

The National Office will keep lenders and Agency staff apprised of the potential for a shortage of available funds. Once funds are pooled, the Agency will redistribute remaining funds in accordance with the date of loan guarantee request as follows:

1. Before the pooling date.

If the request is made before the pooling date, the Agency office will place the request on a waiting list and notify the lender that a delay is expected. Applicants, who qualify for a preference as a first-time homebuyer or as a veteran, will be placed on the waiting list above those without such a preference, in the order received. All other applicants will be placed on the waiting list in date-order below those who qualify for preferences.

Loan guarantee requests will remain on the waiting list until funds become available or the lender withdraws the request, whichever is first.

2. After the pooling date.

If the request is received after the pooling date, the Agency will notify the lender that loan guarantee requests may be deferred until the following fiscal year. Approval officials will keep lenders aware of actions to be taken between the pooling date and the annual allocation dates. If there is a possibility that funds will soon be available, the request for guarantee may be reviewed. The lender should be notified, by phone or fax, if the Agency cannot honor a one-day process.

Complete applications received after pooling will be reviewed and funded (as appropriate) on a “first-come first-served” basis. Incomplete applications will be returned and may be resubmitted. Lenders should be advised why that the application is being returned and of what is required to complete the application. The approving office

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is responsible for keeping the lender abreast of the status of applications submitted and any availability of funds received once pooling has occurred.

B. Agency Actions When Funds Are Not Available – Conditional Commitments Subject to Availability of Funds

When funds are not available, the National Office may authorize issuing Conditional Commitments "Subject to receipt of congressionally appropriated funds." In such cases, when in the best interest of the Government, the Agency will continue to issue Conditional Commitments.

When issuing Conditional Commitments "subject to the availability of Congressionally appropriated funds," Agency personnel will include a condition regarding the non-availability of funds and the subsequent actions of lenders during the interim period. The statement utilized will be issued by the National Office when authorizing the issuance of commitments subject to funding.

Lenders may close these loans provided they fulfill all the conditions stated on the Conditional Commitment. The Agency will not be able to issue a Loan Note Guarantee until funding becomes available. When funding becomes available, the lender must make a certification there has been no adverse change in the borrower's financial condition since issuance of the Conditional Commitment. A lender must certify to the Agency, using the process provided for on Form RD 3555-18, "Conditional Commitment for Single Family Housing Loan Guarantee," that there have been no adverse changes in the borrower's financial condition since the Conditional Commitment was issued by the Agency. The lender will assume all risk of loss until the Agency issues the Loan Note Guarantee.

14.5 LENDER WITHDRAWAL OF APPLICATION

If at any time the lender determines that an existing request is not needed, the lender should notify the Agency immediately. The Agency will remove the loan guarantee request from the system, releasing the funds back to the allotment for the state. Releasing funds allows the Agency to fund as many guarantee requests as possible. If a lender fails to notify the Agency that funds are not needed, pending applicants on the waiting list may be deprived of an opportunity to obtain a loan guarantee.

Some common reasons for withdrawing a loan guarantee request are:

- Lender rejection of the borrower's application;

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- Change in property; or
- Choice of a loan program other than the SFHGLP Loan Program.

14.6 AGENCY ACTION - REQUESTING FUNDS FROM THE NATIONAL OFFICE RESERVE

Funds may be retained by the National Office during a FY to meet program needs or Agency objective. To request funds from the national office reserve, Agency employees will:

- E-mail the SFHGLP funding mail box at sfhgld@wdc.usda.gov.
- Request actual funding needs, by type of assistance code.

If the type of assistance is refinance, each funding request must summarize the individual request of the cumulative total request for the State.

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CHAPTER 15: SUBMITTING THE APPLICATION PACKAGE
[7 CFR 3555.107]

15.1 INTRODUCTION

The lender is responsible for working with the applicant to ensure all necessary documentation is obtained to satisfy the requirements for loan eligibility. Lenders may utilize industry standard forms when assembling the application package. The completed application package must not be submitted to the Agency until the loan is underwritten and approved by the approved lender. Underwriting may be performed manually or by utilizing the Guaranteed Underwriting System (GUS), which is the Agency's automated underwriting system.

15.2 LENDER RESPOSIBILITY

The originating lender remains responsible for the quality and accuracy of all information used in obtaining a Rural Development guarantee in accordance with all parts of 7 CFR 3555 and this Handbook. The loan application package must contain all information that supports the eligibility of the household for the SFHGLP and the lender's decision to approve the loan request. An underwriter's certification of their underwriting analysis (applicable to traditional manually underwritten application packages) and/or the final submission of the electronic application through the Agency's automated underwriting system represents the underwriter of the approved lender has personally reviewed the appraisal report and credit application and the proposed mortgage complies with Rural Development eligibility and underwriting requirements.

Documenting Eligibility of the Household: Income from all household members, not just parties to the note, must be considered when computing income to determine eligibility for the SFHGLP. It remains the lender's responsibility to document the applicants qualifying income and support their calculation. Chapter 9 of this Handbook provides guidance.

Documenting Eligibility of the Applicants and Parties Eligible to Participate in Rural Development Loan Guarantee: As part of the eligibility determination for the SFHGLP, lenders must document their permanent file confirming the applicant(s) are not on the:

- U.S. General Services Administration (GSA) System for Award Management (SAM) and
- HUD's Credit Alert Verification Reporting System (CAIVRS).

To determine whether an applicant is eligible to participate in an SFHGLP mortgage loan transaction, the lender must examine the GSA List and CAIVRS and document their permanent case file

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with results. An applicant is ineligible is he/she is presently delinquent on any Federal debt or is suspended or debarred, or otherwise excluded from participating in Rural Development programs. The GSA list may be found at: https://www.sam.gov/portal/public/SAM/. Lenders will certify on Form RD 3555-21 the applicant(s) and all parties to the mortgage transactions are not on the GSA list. All other parties to the mortgage transaction can be:

- Applicant(s)
- Seller
- Listing or selling real estate agent
- Loan officer, or
- Builder

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See Appendix 7 of this Handbook for access to CAIVRS. Refer to Chapter 10 of this Handbook for additional guidance on CAIVRS.

Eligibility of Applicants for Traditional Credit: Applicants must demonstrate they are unable to secure conventional credit without a SFHGLP guarantee. Lenders must document their permanent file with their consideration of the criteria, as outlined in Chapters 5 and 8 of this Handbook. Lenders may confirm their consideration of the criteria by recording their review on their underwriting analysis.

Additional Program Requirements: The lender's file must thoroughly document all relevant information used to make the determination of stable and dependable income, in accordance with Chapter 9 of this Handbook, utilized to qualify the applicants for the mortgage loan. The lender must ensure all other eligibility requirements are met and documented.

Social Security Number Evidence: For all applicants, the lender must document a valid Social Security Number (SSN) on the mortgage. Each applicant must provide the lender with evidence of his or her own valid SSN as issued by the Social Security Administration (SSA). This applies to purchase and all refinance transactions. The actual social security card is not required; the lender is required to validate the SSN. Lenders may use various means for validating the SSN including examining the applicant's pay stubs, passport, valid tax returns, and may use service providers including those with direct access to the SSA. The lender must resolve any inconsistencies or multiple SSNs for individual applicants that become known during the loan processing and underwriting. Lenders must ensure the Uniform Residential Loan Application is reflective of true and accurate information.

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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. Application packages may be submitted by email, or hard copies delivered to the Agency. The preferred method of the Agency is electronic. Lenders are expected to utilize the automated method of submitting origination requests when announced by the Agency. Until implemented, ~~T~~the following link provides information regarding delivery of electronic documents, by state: https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do. Scroll to Loan Origination and select "Identification of Electronic Delivery." 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).

- A signed copy of the Uniform Residential Loan Application (URLA). The loan amount must coincide with the loan request on Form RD 3555-21. If the applicant(s) is not a United States citizen, evidence the applicant(s) meets the qualified alien criteria set forth in Chapter 8 of this Handbook

- The CAIVRS number indicated on *Form RD 3555-21*.

- 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. 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.

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- 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.

- Uniform Residential Appraisal Report (URAR) of real estate property which includes Form *1004MC, Market Condition Addendum*.

- Purchase/sales agreement/contract.

- Underwriting analysis. This may include evidence the approved lender's underwriter reviewed and approved the loan, documentation of a credit waiver granted by the underwriter (if applicable), or a request for repayment ratio waiver with documented compensating factors listed (if applicable). Refer to Chapter 10 and 11of this Handbook for additional guidance.

- FEMA *Form 086-0-32*.

- If a buydown is involved, documentation in accordance with Chapter 11, Paragraph 11.5 of this Handbook.

Automated Underwriting System - GUS "Accept"

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

- All pages of the current version of *Form RD 3555-21* signed, dated and initialed by the applicant(s) and lender, or lender's representative.

- Summary of the calculation of annual income, adjusted income (to qualify for the SFHGLP) and repayment income calculations.

- Include the credit report of a non-purchasing spouse if property is located in a community property state.

- Appraisal of real estate property which includes *Form 1004MC*.

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- The final GUS Underwriting and Findings Analysis.
- FEMA *Form 086-0-32*
- If the applicant(s) is not a United States citizen, evidence the applicant(s) meets the qualified alien criteria set forth in Chapter 8 of this Handbook.
- If a buydown is involved, documentation in accordance with Chapter 11, Paragraph 11.5 of this Handbook.

If a quality control message for a GUS "Accept" underwriting recommendation requires the lender to submit a full documentation file to Rural Development, the extent of the review by the Agency is to determine the data entered into GUS is true, complete and accurately represented. Ratio waiver requests will not be required.

15.4 ELECTRONIC SIGNATURES

Rural Development will accept electronic signatures in conjunction with the Single Family Housing Program (SFHGLP), unless otherwise prohibited by law or regulation, as described below. This guidance is limited to lenders. Agency staff will continue to follow internal policy.

The 7 CFR 3555 rule does not expressly prohibit or consent to electronic signatures. The regulations require that lenders submit signed documents to the Agency, such as the mortgage or deed of trust, the promissory note, etc. The regulations also require that lenders perfect and maintain a first lien position and an enforceable promissory note. Lenders may use electronic signatures as long as the lender perfects and maintains a first lien position, an enforceable promissory note, and meet all other agency requirements.

Lenders may accept all documents associated with originating or servicing a loan which are signed electronically. The Agency recognizes that electronic signatures include digital signatures as a subset. The electronic signature and date must be clearly observed when the document is viewed either electronically or if printed. The acceptance of electronic signatures by lenders is voluntary. Those lenders who choose to accept electronic signatures must meet the standards and requirements set forth in the ESIGN Act as well as all other applicable federal and state regulations and guidelines. Lenders must still adhere to all program regulations, guidance and agreements as usual. Lenders are charged with the same responsibility of due diligence with electronically signed documents as they are with paper documents.

Two methods are available to transmit credit documents to Rural Development:

An automated lender loan closing system is available to electronically submit guarantee fees, upload loan closing documents and electronically submit loan closings. The Agency expects all lenders will

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submit loan closing transactions electronically. This method of delivery is expanded upon in Chapter 16.

Those lenders who have not yet set up the automated process and deliver credit documents via e-mail must be able to either submit PDF or TIF versions of the electronically signed documents to the agency, and must follow file retention requirements and make the electronically signed documents available for agency review as necessary. This method must be encrypted or protected to ensure personally identifiable information is secure. Information regarding electronic delivery by state can be found at the USDA LINC Training and Resource Library (located in the Loan Origination section) at the URL noted above.

If any electronically signed document eventually is deemed unenforceable (e.g. the promissory note, mortgage or deed of trust) and is connected to any fraud, misrepresentation or negligent servicing, the lender bears the risk that any loss claim submitted in relation with the unenforceable document will be denied or reduced in accordance with applicable regulations. The lender's failure to collect on the promissory note or enforce the security instrument because of its electronic signature will be treated as negligent servicing under SFHGLP regulations.

Failure to comply with any Federal statute or regulation could result in the denial of a loan guarantee or claim, withdrawal of lending authority and/or debarment from Federal programs.

~~15.4~~15.5 AGENCY REVIEW OF APPLICATION PACKAGE

When underwritten application packages are received, Agency staff will track the date and time the Agency receives the application. Agency staff will review the application and notify the lender of its status within two business days of receipt of the application. As outlined below, there are circumstances in which the Agency must review the application more thoroughly. In these situations, the Agency may take up to four business days to review the application.

A. Content of Standard Review

In general, the Agency will review applications to determine that all program requirements have been met. The lender has sole responsibility for properly underwriting the loan and ensuring that all program requirements have been met. Agency review of the application does not relieve the lender of these responsibilities. Agency staff have the responsibility of determining if the applicant is income eligible, meets the established qualifying ratios, the property is located in an eligible rural area, that the loan is for eligible purposes, and the appraised market value supports the requested loan amount.

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

Attachment	Type of File	Explanation
B	Guaranteed Underwriting System (GUS) "Accept"	• The file is submitted to the Agency via GUS and receives an "Accept" recommendation. • The GUS Underwriting Findings Report does not indicate that a fully documented file submission is required.
C Abbreviated	• Manual UW (Underwrite) • Quality Control - GUS	• The file was not submitted to the Agency via GUS, or • The file was submitted to the Agency via GUS and received either a "Refer" or "Refer with Caution" underwriting recommendation, or • The file was submitted to the Agency via GUS, received an "Accept" underwriting recommendation, and the GUS Underwriting Findings Report required submittal of a fully documented file.
D Detailed	• Manual UW (Underwrite) • Quality Control - GUS	• The file was not submitted to the Agency via GUS, or • The file was submitted to the Agency via GUS and received either a "Refer" or "Refer with Caution" underwriting recommendation, or • The file was submitted to the Agency via GUS, received an "Accept" underwriting recommendation, and the GUS Underwriting Findings Report required submittal of a fully documented loan file.

This document shall be retained as an essential document imaged in the Rural Development Imaging Repository in accordance with Chapter 2 of this Handbook.

1. Household income at or below 115 percent of median for the area

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The Agency must review the lender's program eligible income. This calculation is arrived at from eligible adjustments made to the annual income. The adjusted annual income is considered qualifying income. This calculation is utilized one time to determine program eligible income. Qualifying income often differs from repayment income which represents the stable and dependable portion of income. Lenders who utilize GUS to assist with their underwriting will find the information automatically calculated under the "Eligibility" page of GUS.

2. PITI ratio of 29.0 percent or less; Total Debt ratio of 41.0 percent or less

The Agency must review the lender's ratio calculation and any ratio applicable waiver requests for manually underwritten loans. Written concurrence of the ratio waiver request by the Agency is represented when the lender is issued a Conditional Commitment for Loan Note Guarantee. If the loan was underwritten with the assistance of GUS and received an "Accept" underwriting recommendation, a ratio waiver request is not required. Lenders and Agency will refer to Chapter 11 of this Handbook for further guidance in approving ratio waivers for manually underwritten loans.

3. Appraisal

All appraisals must comply with the current edition of the Uniform Standards of Professional Appraisal Practice (USPAP) available at www.appraisalfoundation.org. Approved lenders are responsible for selecting qualified appraisers that are licensed in the state in which the subject property is located. The appraisal report (for existing and proposed construction) must not be more than120 days old at loan closing, meet the standardized definitions and responses for a key subset of appraisal data entry fields developed by Fannie Mae and Freddie Mac, known as the Uniform Appraisal Dataset, and must be completed using the appropriate form as follows:

- Fannie Mae Form 1004 / Freddie Mac Form 70, "*Uniform Residential Appraisal Report*," for all one-unit, single family dwellings;
- Fannie Mae Form 1004C / Freddie Mac Form 70B, "*Manufactured Home Appraisal Report*," for all manufactured homes;
- Fannie Mae Form 1073 / Freddie Mac Form 465, "*Individual Condominium Unit Appraisal Report*" for all individual condominium units.
- Fannie Mae Form 1004 MC / Freddie Mac Form 71, "Market Conditions Addendum," for all property types.

The Agency will review the appraisal by completing Form *RD 1922-15, "Administrative Appraisal Review."* If the Agency reviewer detects concerns, the appraisal will be referred to an Agency licensed appraiser for a technical desk or technical field review. Should the Agency licensed appraiser determine

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the appraisal is not adequate, the lender will be informed of corrections needed prior to issuance of the conditional commitment for loan guarantee.

Lenders will follow Section 12.5 B of Handbook Chapter 12 regarding appraisal updates.

Fannie Mae Form 1004D/Freddie Mac Form 442, "Appraisal Update and/or Completion Report" may be utilized by the lender to report the completion of a repair and/or satisfaction of requirements and conditions noted in the original appraisal report.

Refer to Chapter 12 of this Handbook for further guidance on the appraisal reporting process.

4. Requirement: Rural Area Designation

The Agency must review the maps of ineligible areas to determine if the property is located in an eligible rural area. Lenders may access the online property eligibility web site to determine a property's eligibility at http://eligibility.sc.egov.usda.gov/eligibility/. Approved lenders who utilize GUS will automatically interface with the public website when completing property information on the "Eligibility" application page of GUS. In some cases, the property eligibility web site may not provide a final determination of property eligibility. Properties such as new construction may result in an inconclusive message. When this occurs, the Agency will make the final property eligibility determination.

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5. *Environmental Review*

The lender must complete, or arrange for a contractor to complete, *FEMA Form 086-0-32, "Standard Flood Hazard Determination Form"* to determine whether the dwelling is located in a Special Flood Hazard Area (SFHA) in accordance with Section 4, Paragraph 12.10 of Chapter 12 of this Handbook. Existing dwellings for the SFHGLP are eligible if flood insurance through FEMA's National Flood Insurance Program (NFIP) is available and flood insurance, whether NFIP, "write your own", or private flood insurance, as approved by the lender, is purchased by the applicant.~~purchased by the applicant.~~ New construction in a SFHA may be eligible with additional documentation. The Agency will be unable to guarantee loans for new or proposed construction in a SFHA unless the lender obtains a Letter of Map Amendment (LOMA) that removes the property from the SFHA or Letter of Map Revision (LOMR) that removes the property from the SFHA or obtains a FEMA elevation certificate that shows that the lowest floor (including basement) of the dwelling and all related building improvements are built at or above the 100 year flood plain elevation in compliance with NFIP. The cost of flood insurance will be included in the applicant's PITI. Flood insurance must cover the lesser of the outstanding principal balance of the loan or the maximum amount of coverage allowed under FEMA's NFIP. Unless a higher maximum amount is required by state law, the maximum deductible clause for a flood insurance policy should not exceed the greater of $1,000 or 1 percent of the face amount of the policy. The Agency will perform an environmental review in accordance with RD Instruction 1940-G.

B. Agency Review of Lender's Underwriting Decisions

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

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1. Lenders who are new to the program

When a new lender is approved for participation in the program, the first few applications submitted will receive a thorough Agency review, including a review of the lender's underwriting decisions. This extra care in review will ensure that the lender has a complete and accurate understanding of the Agency's requirements, and that the decisions made by the lender's underwriters accurately reflect the Agency's expectations. The Agency will continue to review new lender underwriting decisions until the Agency is confident that the lender is performing satisfactorily. Generally, normal loan review will begin after submission of five acceptable loan packages. Additional training is provided when incomplete or deficient packages were submitted in the initial five loans.

2. Lenders working with funded buydown accounts

When a borrower receives a funded buydown and the ratios calculated at the note rate exceed the Agency's requirements, the Agency will review the lender's underwriting to ensure that justification for the buydown is adequate. Refer to Chapter 11, paragraph 11.5 of this Handbook for more details on funded buydowns.

3. Lenders that submit incomplete or inaccurate applications

If a lender submits incomplete applications or applications with conflicting information, the Agency may choose to review the lender's underwriting to ensure that the lender understands the Agency's requirements. Thorough reviews will continue until the lender demonstrates its ability to submit complete and accurate application packages on a regular basis. Generally, this would be after submission of five acceptable loan packages. Additional training is provided if the five packages continue to be incomplete with inconsistencies in data and documentation.

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4. Lenders with significant monitoring findings

If, through monitoring or analysis of a lender's default, foreclosure, and loss claims activity, the Agency finds the lender's underwriting decisions have not been consistently sound and in line with the Agency's expectations, the Agency may choose to review the lender's underwriting until such analyses demonstrate the lender's ability to adhere to the Agency's policies.

C. Conditions for the Loan Guarantee

The lender does not need to submit their entire loan application file to the Agency for review. The lender should only submit those items listed in Paragraph 15.3 of this Chapter. Attachment 15-A provides lenders with an origination stack list to assemble the documents and submit their request to the Agency. Agency staff will determine if any conditions must be met for the loan to qualify for a guarantee. Provided the applicant(s) and all other proposed terms and conditions of the mortgage meet the eligibility requirements for a loan guarantee, the Agency shall approve the application for loan note guarantee by issuing a firm commitment setting forth the terms and conditions of the guarantee. Terms and conditions will be listed and issued to the lender on *Form RD 3555-18.*

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~~15.5~~15.6 LENDER NOTIFICATION ON REQUEST FOR LOAN GUARANTEE

The Agency should notify the lender of the results of a standard application review within two business days of receipt of the complete application package. In situations where the Agency is performing a more thorough lender review, the Agency must complete the review within four business days. There are four possible results of the review, and the notification requirements vary depending on the results.

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*. The Agency will inform the lender of the approval by mail or e-mail with *Form RD 3555-18* 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* will correspond with the projected completion of the construction. One 90 day extension can be granted in accordance with Chapter 16 of this Handbook, provided circumstances beyond control are present.

B. The Agency Requires Additional Time to Complete the Review

In some instances, the Agency may require additional time to review specific issues. For example, if there is an indication that there may be environmental problems with the site, or if there appear to be abnormalities in the appraisal, Agency staff may need to consult with technical experts. In such cases

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the Agency will, within the stated review time frame, notify the lender in writing of the delay and provide a non-binding estimate of when a final decision is expected.

C. The Application is Incomplete

If the application is missing information that is needed for the Agency to respond to the request, the Agency will 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.

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.

~~15.6~~15.7 AGENCY PROCESSING OF AN APPROVED REQUEST

Assuming that all conditions are met, Agency staff must complete *Form RD 3555-18.* This form is used by the Agency to establish conditions for issuing the loan note guarantee. When sufficient room is not adequate on the form to note all conditions to the approved request, the Agency will utilize the online form in GLS known as Form RD 3555-18A Attachment to Form RD 3555-18, "Conditional Commitment for Single Family Housing Loan Guarantee." Form RD 3555-18 is completed by the Agency and the executed form is delivered to the lender electronically, typically via e-mail. At loan closing, the lender certifies to the items noted on the *Form RD 3555-18*, including any attachments to the form, and submits it to the Agency with the loan closing documents. All conditions specified on this form and any attachment to the form must be met before the loan note guarantee will be issued. Chapter 16 of this Handbook provides additional guidance in obtaining the Loan Note Guarantee.

Agency staff will input all required application information into the Guaranteed Loan System (GLS) prior to issuing a Conditional Commitment. Withdrawn and rejected decisions will also be recorded in GLS. Decisions involving a rejection of the lender's request will trigger review and/or appeal rights as further outlined in Appendix 3 of this Handbook. The online GLS Help Guide located on the Agency's GLS website can assist Agency users in creating a borrower, application and obligation page.

To the extent possible the Agency should segregate key responsibilities of the loan review, decision and data entry process when handling the lender's request. If the state is unable to separate key responsibilities, the state should implement other methods to ensure misrepresentation, processing errors, or fraud do not occur by implementing compensating controls such as pre-loan closing second

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level reviews, etc. The states are charged with determining the best method to ensure control measures are in place and a method of recording those measures are maintained.

~~15.7~~15.8 LENDER RESPONSE TO CONDITIONAL COMMITMENT

Once *Form RD 3555-18* has been issued, the lender has three choices. The lender may accept the terms and conditions, decline the terms and conditions for loan guarantee, or request that the terms and conditions be altered. Any modifications to the terms and conditions should be agreed upon prior to proceeding to loan closing.

A. Accepting the Conditions

If the lender understands and agrees to accept the conditions listed on *Form RD 3555-18*, no communication with the Agency is required until the lender is ready to request the loan guarantee. With this option, the lender is agreeing to close the loan for an amount equal to or less than the amount stated on *Form RD 3555-18*, at the rate of interest specified (or less) and within the conditions recorded. The lender must meet the conditions, draw the loan documents, close the loan, and return the executed *Form RD 3555-18* with the loan-closing package.

B. Declining the Conditions for Loan Guarantee

If the lender determines that the terms and conditions stated on *Form RD 3555-18* cannot be met, that the loan guarantee is not needed, or that the loan will not go to closing for some reason, the lender must inform the Agency by phone or in writing as soon as possible. Until the Agency is notified that the loan guarantee will not be needed, the funds for that loan request are set aside for the transaction pending and cannot be made available to assist other eligible applicants.

Upon being informed that the lender intends to decline the conditions for loan guarantee, Agency staff will cancel the loan guarantee obligation by updating the information in the Guaranteed Loan System. This will release the committed funds for reallocation to a new commitment.

C. Requesting Changes in Conditions

If the lender wishes to change the loan amount or interest rate on the loan, or if the lender believes that there are reasons that the conditions and requirements the Agency specified on *Form RD 3555-18* should be altered, the lender can contact the Agency and propose an alternative. The request must be made in writing and must not affect the eligibility of the loan for the program. If the change will increase the interest rate or loan amount, the request must include documentation that the ratios and interest rates are still within program requirements. Modifications to the loan amount once the Conditional Commitment has been issued require updated credit documentation as follows: a signed copy of the mortgage loan application bearing the correct loan amount; a newly executed *Form RD*

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3555-21 with modifications; and an updated underwriting analysis. If the loan was underwritten with the assistance of GUS, for changes that adversely affect the application, the loan will be de-obligated in GLS by the Agency, the application will be deleted from GLS, the GUS application reinstated and then released to the lender for correction. The Agency may refer to the Employee GUS User Guide on the Agency's SharePoint website for further assistance.

The Agency will return a decision in accordance with Section 15.4 of this Chapter. If the Agency accepts the change, the lender must attach the Agency's written modification to the existing RD *3555-18* to be retained in the lender's loan origination file. If the Agency approves an increased loan amount or interest rate, the Agency must update the obligation of funds screen in GLS and issue a new *Form RD 3555-18*.

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ATTACHMENT 15-A

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 allowable age set forth in 7 CFR 3555 Handbook. Rural Development will consider all documents submitted as the certified and true copies of the original documents retained in the lender's permanent file. Electronic delivery to Rural Development is the preferred method. See electronic delivery information by state https://usdalinc.sc.egov.usda.gov/RHShome.do. In the subject line identify the case by:* Loan Origination: Borrower Last Name, First Name

General Information		
Applicant(s):	Lender:	Date:

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

Please stack the credit package in the following document order:

☐	**Form RD 3555-21, "Request for Single Family Housing Loan Guarantee** **Note**: Must be completed and executed by all applicants and lender.
☐	**Income Calculation: Worksheet For Calculating Income**
☐	**Final GUS Underwriting Findings and Analysis Report** **Note**: Last final submission to be printed, retained in lender's permanent loan file.
~~☐~~	~~**Income Calculation: Worksheet For Calculating Income**~~
☐	**FEMA Form 086-0-32, "Standard Flood Determination Form"** **Note:** Properties located in100-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 US 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, WI)*
☐	**Uniform Residential Appraisal Report (URAR)** (FNMA 1004/FHLMC 70 or applicable Report) **Note:** 1004 MC (Market Conditions Addendum) must be part of report.

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File Stacking Order Checklist
Manual Underwriting, GUS Refer/Refer with Caution Underwriting Recommendation,
GUS Accept if Quality Control Lender Message on GUS Underwriting Findings and Analysis Report

Please stack the credit package in the following document order:

☐	**Form RD 3555-21, "Request for Single Family Housing Loan Guarantee** **Note**: Must be completed and executed by all applicants and lender.
☐	**Income Calculation: Worksheet For Calculating Income**
☐	**Final GUS Underwriting Findings and Analysis Report**, *if applicable* **Note**: Last final submission.
☐	**Underwriting Analysis**, *confirmed and executed by Underwriter* (FNMA 1008/FHLMC 1077 or similar) **Note:** Include credit waiver and/or repayment ratio waiver request in comment section. A GUS ACCEPT with quality control message does not require credit or repayment ratio documentation/justification. Include supporting documentation when credit package includes a buy down.
☐	**Uniform Residential Loan Application** (URLA – FNMA 1003/FHLMC 65) **Note:** URLA must be executed by the interviewing lender and applicant(s).
~~☐~~	~~**Income Calculation: Worksheet For Calculating Income**~~
☐	**Income Verification Documentation: For all household members** Verification of Employment (VOE) + (1) earning statement OR verbal VOE + (2) earning statements (30 days) + W-2's (2 years) OR computer generated verification + W-2's (2 years) + verbal VOE Self Employment: income tax returns/ all schedules (2 years) + profit / loss, balance and income/expense statements Child support, pensions, disability, Social Security, retirement annuity award(s)
☐	**Asset Verification Documentation: For all household members** Verification of Deposit, bank statements, gift letter etc.
☐	**Credit Report, Non-Traditional Report and all credit supplements**, *as applicable* **Note:** Include adverse credit explanation and documentation used in credit waiver.
☐	**Credit Report, Non-Purchasing Spouse** *(If the applicant or property is in a community property state – AZ, CA, ID, LA, NV, NM, TX, WA, WI)*
☐	**FEMA Form 086-0-32, "Standard Flood Determination Form"** **Note:** Properties located in 100-year flood plains will require additional documentation. Confirmation the base flood elevation (BFE) is below lowest floor of subject.
☐	**Sales Contract**, *all pages and amendments*
☐	**Evidence of qualified alien** *(If the applicant is not a US citizen)*
☐	**Uniform Residential Appraisal Report (URAR)** – *not applicable to Streamlined Refinance Product* (FNMA 1004/FHLMC 70 or applicable Report) **Note:** 1004 MC (Market Conditions Addendum) must be part of report.

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Attachment 15-B

Rural Development - Guaranteed Rural Housing
Agency Documentation and Processing Checklist – GUS Accept

	Loan Request: $ _____
	Loan Purpose: ☐ Purchase - Sales Price: $_____ ☐ Refinance - Amount: $_____ If a Refinance, the loan being refinanced is a RD Single Family Housing ☐Guaranteed Loan ☐Direct Loan If a Refinance is a ☐ Streamlined ☐ Non-streamlined ☐ Rural Refinance Pilot ***Additional Loan Purposes:*** ☐ Closing Costs: $_____ ☐ Repairs: $_____ ☐ Guarantee Fee: $_____ ☐ Other: $_____ ☐ Escrow: $_____
Applicant Information	***Co-Applicant***
Name: _____ ***SSN:*** _____ ***Age:*** _____ ***Borrower ID:*** _____	***Name:*** _____ ***SSN:*** _____ ***Age:*** _____ ***Co-Borrower ID:*** _____
First Time Homebuyer ☐ Yes ☐ No ***Veteran*** ☐ Yes ☐ No	***First Time Homebuyer*** ☐ Yes ☐ No ***Veteran*** ☐ Yes ☐ No
U.S. Citizen ☐ Yes ☐ No ***Permanent Resident/Qualified Alien*** ☐ Yes ☐ No	***U.S. Citizen*** ☐ Yes ☐ No ***Permanent Resident/Qualified Alien*** ☐ Yes ☐ No
Applicant's Credit Score: _____ ☐ No Score Lender has validated Credit Score and/or provided non-traditional credit, as applicable? ☐ Yes ☐ No	***Co-Applicant's Credit Score:*** _____ ☐ No Score Lender has validated Credit Score and/or provided non-traditional credit, as applicable? ☐ Yes ☐ No
Property Information	
Property Address: _____ ***City, State, Zip Code:*** _____ _____ ***Confirm property in eligible rural area*** Eligible Area ☐ Yes ☐ No	***County:*** _____ ***Congressional District:*** _____ ***Temporary Disaster Area Designation*** ☐ Yes ☐ No
Lender Information	***Submitting Financial Organization***
Approved Lender: _____ ***Lender ID:*** _____ ***Contact Information (Name/fax #):*** _____ _____	***Submitting Lender:*** _____ ***Submitting Lender ID:*** _____

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~~Application Processing Steps~~		~~Action Steps~~
~~Date~~	~~Initials of Employee~~	
		~~Application package received~~
		~~Application package complete~~
		~~The lender checked https://www.sam.gov/~~
		~~Checked MortgageServ – Customer Cross Reference~~
		~~CAIVRS Check for each applicant – GLS/GUS will automatically populate CAIVRS confirmation #.~~
		~~Check GUS for "Final" Submission from Lender~~

~~Conditional Commitment Request~~	~~Written documentation of the following should be submitted when a Conditional Commitment for Loan Note Guarantee request is submitted through GUS and receives an underwriting recommendation of Accept.~~
~~File Type:~~	~~GUS Accept Underwriting Recommendation~~
~~Lender Request~~	
☐	~~Form RD 3555-21, Request for Single Family Housing Loan Guarantee~~ ~~Completed and executed by all borrowers and lender~~
~~Lender Underwriting~~	
☐	~~Final GUS Underwriting Findings Report, as applicable~~
~~Lender Credit Documentation~~	
☐	~~Credit Report, Non-Traditional Report and all supplements, as applicable~~ ~~Non-Purchasing Spouse Credit Report ☐ Yes ☐ No ☐ N/A~~ ~~(If applicant or property in a community property state – AZ, CA, ID, LA, NV, NM, TX, WA, WI)~~ ~~(AK and PR under limited conditions)~~
☐	~~Lender's Income Calculation Worksheet~~
☐	~~Evidence of qualified alien (If the applicant is not a US citizen) : ☐ Yes ☐ No ☐ N/A~~
	~~☐ Confirmed applicant(s) is a qualified alien (if applicable) by running through SAVE.~~
~~Property Information~~	
☐	~~Uniform Residential Appraisal Report (URAR)~~ ~~FNMA 1004/FHLMC 70~~
☐	~~FEMA Form 086-0-32, Standard Flood Determination Form~~ ~~Elevation Certificate or comparable required to determine BFE if located in 100-year flood plain.~~
~~The Rural Development review will consist of the following when a lender requests a Conditional Commitment for Loan Note Guarantee.~~	
☐	~~Review all GUS application pages and data for red flags~~
☐	~~Review GUS Underwriting and Findings Report messages~~
☐	~~Agency Administrative Appraisal Review~~
	~~☐ Form RD 1922-15, Administrative Appraisal Review for Single Family Housing~~
☐	~~Agency Environmental Review~~ ~~Typically N/A for refinance transactions.~~

	☐ **Form RD 1940-22, Environmental Checklist for Categorical Exclusions** ☐ **Form RD 1940-21, Environmental Assessment for Class I Action,** as applicable
☐	**Rural Development Decision**
	☐ Approved - Prepare Form RD 3555-18, forward to lender. ☐ Denied - Prepare denial letter with applicable appeal rights.
GUS/GLS Processing Steps by Rural Development	The following steps must occur to update the GLS data warehouse. The steps apply to approved, denied or withdrawn applications.
☐ ☐	**Complete the USDA Administration page in GUS and submit the application to GLS** **Complete the *Obligation Request* page in GLS**
The following documentation must be received and steps completed to issue a Loan Note Guarantee.	
☐ ☐ ☐	**Form RD 1980-19, Guaranteed Loan Closing Report** ***Note*: This form is not required for lenders utilizing the Automated Loan Closing system** **Lender Certification – Continuing pages of Form RD 3555-18** ***Note*: This form is not required for lenders utilizing the Automated Loan Closing system** **Documentation of Conditions to the Conditional Commitment**
☐ ☐ ☐	**Promissory Note** Copy of final. Lenders utilizing the Automated Loan Closing system will upload the promissory note as an individual document. **HUD-1 Settlement Statement** Copy of final. Lenders utilizing the Automated Loan Closing system will uploaded the HUD-1 as an individual document. **Issue Form RD 3555-17, Loan Note Guarantee**
Wholesale Lockbox Procedures (WLB) by Rural Development	The following collection steps are required to process guarantee fees. Collections must be secured in a fire-proof locked safe. Collections greater than $100 must be processed daily.
☐ ☐ ☐ ☐	**Form RD 451-2, Schedule of Remittances** ***Note*: This form is not required for lenders utilizing the Lender Loan Closing system** **Form RD 1951-49, Register of Collections** ***Note*: This form is not required for lenders utilizing the Lender Loan Closing system** **Form RD 1951-60, Field Office Remittance Reconciliation Report** ***Note*: This form is not required for lenders utilizing the Lender Loan Closing system** **Submit collection(s) to the Wholesale Lock Box** ***Note*: This step is not required for lenders utilizing the Lender Loan Closing system**
GLS Loan Closing Transaction	The following steps are required to process and close the loan in the data warehouse once the Loan Note Guarantee is issued.
☐	**Complete the *Add Loan Closing* page in GLS.** ***Note*: Lenders utilizing the Automated Loan Closing system will partially complete the page. The Agency will confirm information and documentation prior to closing the loan in GLS.**
Rural Development Imaging Repository	This document will become part of the permanent Rural Development file as a retained essential document.

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Attachment 15-C

Rural Development - Guaranteed Rural Housing
Agency Documentation and Processing Checklist - Abbreviated

Loan Request: $

Loan Purpose: ☐ Purchase - Sales Price: $

☐ Refinance - Amount: $

If a Refinance, the loan being refinanced is a RD Single Family Housing
☐ Guaranteed Loan ☐ Direct Loan
If a Refinance is a ☐ Streamlined ☐ Non-streamlined
☐ Rural Refinance Pilot

Additional Loan Purposes:

☐ Closing Costs: $ ☐ Repairs: $

☐ Guarantee Fee: $ ☐ Other: $

☐ Escrow: $

Applicant Information	***Co-Applicant***
Name: ***SSN:*** ***Age:*** ***Borrower ID:***	***Name:*** ***SSN:*** ***Age:*** ***Co-Borrower ID:***
First Time Homebuyer ☐ Yes ☐ No ***Veteran*** ☐ Yes ☐ No	***First Time Homebuyer*** ☐ Yes ☐ No ***Veteran*** ☐ Yes ☐ No
U.S. Citizen ☐ Yes ☐ No ***Permanent Resident/Qualified Alien*** ☐ Yes ☐ No	***U.S. Citizen*** ☐ Yes ☐ No ***Permanent Resident/Qualified Alien*** ☐ Yes ☐ No
Applicant's Credit Score: ☐ No Score Lender has validated Credit Score and/or provided non-traditional credit, as applicable? ☐ Yes ☐ No	***Co-Applicant's Credit Score:*** ☐ No Score Lender has validated Credit Score and/or provided non-traditional credit, as applicable? ☐ Yes ☐ No

Property Information

Property Address:

City, State, Zip Code:

County:

Congressional District:

Confirm property in eligible rural area
Eligible Area ☐ Yes ☐ No

Temporary Disaster Area Designation ☐ Yes ☐ No

Lender Information	***Submitting Financial Organization***
Approved Lender: ***Lender ID:*** ***Contact Information (Name/fax #):***	***Submitting Lender:*** ***Submitting Lender ID:***

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~~Application Processing Steps~~		~~Action Steps~~
~~Date~~	~~Initials of Employee~~	
		~~**Application package received**~~
		~~**Application package complete**~~
		~~**The lender checked https://www.sam.gov/**~~
		~~**Checked MortgageServ** – Customer Cross Reference~~
		~~**CAIVRS Check** for each applicant – GLS/GUS will automatically populate CAIVRS confirmation #.~~
		~~**Check GUS** for "Final" Submission from Lender~~
~~*Conditional Commitment Request*~~	~~Written documentation of the following must be submitted when requesting a Conditional Commitment for Loan Note Guarantee. GUS Underwriting Recommendations of "Refer" and "Refer with Caution" or an 'Accept' that is subject to full documentation will adhere to "Manual UW" requirements, except as otherwise noted.~~	
~~*File Type:*~~	~~***Manual Underwriting, GUS Refer/Refer with Caution Underwriting Recommendation***~~ ~~***GUS Accept if Lender Quality Control message(s) (fully documented loan file) required of GUS Underwriting Findings Report***~~	
~~*Lender Request*~~		
☐	~~**Form RD 3555-21, Request for Single Family Housing Loan Guarantee**~~ ~~Completed and executed by all borrowers and lender~~	
~~*Lender Underwriting*~~		
☐	~~**Underwriting Analysis**~~ ~~(FNMA 1008/FHLMC 1077 or similar)~~ ~~Documentation for credit waiver and/or repayment ratio waiver request that meets Chapter 11 of 7 CFR 3555 Handbook.~~ ~~Note: A GUS 'Accept' fully documented file does not require submittal of any documentation in support of a credit or ratio waiver to the Agency.~~	
	~~☐ Verification of Rent? ☐ Yes ☐ No ☐ N/A~~ ~~Note: A GUS 'Accept' full documentation file does not require documentation to verify rent.~~	
☐	~~**GUS Underwriting Findings Report**, as applicable~~	
~~*Lender Credit Documentation*~~		
☐	~~**Uniform Residential Loan Application** (URLA – FNMA 1003/FHLMC 65)~~ ~~Executed by the interviewing lender and applicant(s)~~	
☐	~~**Credit Report, Non-Traditional Report and all supplements,** as applicable~~ ~~Note: A GUS 'Accept' full documentation file does not require submittal of any documentation in support of a credit waiver to the Agency.~~	
	~~Non Purchasing Spouse Credit Report: ☐ Yes ☐ No ☐ N/A~~ ~~(If applicant or property in a community property state – AZ, CA, ID, LA, NV, NM, TX, WA, WI)~~ ~~(AK and PR under limited conditions)~~	
☐	~~**Income Verification**~~ ~~Income from employment, other sources, self-employment, assets, other adult household members~~	
☐	~~**Lender's Income Calculation Worksheet**~~	
☐	~~**Agency's Validation of Eligible Household Income Calculation**, as applicable~~ ~~This document will become part of the permanent Rural Development file as a retained essential document.~~	
☐	~~**Agency's Validation of Repayment Income Calculation**, as applicable~~ ~~This document will become part of the permanent Rural Development file as a retained essential document.~~	
☐	~~**Evidence of qualified alien** (If the applicant is not a US citizen) : ☐ Yes ☐ No ☐ N/A~~	
	~~☐ Confirmed applicant(s) is a qualified alien (if applicable) by running through SAVE.~~	

Property Information	
☐	**Uniform Residential Appraisal Report (URAR)** FNMA 1004/FHLMC 70 [Not applicable to streamlined refinance]
☐	**FEMA Form 086-0-32, Standard Flood Determination Form** Elevation Certificate or comparable required to determine BFE if located in 100-year flood plain.
☐	**Sales Contract**
The Rural Development review will consist of the following actions when a lender requests a Conditional Commitment for Loan Note Guarantee.	
☐	**Review all GUS application pages and data for red flags** (Refer, Refer with Caution, Accept Full documentation Quality Control message)
☐	**Review GUS Underwriting and Findings Report messages** (Refer, Refer with Caution, Accept Full documentation Quality Control message)
☐	**Agency Administrative Appraisal Review** Not applicable to streamlined refinance – no appraisal required.
	☐ **Form RD 1922-15, Administrative Appraisal Review for Single Family Housing**
☐	**Agency Environmental Review** Typically N/A for refinance transactions.
	☐ **Form RD 1940-22, Environmental Checklist for Categorical Exclusions** ☐ **Form RD 1940-21, Environmental Assessment for Class I Action,** as applicable
☐	**Rural Development Decision**
	☐ Approved - Prepare Form RD 3555-18, forward to lender. ☐ Denied - Prepare denial letter with applicable appeal rights.
GUS/GLS Processing Steps by Rural Development	The following steps must occur to update the GLS data warehouse. The steps apply to approved, denied or withdrawn applications.
☐	**Complete the *Borrower Maintenance* page in GLS** *Note*: If the loan was a final submission underwritten with the assistance of GUS, the Borrower Maintenance Screen will be automatically completed unless the borrower is already established in GLS.
☐	**Populate GLS with true, accurate data**
	☐ Non-GUS Loans - Complete the *Add Application* page in GLS. ☐ GUS Loans - Complete the *USDA Administration* page. Save the page. Submit the application to GLS.
☐	**Complete the *Obligation Request* page in GLS**
The following documentation must be received and steps completed to issue a Loan Note Guarantee.	
☐	**Form RD 1980-19, Guaranteed Loan Closing Report** ***Note*: This form is not required for lenders utilizing the Automated Loan Closing system**
☐	**Lender Certification – Continuing pages of Form RD 3555-18** ***Note*: This form is not required for lenders utilizing in the Automated Loan Closing system**
☐	**Documentation of Conditions to the Conditional Commitment**
☐	**Promissory Note** Copy of final. Lenders utilizing the Automated Loan Closing system, will upload the promissory note as an individual document.
☐	**HUD-1 Settlement Statement** Copy of final. Lenders utilizing the Automated Loan Closing system, will upload the HUD-1 as an individual document.
☐	**Issue Form RD 3555-17, Loan Note Guarantee**
Wholesale Lockbox Procedures (WLB) by Rural Development	The following collection steps are required to process guarantee fees. Collections must be secured in a fire-proof locked safe. Collections greater than $100 must be processed daily.
☐	**Form RD 451-2, Schedule of Remittances** ***Note*: This form is not required for lenders utilizing in the Automated Loan Closing system**
☐	**Form RD 1951-49, Register of Collections** ***Note*: This form is not required for lenders utilizing the Automated Loan Closing system**
☐	**Form RD 1951-60, Field Office Remittance Reconciliation Report** ***Note*: This form is not required for lenders utilizing in the Automated Loan Closing system**
☐	**Submit collection(s) to the Wholesale Lock Box** ***Note*: This step is not required for lenders utilizing the Automated Lender Loan Closing system**

~~***GLS Loan Closing Transaction***~~	~~The following steps are required to process and close the loan in the data warehouse once the Loan Note Guarantee is issued.~~
☐	~~**Complete the *Add Loan Closing* page in GLS.**~~ ~~***Note*: Lenders utilizing the Automated Loan Closing system will partially complete the page. The Agency will confirm information and documentation prior to closing the loan in GLS.**~~
~~***Rural Development Imaging Repository***~~	~~This document will become part of the permanent Rural Development file as a retained essential document.~~

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Attachment 15-~~D~~A

Rural Development - Guaranteed Rural Housing
Agency Documentation and Processing Checklist - Detailed

Loan Request: *$*_____

Loan Purpose: ☐ Purchase - Sales Price: $_____

☐ Refinance - Amount: $_____

If a Refinance, the loan being refinanced is a RD Single Family Housing
☐Guaranteed Loan ☐Direct Loan
If a Refinance is a ☐ Streamlined ☐ Non-streamlined
☐ Rural Refinance Pilot

Additional Loan Purposes:

☐ Closing Costs: $_____ ☐ Repairs: $_____

☐ Guarantee Fee: $_____ ☐ Other: $_____

☐ Escrow: $_____

Applicant Information	***Co-Applicant***
Name: _____ ***SSN:*** _____ ***~~Age~~DOB:*** _____ ***Borrower ID:*** _____	***Name:*** _____ ***SSN:*** _____ ***~~Age:~~ DOB:*** _____ ***Co-Borrower ID:*** _____
First Time Homebuyer ☐ Yes ☐ No ***Veteran*** ☐ Yes ☐ No	***First Time Homebuyer*** ☐ Yes ☐ No ***Veteran*** ☐ Yes ☐ No
U.S. Citizen ☐ Yes ☐ No ***Permanent Resident/Qualified Alien*** ☐ Yes ☐ No	***U.S. Citizen*** ☐ Yes ☐ No ***Permanent Resident/Qualified Alien*** ☐ Yes ☐ No
Applicant's Credit Score: _____ ☐ No Score Lender has validated Credit Score and/or provided non-traditional credit, as applicable? ☐ Yes ☐ No	***Co-Applicant's Credit Score:*** _____ ☐ No Score Lender has validated Credit Score and/or provided non-traditional credit, as applicable? ☐ Yes ☐ No

Property Information

Property Address:
_____

City, State, Zip Code:
_____
_____

County and Code: _____ (____)

Congressional District: _____

Confirm property in eligible rural area
Eligible Area ☐ Yes ☐ No

Temporary Disaster Area Designation ☐ Yes ☐ No

Lender Information	***Submitting Financial Organization***
Approved Lender: _____ ***Lender ID:*** _____ ***~~Contact Information (Name/fax #):~~ Lender Contact:*** _____ ***Lender Email:*** _____	***Submitting Lender:*** _____ ***Submitting Lender ID:*** _____ ***Lender Phone:*** _____

Application Processing Steps		***Action Steps***
Date	***Initials of Employee***	
		Application package received

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		Application package complete
		The lender checked https://www.sam.gov/
		Checked MortgageServ – Customer Cross Reference

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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 will adhere to "Manual UW" requirements, except as otherwise noted.
File Type:	***Manual Underwriting, GUS Refer/Refer with Caution Underwriting Recommendation*** ***GUS Accept if Lender Quality Control message(s) (fully documented loan file) required of GUS Underwriting Findings and Analysis Report***
	Lender Request
☐	**Form RD 3555-21, Request for Single Family Housing Loan Guarantee**
	☐ Completed and executed by all borrowers and lender ☐ Interest rate is locked. Lock date:_____ Expiration Date:_____ ☐ For locked rates, rate confirmed to meet §.3555.104 **https://www.fanniemae.com/singlefamily/historical-daily-required-net-yields** Date Agency confirmed: _____Interest Rate: _____% Max Rate: _____ ☐ Interest rate is floating. Condition for lock date.
	Lender Underwriting
☐	**Underwriting Analysis** (FNMA 1008/FHLMC 1077 or similar)
	☐ Confirmed/executed by Underwriter ☐ Adverse credit waiver and supporting documentation that meets Chapter 10 7 CFR 3555 Handbook? ☐ Yes ☐ No ☐ N/A [*Note:* A GUS 'Accept" subject to a fully documented file does not require the submittal of a credit waiver or supporting documents to the Agency] ☐ Verification of Rent? ☐ Yes ☐ No ☐ N/A (applicable to manually underwritten loans with credit scores less than 680. [*Note:* A GUS 'Accept" subject to a fully documented file does not require a Verification of Rent. ☐ Ratio waiver request documented by Lender? ☐ Yes ☐ No ☐ N/A [*Note*: A GUS 'Accept' subject to a fully documented file does not require a ratio waiver request or the supporting documents to the Agency] ☐ Evidence of compensating factors submitted by Lender? ☐ Yes ☐ No ☐ N/A ☐ Ratio waiver reviewed and granted? ☐ Yes ☐ No ☐ N/A PITI Ratio _____ TD Ratio_____ Funded Buydown? ☐ Yes ☐ No Mortgage Credit Certificate? ☐ Yes ☐ No
☐	**Final GUS Underwriting Findings Report**, as applicable

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	Lender Credit Documentation
☐	**Uniform Residential Loan Application** (URLA – FNMA 1003/FHLMC 65)
	☐ Executed by the applicant(s)? ☐ Yes ☐ No ☐ Executed by interviewing lender? ☐ Yes ☐ No
☐	**Credit Report**
	☐ Tri - Merged ☐ RMCR ☐ Non-traditional and all credit supplements ☐ GUS Non-Purchasing Spouse Credit Report: ☐ Yes ☐ No ☐ N/A (If applicant or property in a community property state – AZ, CA, ID, LA, NV, NM, TX, WA, WI) (AK and PR under limited conditions) ☐ Within 120 days of loan closing
	Lender Credit Documentation, continued
☐	**Income Verification**
	☐ Within 120 days of loan closing(purchase existing)
	Income from employment: ☐ Yes ☐ No ☐ N/A
	☐ Full Documentation: Written VOE; most recent paystub with YTD earnings ☐ Alt. Documentation: Verbal VOE; 30 days earning statements with YTD earnings (original or electronic copies); 2 years W-2's or income tax returns
	Income from other sources (examples not all inclusive): ☐ Yes ☐ No ☐ N/A
	☐ Social Security | ☐ Retirement | ☐ Child Support | ☐ Alimony ☐ Commissions | ☐ Interest | ☐ Government Assistance | ☐ Other: _____
	Income from self-employment: ☐ Yes ☐ No ☐ N/A
	☐ 2 years tax returns | ☐ Profit/Loss Stmt |
	Income from assets: ☐ Yes ☐ No ☐ N/A
	☐ Verification of Deposit | ☐ Bank Statements | ☐ Other: _____
	Income from other adult members of the household:
	Documentation of household income from other adult members: ☐ Yes ☐ No ☐ N/A
☐	**Lender's Income Calculation Worksheet**
☐	**Agency's Summary of Income Calculation**
	# Household Members _____ | # Dependents _____ Maximum Adjusted Household Income for County: $ _____ ~~Maximum Adjusted Household Income for County: $ _____~~ **Lender Calculations** **Agency Calculations** Annual Household Income $_____ Annual Household Income $ _____ Adjusted Annual Household Income $_____ Adjusted Annual Household Income $_____ Repayment Income (Monthly) $_____ Repayment Income (Monthly)$ _____ Monthly Mortgage Credit Certificate $_____ Monthly Mortgage Credit Certificate $ _____ PITI: $ Annual Fee: $ Other Debt: $ Closing Costs: $ PITI for GLS: $ Income Category: ☐ Very-Low | ☐ Low | ☐ Moderate

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☐	**Agency's Validation of Eligible Household Income Calculation**, as applicable This document will become part of the permanent Rural Development file as a retained essential document.
☐	**Agency's Validation of Repayment Income Calculation**, as applicable This document will become part of the permanent Rural Development file as a retained essential document.
☐	**Evidence of qualified alien** (If the applicant is not a US citizen) **:** ☐ Yes ☐ No ☐ N/A
	☐ Confirmed applicant(s) is a qualified alien (if applicable) by running through SAVE.
	Property Information:
☐	**Uniform Residential Appraisal Report (URAR)** FNMA 1004/FHLMC 70 [Not applicable to streamlined refinance]
	☐ URAR contains 1004 MC (Market Conditions Addendum) ☐ Within 120 days of loan closing. Construction Type: ☐ On-Site | ☐ Modular/Panelized | ☐ Manufactured Estate Type: ☐ Fee Simple (non-reservation) | ☐ Allotted Land | ☐ Tribal Trust Land ☐ Individual Trust Land | ☐ Leased land (non-tribal) | ☐ Fee Simple (on a reservation) Project Type: ☐ Condo | ☐ PUD | ☐ COOP | ☐ N/A Structure Type: ☐ Attached | ☐ Detached
	Property Information, continued
	Appraisal Company/Appraiser Name: _____ Property Address: _____ Date of Appraisal/Date Received: _____ Appraised Value: $_____ ☐ As-is ☐ As improved_____ Max Loan Amount: $_____ Land Value **$**_____ Dwelling Age _____ Living Area Sq Ft _____ Lot Size Sq Ft _____or Lot Size Acres _____ Community ☐ 10,000 or less ☐ Over 10,000
	☐ **Existing Property:**
	☐ Meets HUD handbooks ***OR*** ☐ Full Home Inspection
	☐ **New Construction:**
	The lender's permanent file must contain evidence that plans and specs comply with development standards. The lender's permanent file must contain evidence that inspections and an acceptable warranty have been obtained. *Note:* The Agency has the option to request this information from the lender in appropriate situations (i.e. review of new lender, compliance review, loss claim, etc.)
	☐ **Other Inspections Required:**
	☐ Septic | ☐ Well | ☐ Termite [check if applicable] *Note*: Other inspections, as applicable, to be retained in lender's permanent case file if the appraiser, inspector or state law requires a third party inspection.
	☐ **Other Property Features:**
	In-ground pool value deducted ☐ Yes ☐ No ☐ N/A | Energy-efficient ☐ Yes ☐ No | Functional farm service building(s) value deducted ☐ Yes ☐ No ☐ N/A
☐	**FEMA Form 086-0-32, Standard Flood Determination Form**
	Dwelling located in 100-year flood plain ☐ Yes ☐ No The elevation of lowest floor must be at or above 100-year flood plain. *Note*: Elevation Certificate or comparable required to determine BFE if located in flood plain.
☐	**Sales Contract**
	Signed Purchase Agreement or Earnest Money Agreement

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The Rural Development review will consist of the following actions when a lender requests a Conditional Commitment for Loan Note Guarantee.	
☐	**Form RD 1922-15, Administrative Appraisal Review for Single Family Housing** ☐ N/A [not applicable to streamlined refinance – no appraisal required]
	Completed by Loan Approval Official.
☐	**Form RD 1940-22, Environmental Checklist for Categorical Exclusions** ☐ N/A [Typically N/A for refinance transactions]
	Completed by Loan Approval official prior to Conditional Commitment when eligible for categorical exclusion.
☐	**Form RD 1940-21, Environmental Assessment for Class I Action,** as applicable. ☐ N/A [Typically N/A for refinance transactions]
	Completed by Loan Approval official when ineligible for categorical exclusion. Examples (not inclusive) of protected resources requiring preparation of Form RD 1940-21: ☐ floodplains | ☐ coastal barriers | ☐ historic properties | ☐ wilderness | ☐ wetlands | ☐ Coastal Zone Management
☐	**Rural Development Decision**
	☐ Approved - Prepare Form RD 3555-18 Date of Form RD 3555-18, Conditional Commitment for Loan Note Guarantee: _____ ☐ Notifiedy Lender by: ~~☐ Fax;~~ ☐ E-Mail~~; ☐ Regular Mail~~ ☐ Denied - Prepare denial letter with applicable appeal rights. Date of letter with applicable appeal rights: _____ Approval /Denial Official: _____
GUS/GLS Processing Steps by Rural Development	The following steps must occur to update the data warehouse. The steps apply to approved, denied or withdrawn applications.
☐	**Complete the *Borrower Maintenance* page in GLS** *Note*: If the loan was a final submission underwritten with the assistance of GUS, the Borrower Maintenance Screen will be automatically completed unless the borrower is already established in GLS.
	Establish the borrower(s) in GLS. Complete for each borrower.
☐	**Complete the *Add Application* page in GLS.**
	☐ GUS Loans: Complete the USDA Administration page. Save the page. Submit the application to GLS. ☐ Non-GUS Loans: Complete the Add Application page in GLS. *Note:* The CAIVRS service will automatically populate each borrower's CAIVRS confirmation #.
☐	**Complete the *Obligation Request* page in GLS**
	Date of Obligation in GLS: _____ (GLS 1A obligation transaction processed)
The following documentation must be received and steps completed to issue a Loan Note Guarantee.	
☐	**Form RD 1980-19, Guaranteed Loan Closing Report** ***Note*: This form is not required for lenders utilizing the Automated Loan Closing system**
	Date Loan Note Guarantee request received: _____ Date of Loan Closing: _____ ☐ Completed and executed by lender Loan closed for amount of commitment: ☐ Yes ☐ No Loan closed for interest rate on commitment: ☐ Yes ☐ No If No, determine if rate was floating at issuance of commitment. Obtain documentation of lock date and confirm rate meets §3555.104.
☐	**Lender Certification – Continuing pages of Form RD 3555-18** ***Note*: This form is not required for lenders utilizing the Automated Loan Closing system**

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	☐ Completed and executed by lender after closing.
☐	**Documentation of Conditions**
	☐ Documentation of date interest rate locked (if floating), as applicable ☐ Confirmation of escrow development completion, as applicable Note: Loan Note Guarantee may be issued if escrow established in accordance with §3555.202. Documentation other conditions are met ☐ Yes ☐ No
☐ ☐	**Promissory Note**, copy or uploaded as an individual document for Automated Loan Closing system: ☐ Yes ☐ No **HUD-1 Settlement Statement**, copy of final or uploaded as an individual document for Automated Loan Closing system: ☐ Yes ☐ No
	Confirm all credit documentation is within acceptable time frames. ☐ Yes ☐ No
☐	**Issue Form RD 3555-17, Loan Note Guarantee**
	Date Loan Note Guarantee Issued: _____ Note: Upload document through GLS Data-Filled forms page for lenders utilizing Automated Loan Closing system. Approval Official Issuing LNG: _____ ☐ Notifiedy Lender by: ~~☐ Fax,~~ ☐ E-Mail~~, ☐ Regular Mail~~
Wholesale Lockbox Procedures (WLB) by Rural Development	The following collection steps are required to process guarantee fees. Collections must be secured in a fire-proof locked safe. Collections greater than $100 must be processed daily.
☐	**Form RD 451-2, Schedule of Remittances** ***Note*: This form is not required for lenders utilizing the Automated Loan Closing system.**
	Online fill-able form available. Guarantee Fee Collected: $_____ Guarantee Fee on commitment: $_____ Fee must be within $10.00 to process Loan Note Guarantee request for those LNG requests submitted without assistance of Automated Loan Closing system. To process a fee that differs by $10.00 or less, over type the defaulted fee on *GLS Add Loan Closing* page.
☐	**Form RD 1951-49, Register of Collections** ***Note*: This form is not required for lenders utilizing the Automated Loan Closing system.**
	Online fill-able form available.
☐	**Form RD 1951-60, Field Office Remittance Reconciliation Report** ***Note*: This form is not required for lenders utilizing the Automated Loan Closing system.**
	Online fill-able form available.
☐	**Submit collection(s) to the WLB** ***Note*: This form is not required for lenders utilizing the Automated Loan Closing system.**
	Checks must be made payable to USDA or Rural Development. Mail WLB collections to: USDA – Rural Development Wholesale Lockbox P.O. Box 790391 St. Louis, Missouri 63179-0391
GLS Loan Closing Transaction	The following steps are required to process and close the loan in the data warehouse once the Loan Note Guarantee is issued.
☐	Complete the Add Loan Closing page in GLS. **Note: Lenders utilizing the Automated Loan Closing system will partially complete the page. The Agency will confirm information and documentation prior to final submittal to GLS.**
	1) If the interest rate changes from commitment, the interest rate established in GLS may be changed by over-typing the field for manually underwritten files. Lender must establish continued eligibility. Files who utilize GUS must be resubmitted to GUS if adversely affected. 2) Ensure the interest rate on the Add Loan Closing screen is updated and is accurately represented. The interest rate must mirror that of the note to obtain a correct annual fee schedule. 3) Process changes to the loan amount PRIOR to submitting the Add Loan Closing page. 4) For PAD transactions (lenders who submit fees via pay.gov) – do not alter or attempt to modify the guarantee fee in GLS. 5) For non-PAD transactions (check received) – the guarantee fee can be modified to accommodate the amount of fee actually paid. This amount must be within $10.00 of the default fee in GLS.
Rural Development Imaging Repository	This document will become part of the permanent Rural Development file as a retained essential document.

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

~~Income Documentation Comments~~File Running Record

~~Communication with Lender~~

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

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Full Documentation File or Other Comments

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CHAPTER 16: CLOSING THE LOAN AND REQUESTING THE GUARANTEE

7 CFR 3555.107

16.1 INTRODUCTION

The lender is required to comply with all conditions stated on *Form RD 3555-18* and any attachments, as applicable. Lenders must ensure a marketable title to the real estate is obtained, close the loan, submit closing documentation, and request the guarantee within 30 days of loan closing. The loan must close under the same terms it was underwritten and approved for the conditional commitment. Loans cannot close for greater than the loan amount approved on the conditional commitment or for an interest rate greater than approved without prior Agency approval. The signatures of all individuals appearing on the loan application must appear on the mortgage and Promissory Note. In addition, all owners of the mortgaged property, or individuals who are required by state law to create a valid first lien, pass clear title, or waive inchoate rights to property, must sign the security instruments.

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. Examples of valid reasons for extensions might include construction delays due to weather conditions, 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.

Closing in Compliance with Conditional Commitment Approval. The loan must close under the same terms it was underwritten and approved for the conditional commitment unless the change does not adversely affect loan approval (i.e. lower loan amount, lower interest rate). In the event there are any changes in the loan terms, characteristics of the applicant, or characteristics of the property, between the issuance of *Form RD 3555-18* and loan closing, or if any conditions or requirements imposed by the Agency will not be met, the lender must notify the Agency in writing. The Agency must

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verify in writing prior to loan closing that the changes are acceptable. Examples of changes that the Agency would need to review include increases in the interest rate, loan amount or changes in borrower status, such as an increase or reduction in household income.

Signatures. All individuals applying for the loan and assuming responsibility for the mortgage debt must sign the URLA and any addenda. Any individual whose signature is required by state laws (for example - a non-purchasing spouse) must sign the security instruments and/or note in order to create a valid first lien, to pass clear title, or to waive inchoate rights. All owners to be vested in title must sign the security instruments except as noted in this section. Additional signatures on the security instruments for individuals who have not been reviewed during the mortgage credit analysis may jeopardize issuance of the loan note guarantee. Lenders may not have borrowers sign documents in blank, incomplete documents or blank sheets of paper.

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

Electronic signatures in accordance with the conditions outlined in Section 15.4 of Chapter 15 of this handbook may be accepted.

Interest Credit Closing. To reduce the burden on borrowers whose loans were scheduled to close at the end of the month, but did not due to unforeseen circumstances, lenders and borrowers may agree to credit the per diem interest to the borrower and have the mortgage payments begin the first of the succeeding month.

Lender Certification. The lender must sign *Form RD 3555-18* 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* have been met.

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16.3 REQUESTING A LOAN GUARANTEE

Within 30 days after the lender closes the loan, the lender must request issuance of the loan guarantee using *Form RD 1980-19* or equivalent automated means, provided by the Agency**.** The lender must provide evidence the loan was properly closed and remit the up-front loan guarantee fee. A Loan Note Guarantee may not be issued beyond 30 days of the loan closing if the account is in default. Lenders may utilize Attachment 16-A as a checklist for assuring all loan closing documentation is submitted to Rural Development when requesting the Loan Note Guarantee.

If the loan closing documentation and request for guarantee is not submitted within 30 days of loan closing and the loan account is in arrears when a request for loss payment under the guarantee is made, the Agency reserves the right to review the underwriting. If the Agency determines the loan was not underwritten in accordance with Agency requirements, the guarantee may not be issued or if previously issued, may be withdrawn.

Three methods for requesting the loan guarantee are available to lenders. **The preferred method for submitting loan guarantee requests is electronic. Paragraph B below outlines the expectations of automated loan closing. All lenders are expected to submit loan closings electronically.**

A lender may request a loan guarantee by submitting full documentation and a check for the guarantee fee to the Rural Development Office who issued the Conditional Commitment; or a lender may enter into an agreement to electronically submit loan closings and guarantee fees; or if the lender has demonstrated a consistent knowledge of the loan closing process, has a proven record of submitting complete documentation in compliance with conditions outlined in Form RD 3555-18, a lender may be conditionally authorized to submit abbreviated documentation when requesting the loan guarantee. The expectation is that lenders will utilize the Agency's automated method of lender loan closing, further explained in Paragraph B below.

A. Requesting the Loan Guarantee – Full Documentation

When requesting a Loan Note Guarantee, the lender must submit the following loan closing documents to the Rural Development office who issued the Conditional Commitment. Attachment 16-A provides a stack order and document identification checklist for lenders:

- *Form RD 1980-19* (fully executed and dated by lender). This form is not required when a lender electronically submits their loan closing noted in Paragraph B of this Section;

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- Signed *Form RD 3555-18*. This certification is a confirmation the lender has properly closed the loan in accordance with the conditions of the Conditional Commitment. This form is not required when a lender electronically submits their loan closing noted in Paragraph B of this Section;
- Final settlement statement. The settlement statement is not required to be signed;
- Promissory note;
- Guarantee fee check payable to Rural Development for the correct amount of fee. Review Paragraph 16.4 regarding information on calculating the correct guarantee fee due. The fee will be transmitted through a pre-authorized debit for lenders who electronically submit loan closings in accordance with Paragraph B of this Section;
- Any other necessary documentation as specified in the conditions; and
- The specific address (and/or email address) of where to deliver the Loan Note Guarantee. Those lenders who electronically submit loan closings will be notified via e-mail to retrieve their Loan Note Guarantee, once processed by the Agency.

B. Request for Loan Guarantee – Electronic Closing

Rural Development offers approved lenders the ability to submit guaranteed loan closing transactions to the Agency via the internet. **This method is the preferred method of requesting a Loan Note Guarantee.** This online capability eliminates the need for lenders to manually complete and submit *Form RD 1980-19* and the *Lender Certification portion of Form RD 1980-18.* Lenders submit the guaranteed loan closing fee through a secure government internet collection portal that is used by the federal government to collect non-tax revenue called "pay.gov," a pre-authorized debit payment system.

Loans will be closed online through the Agency's data base and loan tracking system – the Guaranteed Loan System (GLS). Lenders who utilize this system will be required to enter into a User Agreement and obtain authorized access through the use of an eAuthentication account and password. An on-line user guide and information for lenders can be found at: https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do. Scroll to "Lender Loan Closing/Administration."

Rural Development can access an employee user guide at the Agency's SharePoint website.

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Lenders will continue to submit the following by attaching the document(s) to the lender loan closing application to receive a Loan Note Guarantee:

- Final settlement statement. The date of closing is considered the settlement date on the HUD-1 Settlement Statement, Block I. This date must be entered on the Add Loan Closing screen in GLS. The settlement statement is not required to be signed;
- Promissory Note;
- Any other necessary documentation as specified in the conditions; and

C. Requesting a Loan Guarantee – Self-Certification

The Agency will accept a certification without submittal of documentation of conditions precedent to issuance of *Form RD 3555-18*. To utilize this option, a lender must obtain prior authorization from the state and will be subject to compliance sampling reviews. This option will continue to require the lender to submit the guarantee fee, *Form RD 1980-19* if submitting a manual request for loan note guarantee as outlined in Paragraph A of this Section, a Promissory Note and the final Settlement Statement. If the lender submits a closing in accordance with Paragraph B of this Section, the lender will be relieved of submitting *Form RD 1980-19* and the *Lender Certification portion of Form RD 1980-18*. The guarantee fee will be remitted electronically upon submitting the electronic closing through the Agency's GLS website.

States may authorize lenders for this option if conditions are met as follows:

- The lender has an active lender agreement.
- The lender is actively engaged in originating SFHGLP loans and has closed a minimum of ten loans in the past twelve months.
- The lender has successfully submitted ten consecutive loan closings to the Agency that were in compliance with loan closing requirements and procedures described in this Chapter.

Lenders authorized to participate in this option will retain the actual documentation confirming closing conditions outlined in *Form RD 3555-18* are met in the lender's permanent case file. If the lender fails to meet the requirements noted in this Paragraph,

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documentation as described in Paragraph A or B (as applicable) of this Section will be required.

States will retain evidence of their authorization to the lender to participate in this option in the Agency's lender folder in the operational filing system. Lenders who meet the criteria of this paragraph and are authorized by Rural Development to submit a certification in lieu of documentation of actual loan closing conditions will be subject to a periodic review.

Annually, Rural Development will perform a periodic review of loan closing documents for Lenders who are authorized to submit a certification in accordance with the terms of this Paragraph. Reviews will be performed by the authorizing state.

The purpose of the review is to ensure conditions precedent to issuance of *Form RD 3555-18* was met prior to loan closing. The State Director will establish the percentage of loans reviewed. The sampling percentage established by the State Director should consider factors such as loan delinquencies, loan losses, and failure to submit required reports or other such reasons related to assuring the Government's interest is adequately protected. The National Office recommends at minimum of five percent or more.

Reviews will confirm the lender's permanent case file contains evidence:

- The lender closed the loan in accordance with conditions precedent to issuance of *Form RD 3555-18*.
- The proceeds of the loan were expended for the purposes described in the loan application and represented on *Form RD 3555-21*.
- The lender performed inspections in accordance with Chapter 12 of this Handbook.
- Escrow accounts were established in accordance with Chapter 12 of this Handbook.
- The loan closed prior to expiration of the Conditional Commitment as confirmed on *Form RD 3555-18*.

States will retain documentation of loan closing compliance reviews performed in their Operational filing system in accordance with subpart A of part 2033.

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16.4 UP-FRONT LOAN GUARANTEE FEE

The lender will pay an up-front guarantee fee, which may be passed from the lender to the borrower. Payment is paid by the lender to the Agency. When a lender is not submitting electronic loan closings, as outlined in paragraph 16.3 above, the fee must be paid with a lender or closing agent check made payable to payable to the Treasurer of the United States; United States Department of Agriculture; Rural Development; or other reasonable variation such as USDA; USDA - Rural Development; or to Rural Development. Lenders who participate in the submittal of electronic loan closings will pay the up-front guarantee fee through pay.gov.

Fees received by check will be processed daily in accordance with subpart B of part 1951. Fees will be returned to the lender if the guarantee is not issued. Once the fee is paid and the guarantee issued, the fee is nonrefundable.

Agency staff should determine that the loan conditions have been met and acknowledge receipt of the lender's request for loan note guarantee within two business days of receipt of receiving complete closing documents.

The up-front guarantee fee is subject to change to maintain a subsidy neutral program required of Public Law 111-212. Future updates, after notification by Federal Register, 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.rurdev.usda.gov/rd_instructions.html.

A. Purchase Loans – Up-Front Loan Guarantee Fee

For "Purchase" loans (i.e. loans on existing properties, proposed new construction or under construction and manufactured housing), the loan guarantee fee is equal to two percent (2 %) of the amount loaned to the borrower. It is not based directly on the purchase price of the property; it is based on the total loan amount.

B. Refinance – Up-Front Loan Guarantee Fee

For "Refinance" loans (i.e. loans to refinance an existing Section 502 Direct or Guaranteed Loan, the loan guarantee fee is equal to ~~one~~ two percent (2%) of the amount loaned to the borrower.

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C. Calculation of Up-Front Loan Guarantee Fee

The maximum loan amount for a guaranteed loan is 100% of the appraised value plus the guarantee fee. The guarantee fee can be included in the principal loan amount. Closing costs and fees may also be included in the loan amount up to 100% of the appraised value for purchase transactions. The maximum loan-to-value (LTV) allows financing the guarantee fee over and above the appraised value of the property. When financing the guarantee fee over and above the appraised value of the property, the foundation for calculating the guarantee fee is the loan amount before the guarantee fee is calculated.

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1. Financing the Entire Up-Front Guarantee Fee

The borrower may elect to finance the entire guarantee fee. When financing the guarantee fee, the total loan may exceed the appraised value of the property only by the amount of the guarantee fee being financed.

Example/Purchase Loan:

The appraised value of the subject property is $100,000. In this example, the purchase price of the property is $98,000. The borrower has elected to finance $2,000 in eligible loan closing costs (these costs do not reflect any portion of the guarantee fee). The entire guarantee fee will be financed. The guarantee fee must be calculated on the base loan amount. To finance the entire fee, begin with the base loan amount of $100,000 ($98,000 purchase price plus $2,000 eligible closing costs). Calculate the total loan amount including the guarantee fee as follows:

$100,000 /.98 = $102,040.82 (Loan amount including the guarantee fee)

$102,040.82 x 2% = $2,040.82 (Guarantee fee)

Example/Refinance Loan:

A refinance request includes payment of principal and interest payoff, plus closing costs which equal $100,000 (a non-streamlined refinance type). The appraised value is $100,000. The entire guarantee fee will be financed. The total loan amount including the guarantee fee may be calculated as follows:

$100,000 / .98 = $102,040.82 (Loan amount including the guarantee fee)

$102,040.82 x 2% = $2,040.82 (Guarantee fee)

2. Financing Part of the Up-Front Guarantee Fee

The borrower may elect to finance only a portion of the guarantee fee. In these cases, the borrower will pay a fee that corresponds to the total loan amount that includes the partial fee. The remaining amount of the guarantee fee, which is not financed, will have to be paid by the borrower from personal funds, seller concessions or eligible gift assistance at settlement. Using the example of a $100,000 loan for a property appraised at $100,000, review the partial fee scenarios below.

Example/Purchase and Refinance (non-streamlined transaction):

$1,000 of the 2 percent fee will be financed; therefore the total loan amount will be $101,000.

$101,000 x 2% = $2,020.00 (Guarantee fee)

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In this scenario, the applicant will borrow $101,000 which includes $1,000.00 of the guarantee fee. The borrower will have to pay the remaining $1,020.00 of the guarantee fee from personal funds at settlement ($2,020.00 total fee minus the $1,000.00 financed =$1,020.00).

3. Not Financing the Up-Front Guarantee Fee

Borrowers are not required to finance the guarantee fee and may elect to pay the entire fee amount out of personal funds, seller concessions or by eligible gift assistance at settlement. In the example of a $100,000 loan for a property appraised at $100,000, the borrower may save money by paying the fee out-of-pocket. Since the fee is not financed into the loan amount, it is not considered part of the total loan.

Example/Purchase and Refinance (non-streamlined transaction):

$100,000 x 2% = $2,000.00 guarantee fee due at loan closing.

Borrowers can avoid paying interest on a higher principal loan amount and/or a higher guarantee fee if they elect to pay the fee at settlement.

NOTE: An up-front fee calculator is available for use by lenders and employees at the following website:

https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do

16.5 ANNUAL FEE

The lender will pay an annual fee, which may be passed from the lender to the borrower. Payment is paid by the lender to the Agency. Payment will be made electronically from the lender to the Agency. The servicing lender responsible for payment will be required to enter into a User Agreement to electronically receiving billing notifications and submit payment. Non-payment of the annual fee will be subject to a late charge if not paid by the due date. Information regarding the amount of annual fee and late charge due if not paid can be found in Exhibit K of RD Instruction 440.1, available on the Rural Development website as follows: http://www.rurdev.usda.gov/RegulationsAndGuidance.html . The annual fee is subject to change annually to maintain a subsidy neutral program.

Both purchase and refinance transactions will be subject to an annual fee.

Information for gaining access to the Agency's Guaranteed Annual Fee system can be found at the following website under the "Training and Resource Library." Scroll to "Lender Loan Closing/Administration."

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https://usdalinc.sc.egov.usda.gov/RHShome.do

A. Amount of Annual Fee

The lender shall pay the Agency an amount equal the published annual fee imposed (assessed in the FY the loan closed) of the average scheduled unpaid principal balance of the mortgage for the 12-month period preceding each billing due date, as further described in this section. Annual fee accrual begins on the first calendar day of the month proceeding the settlement date.

B. Calculation of Annual Fee

The amount of any annual fee shall be calculated in accordance with the original amortization provision of the mortgage, without taking into account delinquent payments, prepayments, agreements to postpone payments or loan modifications (reamortization) of the original mortgage.

C. Due Date of Annual Fee

The annual fee shall be due and payable to the Agency on the 1st day of the billing month. A grace period applies to payments credited through the 15th day of the billing month. Electronic payments submitted on a business day prior to 7:00 p.m. central time will credit the next business day. Electronic payments after 7:00 p.m. central time, or on a non-business day, will credit two business days later.

D. Payment of Annual Fee

The lender shall pay the annual fee to the Agency annually.

E. Advance Notice, Billing and Reconciliation of the Annual Fee

Lenders will receive an advance notice 2 months prior to the current annual fee due date, which will provide the annual fee amount to be collected in the subsequent year. The advance notice is a notification of the next annual fee amount based upon the amortization schedule which will accompany the Loan Note Guarantee for any loan subject to an annual fee. An advance notice allows a lender to adjust a borrower's escrow collection to accommodate the next scheduled billing period. Advance notices are generated on the first business day of the month.

The annual fee billing file will be available to the lender on the anniversary closing month of the loan each year. Payment of any annual fee billed with the due to the Agency on the 1st day of the month following the anniversary date of loan settlement.

The billing file will outline the current annual fee amount due, all past due annual fee amounts, and all late charge amounts due for each individual loan in the lender's portfolio subject to an annual fee.

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A late fee will be assessed if the annual fee due on the 1st day of the month remains unpaid by the 15th day of the month. A secondary late fee may be assessed if the annual fee billed remains unpaid on the last day of the month.

F. Lender's Late Charge on Unpaid Annual Fee

Payments received by the Agency after the payment dates prescribed in this section and supported by §3555.107(i) of 7 CFR 3555 shall include a late charge of four percent of the unpaid fee amount.

In addition to the initial late charge provided, the lender may be assessed an additional late charge on any annual fee remaining unpaid after the last day of the month in which payment was due. This additional late charge will be 1% of the unpaid annual fee amount.

G. Period Covered by Annual Fee

The initial annual fee shall cover the period effective with the first day of the calendar month following the settlement date and ending on the last day of the settlement anniversary month. Subsequent annual fee payments shall cover the twelve-month period preceding each subsequent anniversary date.

H. Duration of Annual Fee

The lender shall pay the annual fee to the Agency until termination. Termination of a case must be reported to the Agency within 15 days of the actual event. Termination may be any of the following:

- When the mortgage reaches maturity.
- At prepayment. The borrower paid the mortgage in full prior to the maturity date or by an approved short payoff.
- Foreclosure. The property was acquired by a lender or third party at a foreclosure sale.
- Voluntary conveyance. The property was conveyed to the lender through an approved deed-in-lieu of foreclosure agreement.

I. Pro rata Payment of the Annual Fee

If the loan note guarantee is terminated prior to the due date of the initial annual fee amount due, the lender shall pay a prorated portion of the initial fee. The initial annual fee is prorated by month beginning with the month proceeding the settlement date. The lender must determine how many months of the scheduled annual fee period have elapsed at the time of termination. Regardless of what day of the month the loan is

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terminated; the entire month in which termination occurs will be included in the prorated calculation.

If the loan note guarantee is terminated after the due date of the initial annual fee payment, the lender shall pay a prorated portion of the current annual fee prorated from the due date of the last annual fee to the date of termination.

A pro rata annual fee shall be due and payable after the institution of foreclosure is complete. The lender shall pay a portion of the current annual fee prorated from the due date of the last annual fee to the date of settlement.

J. Method of Payment of the Annual Fee

Payment of the annual fee will be remitted electronically. Implementation and technical guides surrounding electronic payment of the annual fee may be found on the USDA LINC website at the Training and Resource Library link:

https://usdalinc.sc.egov.usda.gov/RHShome.do

K. Nonpayment of the Annual Fee

If for any reason the lender fails to pay the scheduled annual fee payment, any loss payment due the lender of the individual case in default shall be reduced by the cumulative amount of unpaid annual fees, late fees and/or additional late charges due the Agency.

Lenders are subject to termination of their eligibility to participate in the SFHGLP due to nonpayment of the annual fee in accordance with §3555.52(c)(1) of 7 CFR 3555 and Chapter 3 of this Handbook.

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~~16.5~~16.6 AGENCY REVIEW OF CLOSING DOCUMENTS AND ISSUANCE OF THE GUARANTEE

The Agency will review and acknowledge receipt of *Form RD 1980-19* (when the form is required to be submitted) and the required loan closing documents within two business days of receipt from the lender. The Agency's review is to ensure all closing documents are completed and the lender has certified all requirements specified on *Form RD 3555-18* have been satisfied. There are three possible outcomes of this review. The Agency may determine the closing documents are incomplete, acceptable, or unacceptable as described below.

A. Incomplete Closing Documents

If the Agency determines that closing documentation is incomplete, or that there are correctable errors in the loan closing documents, the lender may be granted up to 30

days to correct the situation. Examples of circumstances that may warrant additional time could include missing signature(s) or missing documents in the loan closing file. The lender will be notified of incomplete packages in writing, typically by e-mail, and, if necessary, by regular mail. Agency staff should make every effort to contact the lender and determine the time required to provide the necessary documentation or information. While the burden of submitting a complete closing package is on the lender, Agency staff should be cognizant that the lender cannot satisfy any investor requirements without possession of the Agency's loan note guarantee. If the loan package is not complete within 30 days, and the account is in default, the Conditional Commitment will not be honored. If the problems with the package cannot be completed within the 30 days granted the lender, the entire loan package will be returned.

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. 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 who request guarantees through the automated loan closing method. ~~, and~~ 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. 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. The Agency retains a copy for the Agency's imaging repository. For those lenders utilizing the electronic loan closing, the Agency will notify the lender to retrieve *Form RD 3555-17E* and the "Loan Amortization Schedule" upon completing a review of closing documents.

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C. Unacceptable Closing Documents

The Agency will not issue the loan guarantee if there are significant errors in the closing documents, or if the loan does not meet all program requirements. For example, if the lender failed to meet all of the conditions set forth on *Form RD 3555-18* or if the lender failed to obtain first lien position, the loan will not qualify for a guarantee. The

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loan note guarantee will not be issued in the event the applicant receives cash back at closing in excess of the amount the borrower paid out of pocket for costs such as a deposit, earnest money, an appraisal, or other allowable items that may be financed with the guarantee. Loan funds or seller paid concessions may not be disbursed to the applicant(s). Loan fees paid by the applicant(s) with credit cards or other short terms loans may not be reimbursed at closing. If the lender is required to reimburse an applicant as the result of erroneous preparation of the Good Faith Estimate (GFE), the funds may be provided to the applicant. This type of payment is represents a penalty due from the lender.

If the Agency determines the loan note guarantee cannot be issued, the Agency will notify the lender of the reasons and provide review and appeal rights as described in Appendix 3. The guarantee loan funds will not be deobligated until all appeal rights have been concluded, even if this process continues across fiscal years. If the Agency is upheld on appeal, Agency staff will release the obligated funds once all additional reviews of the appeal is concluded. Agency staff will de-obligate the funds in GLS. If the Agency's decision to deny the loan is overturned, the approval official will, immediately, take the necessary steps to issue the loan note guarantee.

~~16.6~~16.7 CLOSING DATE

In real estate sales transactions, the closing date is the final procedure in which documents are executed and/or recorded and the sale (or loan) is completed. The closing date will be captured on the *GLS Add Loan Closing* screen. The date of closing will be defined as the **settlement date as it appears on the HUD-1 Settlement Statement**.

Borrowers may elect an interest credit settlement. With this type of settlement, interest will be paid at closing to the previous first of the month. The maturity date for this type of settlement will be slightly less than 30 years. Example: Borrower closes loan October 3, 2011. For most loan closing settlements, interest would be paid from the settlement date to the beginning of the next month, November 1, 2011. The first payment would be due December 1, 2011. The maturity date would be November 1, 2041. Should the borrower elect an interest credit settlement, fewer funds are required at closing. Interest would be paid to the previous first of the month, October 1, 2011. The first payment would begin November 1, 2011 and the maturity date would be October 1, 2041 in this example.

~~16.7~~16.8 DUPLICATE LOAN NOTE GUARANTEE

It remains the lenders responsibility to inform the Agency of the delivery address to which *Form RD 3555-17or 3555-17E* and the "Loan Amortization Schedule" should be sent. The preferred method will be electronic. Lenders should include this information with the guarantee request. For those lenders who utilize electronic loan closing, the

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lender will be notified by the Agency when the guarantee and loan amortization schedule are ready for retrieval by the lender.

Occasionally a lender may request a certified copy or a duplicate original of *Form RD 3555-17*. Many investors accept a certified copy, or scanned copy, while others require a duplicate original. A lender's request for a certified copy, scanned copy or duplicate original of *Form RD 3555-17 or 3555-17E* will be honored. Lenders who utilize the electronic loan closing method may retrieve the form through GLS. This type of duplicate will be identified as a "Reissued Loan Note Guarantee,"

~~16.8~~16.9 SELLING LOANS

The lender may sell guaranteed loans, but they must follow the requirements described in Chapter 4, Paragraph 4.6 of this Handbook.

~~16.9~~16.10 ACCEPTABLE LIEN POSITION

The lender must have first lien position at closing. However, the lender may permit junior liens as long as:

- The lien will not interfere with repayment of the loan and has been considered in the underwriting process;
- The total value of all liens on the property is less than or equal to the property's market value, except when a "soft-second" for down payment or closing costs assistance creates the overage; and
- The junior lien is for an authorized loan purpose.

~~16.10~~16.11 OWNERSHIP REQUIREMENTS

If the applicant defaults on the loan, the lender must be able to foreclose on the property to settle the debt. After the loan is closed, the applicant must have an ownership interest that protects the security property.

A. Lender and Agency Responsibilities

After closing, the lender must compare the deed of trust or real estate mortgage with the title opinion to assess lien priority, assure the collateral is accurately covered, verify the date and time record, and ensure that the loan closing instructions have been followed. The Agency does not set policy for survey requirements; however, it is the lender's responsibility to adequately ensure that ownership interest that protects the security property has been obtained after the loan is closed. If the borrower defaults on the loan, the lender must be able to foreclose on the property to settle the debt. If the

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lender failed to obtain all required security, the originating lender may be subject to indemnification if a loss claim request is made ~~may be adjusted or denied~~ to reflect the lender's failure to meet the lien requirements.

B. Acceptable Forms of Ownership

The two forms of ownership acceptable to the Agency are fee-simple and secure leasehold.

1. Fee-Simple Ownership

The most common form of ownership is fee-simple ownership under which the borrower holds a fully marketable title to the property. This title is evidenced by a deed that vests full interest in the property to the borrower as mortgagor.

2. Secure Leasehold Interest

Although fee-simple ownership is preferable, the borrower may have a secure leasehold interest in the property. Leasehold interests are acceptable when all of the following conditions are met.

- The applicant must be unable to obtain fee-simple title to the property, and the rent charged for the lease must not exceed the rate paid for comparable leases. This must be documented in the appraisal.
- The lessor must own the fee-simple title. This provision does not apply to a lessor who is a Native American possessing a leasehold interest on restricted land. Trust or restricted land must remain in trust or restricted status. In these cases, the mortgage, deed of trust, leasehold interest or other security interest must be approved by the Secretary of the Interior. Each State should issue a supplement to give guidance about making loans under these circumstances.
- Leasehold estates are an accepted practice and readily marketable in the area where the subject property is located.
- Neither the leasehold nor the fee-simple title may be subject to a prior lien unless the Agency authorizes acceptance of the prior lien before loan approval.
- The lease is recorded.
- The lease must be in writing, and contain all of the following provisions:
  - The lessor's consent to allow the lender's mortgage.
  - The right of the lender to foreclose and sell the property without restrictions that adversely affect the market value of the property.

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- The right of the lender to bid at a foreclosure sale or to accept voluntary conveyance of the property in lieu of foreclosure.
- The right of the lender to occupy, sublet, or sell the property should the leasehold be acquired through foreclosure, voluntary conveyance, or abandonment.
- The right of the applicant to transfer the leasehold and lender mortgage to an eligible transferee who will assume the lender's debt if the borrower defaults or is unable to continue with the lease.
- A negotiated agreement with the lessor before the leasehold interest is approved regarding the lender's obligation to satisfy unpaid rent or other charges accrued before or during the time the lender has possession of or title to the leasehold. During negotiations, the lender should consider the length of time it will take to foreclose, how much the Agency would be responsible for, and when the lender would have to pay.
- Fair compensation to the borrower for any part of the property taken by condemnation.
- The unexpired term of the lease must be at least 150 percent of the term of the mortgage.

- The language regarding amendments to mortgages with leasehold interests, specified in Attachment 16-B of this Chapter, must be inserted in the mortgage.

C. Insurance Policy Requirements

1. Hazard Insurance

Until loans are paid in full, lenders must ensure that all borrowers continuously maintain hazard insurance on property securing guaranteed loans to protect the property against fire and weather-related damage. A hazard insurance policy must be in force at the time the loan is closed. All policies must state whether the building is on leasehold since some state laws have specific insurance requirements pertaining to leasehold interests.

Lenders should adopt accepted industry standards for hazard insurance as noted below:

- Hazard insurance providers should have ratings in accordance with the most recent Government Sponsored Enterprise (GSE) requirements.
- Hazard insurance policies should conform to the GSE coverage requirements of "the standard extended coverage endorsement," which states that a policy

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cannot be accepted that in whole or part excludes wind, hurricane or catastrophe insurance unless the coverage is provided in another policy with the same coverage limits as the hazard policy.

- Borrower occupied properties should have replacement cost coverage in an amount equal to the insured value of the improvements or the unpaid principal balance with hazard or wind deductible(s) of up to but not exceeding five percent of the policy limits. Lender placed policies should have a deductible level of no greater than $1,000 or 1 percent of the policy limit.

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. ~~through FEMA's National Flood Insurance Program (NFIP).~~ 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 ~~maximum~~ 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.

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Guaranteed Rural Housing

Loan Closing 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 to ensure an effective file flow. Documents must not exceed the maximum allowable age set forth in 7 CFR 3555 and accompanying 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. All copies must be legible. The lender will submit the closing documents and fee so it is received by Rural Development within 30 days of loan closing. Electronic delivery to Rural Development is the preferred method. See https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do for electronic delivery information by state.*

In the subject line identify the case by: Loan Closing: Borrower Last Name, First Name

General Information

Applicant(s): RD Borrower ID:		Date:
Lender Name:	Lender Point of Contact: *[Identify who to contact with questions on the closing package, documentation, and/or corrections required]*	
Phone #:	Fax #:	Email:

Identify Delivery Location of Loan Note Guarantee

[Preferred method: Electronic Delivery]

Electronic Delivery/Email:	
Regular Mail Delivery:	Attn:

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File Stacking Order Checklist
Post Loan Closing – Issuance of Loan Note Guarantee

Please stack the loan closing package in the following document order:

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

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ATTACHMENT 16-B

AMENDMENTS TO MORTGAGES WITH LEASEHOLD INTEREST

The following paragraphs must be inserted in the mortgage. The first paragraph should be placed directly before the legal description of the real estate.

"All Borrower's right, title, and interest in and to the leasehold estate for a term of _____ years beginning on _____, 20____, created, executed and established by certain Lease dated _____, 20____, by _____, Page ____ of ____ Records of said County and State, and any renewals and extensions thereof, and all Borrower's right, title, and interest in and to said Lease, covering the following real estate."

"Borrower will pay when due all rents and any and all other charges required by said Lease, will comply with all other requirements of said Lease, and will not surrender or relinquish any of Borrower's right, title, or interest in or to said leasehold estate or under said Lease while this instrument remains in effect."

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CHAPTER 17: REGULAR SERVICING - PERFORMING LOANS
7 CFR 3555.251

17.1 INTRODUCTION

Lenders are responsible for servicing SFHGLP loans and protecting their security interests. Lenders should perform those servicing actions that a reasonable and prudent lender would perform when servicing its portfolio of non-guaranteed loans. This chapter provides additional guidance about the ways in which lenders are expected to service loans that are either current, or less than 20 days past due. Servicing non-performing loans is described in Chapter 18 of this Handbook.

Section 1 describes the requirements associated with servicing current accounts, such as collecting payments, escrowing funds, processing interest assistance agreements, and loan reporting functions. Section 2 describes how the lender should handle borrower requests for partial releases of security, and transfers and assumptions.

The holding lender is responsible for ensuring that the loan is properly serviced, even if servicing functions are contracted out to a sub-servicer. The phrase "the lender" applies to any organization associated with the origination and servicing of a loan. It is up to the holding lender and the servicer jointly to determine how each responsibility will be fulfilled.

A. Selling SFHGLP Loans – 7 CFR 3555.54

Lenders may sell SFHGLP loans to any approved lender, Fannie Mae, or Freddie Mac. While the guarantee is transferred with the loan, the originating lender will be held to the responsibilities in accordance with Section 4.9, Indemnification, of Chapter 4 regarding ~~purchasing lender assumes any risk including~~ omissions, unresolved review findings ~~and any reduction in loss claim payments~~ stemming from problems at loan origination when a loss claim is requested. Requirements for loan sales are described in Chapter 4 of this Handbook.

B. Contracting for Servicing of SFHGLP Loans

The lender that holds the loan may choose to contract with a third party to service its loans. The lender remains responsible for the quality of the servicing and for monitoring the third party provider.

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C. Notifying the Agency of Loans Sales or Servicing Transfers

Whenever lenders sell SFHGLP loans or contract servicing responsibilities to a third party, the transferring lender must inform the Agency within 15 days of the occurrence. The Lender must send *Form RD 3555-11* to the Office of the Deputy Chief Financial Officer. See Appendix 4 for this mailing address.

SECTION 1: SERVICING PERFORMING LOANS

17.2 REQUIRED SERVICING ACTIONS

In addition to collecting regularly scheduled payments, lenders are also responsible for a wide variety of servicing activities including, but not limited to, the following actions.

A. Ensuring Payment of Loan

Lenders should have a system to record loans, monitor payment activity and the history of borrower accounts. Lenders are responsible for monitoring activities completed by third party servicing providers.

B. Handling Late Payments and Fees

Lenders may assess late payment charges to a borrower's account when appropriate; however, these charges will not be covered by the loan guarantee. Late payment charges are subject to the following restrictions.

- The late payment charge must not exceed a rate that is reasonable and customary for the area. The actual percentage of the monthly payment that the mortgagee may collect may be governed by state law. The maximum amount cannot exceed the percentage of the payment due as prescribed by HUD, or the percentage of payment as prescribed by Fannie Mae or Freddie Mac.

- For borrowers receiving interest assistance, payment will be made by the Agency directly to the lender on or before the 15th day of each month regardless of the date a borrower's loan payment is due. The lender must not charge a late fee if the only unpaid portion of the borrower's scheduled payment is interest assistance owed by the Agency. If the borrower's payment is late, the lender may only charge a late payment fee against the borrower's unpaid portion.

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C. Ensuring Payment of Taxes and Insurance

Lenders must have adequate internal control processes to ensure that real estate taxes, assessments, and flood and hazard insurance premiums are paid as required for all property that secures a guaranteed loan. Escrow funds may be used only for the purpose for which they were collected.

- **Lenders with escrow capacity**. Lenders that have the capacity to escrow funds for the payment of taxes, assessments, and insurance must do so. Escrow accounts for all guaranteed loans must be administered in accordance with the RESPA of 1974 and must be insured by the FDIC or the NCUA insurance fund.

- **Lenders without escrow capacity**. Lenders that do not have the capacity to escrow funds must follow their approved plan for ensuring that such obligations are paid on time. Such a plan should have been submitted with the initial application for lender approval, as described in Chapter 3 of this Handbook. Rural Development may revoke the acceptance of the lender's plan if loan performance indicates that delinquency and loss rates are being affected by the lender's inability to escrow for taxes, assessment, and insurance. This alternative is not available to lenders who contract for servicing. Rural Development will not include any taxes or insurance amounts that accrued prior to acceleration in any potential loss claim.

- Third party servicers must have the capacity to escrow funds.

D. Nonpayment of Taxes and/or Insurance

If real estate taxes and hazard insurance premiums are not paid, lenders must perform the following functions:

- Lenders must notify the borrower upon discovery of nonpayment and request evidence of payment within 30 days of such notice.

- Lenders may advance funds and arrange with the borrower for repayment if the borrower does not provide proof of the payment within the specified time or indicates an inability to make payments. The lender must then begin to collect funds for future tax assessments and hazard insurance premiums and hold them in escrow.

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E. Maintaining Hazard Insurance and when applicable, Flood Insurance

Until the loan is paid in full, lenders must ensure that borrowers continuously maintain hazard and, if applicable, flood insurance in an amount sufficient to protect the property securing the guaranteed loan. Lenders are encouraged to adopt accepted industry standards for hazard and flood insurance as noted in Paragraph 16.10 C of Chapter 16 of this Handbook.

- Lenders are responsible for reviewing the borrower's proposed insurance coverage to determine whether it is adequate. Lenders must assure that hazard insurance claims involving property damage are filed and settled expeditiously. All payments for insured losses must be applied to the restoration of the security or to the loan balance.

- 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 $10,000.00.

    - The borrower(s) must execute an affidavit in which the borrower(s) expressly agree to apply the released funds promptly to repair or reconstruct the residence.

- For insurance claims in excess of $10,000 and does not meet the criteria required above, lenders must supervise the insurance funds if a loss to the insured property occurs. All repairs and replacements using the insurance proceeds must be planned, performed and inspected in accordance with Agency construction requirements and procedures. Chapter 12 of this Handbook describes policies for obtaining plans, specifications and completing construction inspections involving repairs. See Paragraph 18.12 of Chapter 18 of this Handbook for additional information regarding insurance claims involving property damage.

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F. Assessing Eligibility for Interest Assistance

Lenders must annually review the income of borrowers who are receiving interest assistance to ensure that they are receiving the appropriate amount. Appendix 6 of this Handbook includes the Agency's policies for annual reviews of a household's income and for providing interest assistance during the course of the loan.

G. Approving Borrower Actions

During the term of the guaranteed loan, the borrower may ask the lender for permission to undertake actions that could affect the value of the security property. Section 2 of this chapter provides the policies that lenders should follow in determining whether to approve actions such as a partial release of security. In cases of a transfer with an assumption of the outstanding debt, lenders must obtain approval from the Agency before consenting to the transaction.

H. Addressing Unauthorized Assistance or Overpayment of Interest Assistance

The lender is responsible for notifying the borrower of the Agency's determination of unauthorized assistance or overpayment of interest assistance. If the Agency determines that the borrower received unauthorized assistance or an overpayment, the lender must surrender the guarantee, in the case of unauthorized assistance, or collect the excess assistance, in the case of an overpayment. Appendix 6 of this Handbook outlines the policies for Agency determinations of unauthorized assistance and the actions the lender may be required to take.

I. Obtaining Final Payments and Recapture of Shared Equity

The lender must not satisfy a borrower's account and release the security instruments until full payment of all amounts owed; including unpaid principal and interest, protective advances, overpayment of interest assistance, and shared equity has been received and verified. For those borrowers who have received interest assistance, even if the borrower repays the full outstanding account balance, the account is not considered paid in full until shared equity is paid, as described in Appendix 6 of this Handbook.

Upon full satisfaction of the borrower's account, the lender will return the Loan Note Guarantee to the Agency approving office marked "cancelled." If the Loan Note Guarantee is not available, the lender must advise the Agency in writing that the loan has been satisfied by payment in full.

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J. Handling Borrowers in Bankruptcy

The lender is responsible for taking appropriate action during bankruptcy proceedings to protect the borrower and the government's interest. When notice is received that a borrower has filed a bankruptcy petition, the lender must:

- Obtain a copy of the bankruptcy petition;
- Complete and file a proof of claim within the time set by the bankruptcy court;
- Maintain copies of all documents associated with the bankruptcy;
- Review the proposed repayment plan;
- Comply with all applicable laws and regulations;
- Monitor the bankruptcy proceedings;
- Monitor receipt of post- and pre-petition payments; and
- Determine that tax and insurance payments are current or determine if additional funds are necessary to maintain an escrow account.

The lender must refer the account to an attorney when the account becomes 30 days or more delinquent. Refer to Chapter 18 for more detailed information on delinquent accounts in bankruptcy.

K. Complying with the Servicemembers Civil Relief Act (SSCRA)

The Servicemembers Civil Relief Act requires that the interest rate charged a borrower who enters full-time active military duty after a loan is closed not exceed six percent if the borrower's military obligations are affecting their ability to pay. The borrower should supply the lender with documentation of their active duty status. Active military duty does not include participation in a military reserve or the National Guard unless the borrower is called to active duty.

1. Change of Active Military Status

The lender will cancel the six percent interest rate and resume the promissory note interest rate when notified by the borrower that he or she is no longer on active military duty. The lender may process a new payment assistance agreement if the borrower is eligible according to Appendix 6 of this Handbook.

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2. Amount of Assistance

If a borrower qualifies for payment assistance see Appendix 6 of this Handbook, after reduction of the interest rate to six percent, the amount of payment assistance received during the period of active military duty will be the difference between the amount due at the subsidized rate for principal and interest and the amount due at the six percent interest rate. The six percent interest rate will be effective with the first payment due after the lender confirms active military status of the borrower.

The Agency will not include interest on a loss claim filed in excess of six percent for the period the veteran was eligible, nor for any period of time the lender failed to establish the note rate after notification by the borrower of non-active military service.

17.3 REPORTING REQUIREMENTS

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 (DCFO). New servicing lenders will enter into an agreement to electronically report the status and default status of SFHGLP portfolio serviced. Lenders seeking information regarding electronic status reporting may obtain, view or print a guide" Electronic Data Interchange Implementation Guide" and the corresponding "Trading Partner Agreement" at: https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do. Scroll to "Electronic Status Reporting."

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

The Agency uses monthly reports to monitor loans in default and lender performance. This information and other criteria are considered by the Agency when selecting which lenders are subject to review by the Agency. The quarterly reports provide loan-level detail for all SFHGLP loans in a lender's portfolio.

A. Monthly Report

The lender must transmit EDI Transaction Set 264 or web-based documentation by the sixth government workday of each month identifying each borrower with a loan that is 30 or more days past due. For example, a payment that is due on April 1 and remains unpaid on April 30 will be included on the default report submitted by the sixth working

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day in May. This report will be transmitted following the EDI or web-based documentation in Appendix 8 of this Handbook. The lender must continue to report on each loan that is past due until:

- The default is cured or the mortgage is paid-in-full; or
- The account is liquidated through foreclosure sale, pre-foreclosure sale, or a deed-in-lieu of foreclosure through loss claim.

B. Delinquency Status Codes

Delinquency status codes are used to report the status of loans in a lender's SFHGLP portfolio.

Code #	Code Name	Description	EDI Equivalent Code #
20	Account Delinquent	Loan is 30 days or more past due and no action has taken place under codes 21-29.	42
21	Forbearance	Lender has provided forbearance and must continue to renegotiate the terms of mortgage to avoid foreclosure (revalorization).	9, 12
22	Modification Pending	The lender has begun working with the borrower to renegotiate the terms of mortgage to avoid foreclosure (revalorization).	28
24	Deed-in-Lieu Pending	The lender has accepted an offer of voluntary conveyance.	44
25	Forced Liquidation Pending	The account is referred to an attorney to liquidate the security property through foreclosure sale. When this is reported monthly, the date is changed in the system, which prevents the Agency from monitoring the time of first reported until cured by payment or acquisition.	43
26	Liquidation Complete	Liquidation or deed-lieu action is completed.	30
27	Bankruptcy Filed	The borrower has filed bankruptcy under Chapter 7, 11, 12, or 13 of the Federal Bankruptcy Act.	59, 65, 66, 67

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29	Account reinstated and Current	The default is cured, including the completion of a loan modification arrangement.	
31	Real Estate Owned	Property moved into REO status.	45, ~~7,~~ 47
35	Loss Claim Submitted	Lender submitted Loss Claim package.	11

C. Quarterly Report

The lender must transmit quarterly reports within six workdays following the last day of the month of each quarter, which end March 31, June 30, September 30, and December 31. The lender must transmit EDI Transaction set 203 or web-based documentation to the Office of the Deputy Chief Financial Officer reporting on the status of each guaranteed loan in the lender's portfolio. The Agency utilizes the quarterly status report to monitor the active loan portfolio of the SFHGLP. Appendix 8 provides electronic reporting documentation.

D. Status of Guaranteed Loan Account

Quarterly status codes are utilized to report the active status of lender's guaranteed loan portfolio.

Code #	Description
01	Active Loan
09	Terminated – Paid in Full

E. Non-Compliance

Failure by the lender to comply with the Agency's reporting requirements or other program guidelines, or failure to provide high quality origination, underwriting, or servicing can result in the following Agency actions: withdraw the lender's approval;

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transfer its portfolio of SFHGLP loans; require the lender to indemnify the Agency if a loss is paid; deny or reduce future loss claims; and/or withdraw the loan guarantee. The Agency will notify the lender in writing of non-compliance and provide appeal rights, if necessary, in accordance with Appendix 3. Failure to comply with the reporting requirements and other lender responsibilities outlined in Chapter 4 could indicate non-compliance.

17.4 PROTECTIVE ADVANCES [7 CFR 3555.30~~3~~2]

Lenders may advance funds to pay for emergency expenses necessary to protect the security property and charge the cost against the borrower's account. If the borrower is unable to repay the advance in a lump sum with the next scheduled payment, the lender may schedule repayment consistent with the borrower's ability to pay if the borrower can demonstrate an ability to make regular payments and bring the mortgage account current within 18 months or less. In most cases, the lender should be able to arrange with the borrower to bring the account current within 120 days.

A. Advances for Property Repairs

Lenders must ensure that borrowers immediately notify them of any loss or damage to insured property and collect the amount of the loss from the insurance company. Because protective advances are covered by the guarantee, lenders should advance funds only to pay for emergency repairs in order to protect the security value of the property. Protective advances for repairs should be considered only if the borrower informs the lender that an additional loan or reimbursement from an insurer cannot be obtained in an appropriate timeframe, or if the borrower has abandoned the property.

Protective advances that are not reimbursed through insurance coverage are covered by the guarantee with proper documentation as to why the advance was not covered by insurance, if the advance was other than for taxes and insurance premiums.

Either the borrower or the lender may identify the need for repairs of the security property. All repairs, replacements, and new construction must be planned, performed, and inspected in accordance with the standards specified in Chapter 12 of this Handbook. If the lender is unsure whether the repairs would affect the security value of the property, the lender should request that an inspector examine the property to assess whether repairs are necessary. Based on the value of the property, the lender must determine whether the repairs are cost effective, and document this assessment in the lender's file. Protective advances exceeding $2,000.00 require Agency concurrence.

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B. Advances for Taxes and Insurance

The lender is responsible for maintaining escrow funds in a reasonable and prudent manner assuring real estate taxes, insurance and assessments are paid timely even if a shortage exists requiring the lender to advance funds on behalf of the borrower. The Lender will notify the borrower in writing of any escrow shortages and document the decision in the lender's file. Lenders are encouraged to adopt accepted industry standards for hazard and flood insurance as noted in Chapter 16, Paragraph 16.10 C of this Handbook.

17.5 INSURANCE PROCEEDS

When insurance funds remain after payments for all repairs, replacements, and other authorized disbursements have been made and the repairs have been inspected in accordance with Agency construction requirements noted in Chapter 12 of this Handbook, the funds must be applied in the following order:

- Prior liens (including past-due property taxes);
- Past-due amounts;
- Protective advances; and
- Released to the borrower if the lender's debt is adequately secured.

Hazard insurance proceeds cannot be held to pay an existing arrearage without written consent of the borrower.

SECTION 2: BORROWER ACTIONS REQUIRING LENDER OR AGENCY APPROVAL

17.6 OVERVIEW

A borrower must obtain approval from the lender before taking actions that may affect the security value of a property. The lender does not need to obtain Agency approval before consenting to a transaction involving a partial release of the security; however, lenders must obtain approval from the Agency before consenting to a transfer with an assumption of the outstanding debt. Specific guidelines for each type of action are provided below.

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17.7 PARTIAL RELEASE OF SECURITY

If a lender consents to a transaction affecting a security property, such as selling or exchanging security property, or granting a right-of-way across the security property, the lender must ensure that certain conditions are met and that the mortgage file is carefully documented.

A. Conditions for Partial Release

1. Adequate Compensation

The borrower must receive adequate compensation.

- The sale of any part of the security property must result in a payment equal to the value of the security being released or rights granted.
- The exchange of security property must result in another parcel of property acquired that has value equal to or greater than that being released.
- The granting of an easement or right-of-way must result in benefits that are equal to or greater than the value of the security property being released.

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.

3. Program Standards

The security property, after the transaction is completed, must meet program standards.

4. Ability to Repay the Loan

The borrower's ability to repay the guaranteed debt must not be jeopardized. The guaranteed loan should be current and in good standing.

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B. Processing a Partial Release - Lender

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.

- The borrower's reason for requesting the lender to make the release, including information regarding the contemplated use of land to be released;
- The monetary consideration, if any, to be received by the borrower;
- Confirm the mortgage loan is in good standing, the amount of principal balance owed and the due date of unpaid installment. If delinquent, confirm the number of delinquent payments;
- Determine the value of the property if a release is processed, taking into consideration any improvements being completed. An appraisal of the security property will be conducted if the most current appraisal is more than 1 year old or if it does not reflect current market value. The appraisals must reflect the value of the property prior to the release of partial security and the value of the remaining property once the release of partial security occurs;
- Complete any forms required by state law;
- A list of unpaid special assessments, if any, and the total amount payable;
- Update the legal descriptions of the property, as necessary;
- Report any restrictions to be imposed on the land to be released;
- Provide a survey or sketch of the property showing dimensions of the portion to be released, the location of the existing and proposed improvements, and the relation of the property to surrounding properties;
- Plans and specifications, including cost estimates, of any alterations proposed for the remaining property after release;
- For an exchange of all or a portion of the security property, obtain title clearance for the new security before the release of the existing security. Security instruments must be obtained for the new property;

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- For a sale of all or a portion of the security property, deliver the release when full payment is received; and
- Notify the Agency of any reduction in the outstanding principal balance through monthly default or quarterly status reporting.

C. Processing a Partial Release - Agency

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.

17.8 TRANSFER AND ASSUMPTION

Lenders must obtain written concurrence from the Agency before consenting to a transfer of a property securing a guaranteed loan with an assumption of the outstanding debt to a program eligible applicant. Transfers between family members do not require Agency concurrence since the transferee is not required to assume the debt.

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If the borrower transfers the security property and the transferee does not assume the debt, the lender need not seek Agency approval but must simply notify the Agency. In general, the Agency will withdraw the guarantee if a security property is transferred without assumption of the debt. In the following limited cases, which generally involve transfers of title between family members, the Agency will continue to honor the guarantee regardless of whether the transferee assumes the outstanding debt. The due-on-sale clause will not be triggered in the following cases:

- A transfer from the borrower to a spouse or children not resulting from the death of the borrower.
- A transfer to a relative, joint tenant, or tenant by the entirety resulting from the death of the borrower.
- A transfer to a spouse or an ex-spouse resulting from a divorce decree, legal separation agreement, or property settlement agreement.
- A transfer to a person other than a deceased borrower's spouse who wishes to assume the loan for the benefit of persons who were dependent on the deceased borrower at the time of death, if the dwelling will be occupied by one or more persons who were dependent on the borrower at the time of death, and there is a reasonable prospect of repayment.
- A transfer into an inter vivos trust in which the borrower does not transfer rights of occupancy in the property.

When a transferee obtains a property with a guaranteed loan through a transfer of title as noted above, the following actions will occur:

- The lender will notify Rural Development of the transfer.
- Rural Development will continue with the guarantee, whether or not the transferee assumes the guaranteed loan.
- The transferee may assume the guarantee loan on the rates and terms contained in the promissory note. If the account is past due at the time an assumption agreement is executed, the loan may be re-amortized within the remaining terms to bring the account current.
- The transferee may assume the guaranteed loan under new rates and terms if the transferee applies and is eligible. Any new rates and terms must not exceed the

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rates and terms allowed for new loans and the interest rate must not exceed the inter rate on the initial loan as described in Chapter 7 of this Handbook.

- Any subsequent transfer of title, except upon the death of the inheritor or between inheritors to consolidate title, will trigger the due-on-sale clause.

A. Unauthorized Sale or Transfer

For transfers falling under the Garn-St. Germain~~e~~ rule, the transferee is not required to assume the debt. In all other cases, the Agency will withdraw the guarantee if the security property is transferred without an assumption of the debt. If a lender becomes aware that a borrower has transferred title to a property without the lender's knowledge and the transfer does not fall under the Garn-St. Germain~~e~~ rule, the lender must take one of the following actions:

- Obtain Agency approval for the transfer with assumption if the applicant is eligible to assume the loan;
- Liquidate the guaranteed loan and submit a claim for any loss; or
- Notify the Agency of the transfer, and continue with the loan without the guarantee.

B. Transfer with Agency Approval

Lenders must obtain approval from the Agency before consenting to a transfer with an assumption of the outstanding debt. The Agency will review the application as it does any other request for a loan guarantee and will issue a conditional commitment if it approves the transfer. To request a transfer and assumption, the lender must submit the following to the approving office.

- A written request for a transfer and assumption, which will distinguish the package from an application for a new loan. The request must state the applicant's credit worthiness, income eligibility, and include an executed underwriter's analysis.
- A fully documented application for guaranteed loan assistance for the prospective purchaser, as described in Chapter 15 of this Handbook. The use of the Agency's automated underwriting system, GUS, is prohibited on a transfer with an assumption of an outstanding debt.

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1. Requirements for an Assumption

The Agency may approve a transfer with an assumption of the outstanding debt if all of the following conditions are met.

- The transferee must:
    - Assume the entire outstanding debt and acquire all of the property securing the guaranteed loan balance.
    - Be an eligible applicant.
- The transferor must:
    - Remain liable for the debt.
    - Acknowledge continued liability for the debt in writing.
- The property must meet the site; dwelling and environmental requirements described in Chapter 12, or are brought to those standards. Guaranteed loans secured by properties located in areas that are no longer considered rural may still be transferred and assumed.
- The priority of the lender's existing lien securing the guaranteed loan must be maintained or improved.
- Any new rates and terms must not exceed the rates and terms allowed for new loans under Chapter 7 of this Handbook, and the interest rate must not exceed the interest rate on the initial loan.
- The transferor must pay any recapture owed at the time of the transfer and assumption, if applicable.
- If additional financing is required to complete the transfer and assumption or to make needed repairs, the Agency may approve a supplemental guaranteed loan as long as the total outstanding principal balance does not exceed the market value of the property.
- The market value of the security being acquired by the transferee must be at least equal to the secured indebtedness against the property.

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- A new guarantee fee must be paid to the Agency. The fee is calculated based on the remaining principal balance, plus any supplemental loan.

2. Closing a Transfer with an Assumption of the Outstanding Debt

Once the lender obtains Agency approval, the lender may proceed with closing the transaction as it would for any other guaranteed loan. Along with all other required loan closing documents, the lender must provide the Agency with a conformed copy of the executed assumption agreement. The lender must process the assumption on a form approved by Fannie Mae, Freddie Mac, HUD, VA or FCS (for FCS lenders only).

The existing *Form RD 3555-17, "Loan Note Guarantee"* will remain in effect. The lender should note the date, amount assumed, and name(s) of the assuming party on the original *Form RD 3555-17* and provide a copy to the Agency's approving office.

When the Agency processes the guarantee fee, Agency staff must submit *Form RD 1980-7, "Notification of Transfer and Assumption of a Guaranteed Loan,"* to the Office of the Deputy Chief Financial Officer.

C. Modification to Promissory Note and Security Instruments

If the repayment schedule or interest rate changes as a result of the transfer and assumption, the transferor will remain liable for the debt and, therefore, must approve any changes. The rates and terms must not exceed the rates and terms allowed for new guaranteed loans and must not exceed the interest rate on the initial loan.

- The debt must not exceed the remaining amount due on the original loan.
- The term of the loan must not exceed thirty years from the date of the transfer and assumption.

The Lender must request and obtain prior approval for the transfer, and the lender must submit an explanation of the reasons for the proposed change in rates and terms.

D. Transfer Without Assumption

The lender must notify the Agency if the borrower transfers the security property and the transferee does not assume the debt. The Agency will withdraw the guarantee if the security property is transferred without an assumption of the debt. The only exception is for the Garn-St. Germain~~e~~ transfers, whereby the transferee is not required to assume the debt.

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In the case of a transfer listed in Paragraph 17.8, the Agency will continue to honor the guarantee and will not require the transferee to assume the guaranteed loan. If a transferee chooses to assume the guaranteed loan, it may be assumed either on the rates and terms contained in the promissory note, or under new rates and terms, if these are more favorable and are approved by the Agency. The transferee noted in Paragraph 17.8 of this Chapter need not be program-eligible in order to assume the loan. Any subsequent transfer of title, except upon the death of the inheritor or between inheritors to consolidate title, will be treated as a sale.

17.9 MINERAL LEASES

Lenders must obtain approval from the Agency before consenting to the lease of mineral rights.

A lender may consent to the lease of mineral rights and subordinate its lien to the lessee's rights and interests in the mineral activity provided the subordination of the guarantee loan to a mineral lease does not entitle the leaseholder to any proceeds from the sale of the security property and the following are met:

- The security property will remain suitable as a residence.
- The lender's security interest will not be adversely affected.
- Rural Development's environmental requirements are met.

If the proposed activity is likely to decrease the value of the security property, the lender may consent to the lease under the following conditions:

- The borrower must assign 100 percent of the income from the lease to the lender.
- Proceeds will be utilized to reduce the principal reduction of the loan.
- The total rent to be paid is at least equal to the estimated decrease in the market value of the security property.

If the proposed activity is not likely to decrease the value of the security property, the lender may consent to the lease if:

- The borrower agrees to use any damage compensation received from the lessee to repair damage to the site or dwelling, or

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- Assign the proceeds to the lender – to be applied to reduce the principal balance.

The lender remains responsible for documenting their approval and oversight of the above activity and borrower request.

17.10 UNAUTHORIZED ASSISTANCE

Refer to Chapter 1 of this Handbook for information regarding unauthorized assistance.

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CHAPTER 18: SERVICING NON-PERFORMING LOANS – ACCOUNTS WITH REPAYMENT PROBLEMS
7 CFR 3555.301

18.1 INTRODUCTION

When a loan becomes past due, the lender must take prompt and aggressive action to help the borrower bring the account current. The lender must apply servicing techniques consistently and have experienced and knowledgeable staff readily available to assist the borrower with default resolution. The lender's servicing system must follow accepted industry standards and maintain a record of all servicing efforts. The lender should work closely with the borrower to resolve a delinquent or late payment as early as possible to prevent further collection activity. If it becomes clear that the borrower will be unable or unwilling to repay the loan, the lender must take equally prompt action to liquidate the loan, either by encouraging the borrower to liquidate voluntarily, or by foreclosing on the loan. The loan holder has full responsibility for ensuring that all required servicing activities are properly completed and documented, even if a sub-servicer performs most of the actions.

Appendix 8 of this Handbook outlines the lender's responsibility to report to the Agency all delinquent loans and quarterly portfolio reports through EDI.

Section 1 of this Chapter states the minimum actions the lender is required to take and bring past-due accounts current. Section 2 of this Chapter describes various alternatives to foreclosure that the lender will pursue, including traditional and special loan servicing actions to follow. Section 3 of this Chapter describes the Agency's requirements with respect to the foreclosure process. Section 4 provides servicers with requirements for servicing when a property is located in a county, parish or municipality that has been declared by the President of the United States to be a major disaster area where federal aid in the form of individual assistance is being made available.

SECTION 1: COLLECTION EFFORTS AND REQUIREMENTS [7 CFR 3555.301]

18.2 OVERVIEW

A goal of the SFHGLP is to provide a borrower the maximum opportunity to become a successful homeowner. Consequently, the lender should approach loan servicing as a preventive as well as a curative action. Prompt counseling and follow-up with a borrower who is late with a monthly payment, especially the first payment, is key to enhancing the likelihood of success. The lender should identify any servicing actions that could aid a borrower who is experiencing repayment problems.

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18.3 MINIMUM REQUIREMENTS [7 CFR 3555.301]

When a borrower's account becomes past due, the lender must, at a minimum, take the collection efforts described below. Each delinquency should be treated individually by using the collection techniques that fit the individual circumstances. Additionally, the Agency recommends making personal contact with a delinquent borrower until the delinquency is cured. Debt collection efforts may be suspended when applicable laws restrict creditor action to collect a debt or take action interferes. An example that may be a violation of an applicable law is if the commencement a debtor's bankruptcy case occurs.

A. Initial Contact

The lender must attempt to make verbal or written contact with the borrower on or before the day an account becomes 20 days past due. The lender must send a letter to the borrower if it is unable to reach the borrower by telephone. This contact must solicit enough information to evaluate the borrower's ability to cure the default and to help determine the additional servicing actions to take. At a minimum, the lender must establish and document the following:

- The borrower's current mailing address and telephone number;
- The reason for the default;
- Whether the reason is temporary or long-term;
- The borrower's attitude toward the debt;
- The borrower's present income and employment status;
- The borrower's current monthly expenses and debt obligations; and
- A realistic and satisfactory arrangement for curing the default.

B. Notify Credit Repository

The lender must provide a complete file of the status of the mortgages in its Agency-guaranteed loan portfolio to a minimum of three credit repositories each month. Accurate reporting may reduce any disputes that could arise from inaccurate or inconsistent reporting.

C. Send Certified Letter to the Borrower

Before a delinquent account becomes 60 days past due and the borrower has not made arrangements for payment, the lender must send a certified letter to the borrower. The letter should request that the borrower participate in an interview for the purpose of resolving the past due account. The lender should emphasize the importance of meeting debt obligations and the impact that non-payment has on the borrower's credit history. The potential outcome of the interview is to help the borrower prevent foreclosure.

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D. Inspect the Property

Before two monthly payments are due and unpaid or before initiating a liquidation action, the lender must take the following steps.

- Assess the physical condition of the property and determine if the property is occupied or vacant. For all inspections, lenders shall be required to document the general condition of the property and identify any actions required to adequately protect and preserve the property.
- If the property has been abandoned, take all necessary actions to protect the property from waste, damage and vandalism. If the loan is delinquent, expedite foreclosure by referring the loan for acceleration within 15 days of the date of the inspection report confirming the property was vacant.
- Document the servicing file explaining how it determined that the property was abandoned and not temporarily vacant. Reasonable judgment should be exercised in considering all circumstances – property condition, for sale signs, date of last payment received, presence of personal property or vehicles, yard condition, owners mailing address, etc – when arriving at a conclusion as to whether a property is abandoned or temporarily vacant.
- If the property has been determined to be abandoned, the lender should make an inspection of the mortgaged property at least once each month. The lender must maintain accurate reports of property conditions and take necessary actions to protect the property from waste, damage and vandalism to prevent losses. Additional guidance regarding management methods and activities of custodial properties can be found at Paragraph 19.2.A of Chapter 19 of this Handbook.
- If the property is owner-occupied, , because of the potential for abandonment of the property during the liquidation proceedings, regular inspections of at least monthly should be conducted.

Generally, curbside inspections are inadequate for making these determinations and are acceptable to the Agency only if there is danger to the inspector or there are legal restrictions preventing access to the property.

The record of inspection must be retained in the mortgage file and address at a minimum the condition of the property, occupancy status and any necessary repairs to protect an abandoned property, the date of inspection and who performed the inspection.

E. Proceed with Liquidation

When the account is 90 days past due, or three monthly payments are due and unpaid and the borrower has been advised in writing of available foreclosure prevention options, and the borrower has failed to act upon those options or a written response from the borrower indicated a lack of interest in the preventive foreclosure options offered, the lender must initiate liquidation proceedings by accelerat~~e~~ing the loan and ~~begin liquidation proceedings~~ if necessary, foreclose as long as any applicable notice and waiting period under state law is met unless servicing information indicates a reasonable prospect of resolving the delinquency.

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18.4 DOCUMENTATION REQUIREMENTS AND PENALTIES [7 CFR 3555.301]

A. Collection Records

The lender must maintain records of all collection efforts and must make them available upon request by the Agency. These records may either be in the form of servicing logs and/or copies of letters sent to the borrower. The records must indicate the following:

- Reason for the default;
- Date(s) and content of written notification(s) to the borrower;
- Dates and results of personal contacts with the borrower to resolve the debt both by telephone and/or in-person;
- Dates and documentation of property inspections; and
- Date liquidation action was initiated.

B. Grace Period for Completing Collection Action

The lender is required to take all collection actions within the time frames described in Paragraph 18.3 of this Chapter. However, the Agency may allow a grace period of five business days for completing each required collection action. Thus, no penalty will be assessed if the lender takes the required action before the end of the grace period.

C. Penalties for Failure to Fulfill Collection Obligations

If the lender fails to take the minimum collection efforts in Paragraph 18.3 and experiences a loss on the loan, the loss claim amount will be reduced. The Agency may apply the following penalties for a lender's failure to take the required collection actions. These penalties are described in greater detail in Chapter 20 and Appendix 9 of this Handbook and include the grace period offered by the Agency as noted in Paragraph 18.4 B above.

- The claim will be denied if the lender failed to attempt to make any contact with the borrower before the loan was 65 days past due;
- The claim will be denied if the lender failed to notify the Agency, in accordance with Paragraph 17.3, when the account was in default;
- Accrued interest for the claim will be reduced by 50 percent if the lender failed to attempt to make a first contact with the borrower within 25 days past the due date, but within 65 days past due;.
- If the lender failed to inspect the property before the loan became 65 days past due, the accrued interest will be reduced by 10 percent as long as no loss resulted for the lender's failure to inspect the property timely; and
- The lender is required to protect and preserve the property. The loss claim will be reduced by the dollar value of the loss attributable to the lender's failure to inspect

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and secure an abandoned property as documented by an appraisal. Should the appraisal fail to address the damage attributable to the lender's failure to secure the abandoned property, the claim will be denied.

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SECTION 2: LOSS MITIGATION
[7 CFR 3555.303 and 3555.305]

18.5 LOSS MITIGATION OPTIONS

The lender should make every possible effort to assist borrowers who are experiencing ~~temporary~~ 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.

The Agency's *Loss Mitigation Guide* was developed to assist lenders with the loss mitigation process and options available to borrowers. Lenders may view the guide online at: https://usdalinc.sc.egov.usda.gov/RHShome.do. The guide is located under the *Training and Resource Library* link.

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* for guidance regarding the following:

- Servicing Early Delinquent Loans;
- Informal Repayment Agreement;
- Special Forbearance;
- Traditional Loan Modification;
- Special Loan Servicing Options;
- Pre-Foreclosure Sale; and
- Deed-in-Lieu of Foreclosure;

~~In addition to guidelines expanded upon in the Agency's Loss Mitigation Guide, a Pre-Foreclosure Sale contract may be approved if the net sales proceeds are at least 80 percent of the home's as-is appraised value.~~

Prior concurrence from the Agency is required for all loss mitigation options unless Rural Development provides a written waiver of the need for its concurrence. The preferred method of managing loss mitigation is delegation the authority to the lender.

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An electronic method of processing Loss Mitigation is available to approved Lender/Servicers. A *Loss Mitigation Servicer User Guide* is available online at: https://usdalinc.sc.egov.usda.gov/RHShome.do. The guide is located under the *Training and Resource Library* link.

Loans dated prior to October 1, 1992 may be eligible for interest assistance to help resolve a borrower's payment problems. When interest assistance is offered as part of a loan servicing strategy, its role is to adjust the monthly payment to an amount that the borrower can afford. Providing interest assistance alone will not bring the loan current. Interest assistance can only help a past-due borrower in conjunction with a forbearance agreement or loan modification. Refer to Appendix 6 of this Handbook for additional information regarding interest assistance.

SECTION 3: ACCELERATION AND FORECLOSURE [7 CFR 3555.306]

18.6 ACCELERATION

When a lender determines that a borrower is unable or unwilling to meet loan obligations, and there is no reasonable prospect of resolving the delinquency through another method, the lender should initiate liquidation proceedings by accelerating the loan and, if necessary, foreclose. A demand letter should be sent to the borrower within five days of when the account is 90 days delinquent. The notice should include the following:

- Reason the notice is being sent (e.g. default or abandonment);
- The action required to cure the default;
- A date established to cure the default;
- Potential date foreclosure will occur if the breach is not cured; and
- Possibility of a Treasury Offset if foreclosure is necessary.

Failure to comply with these time lines may result in a reduction of any potential loss claim or a denial of the claim if the action is not taken within 30 days of the time lines if there are no documented extenuating circumstances.

18.7 THE FORECLOSURE PROCESS [7 CFR 3555.306]

A. Initiation of Foreclosure - Referral

The lender must refer the case to an attorney or trustee for foreclosure within 180 days of the due date of the last paid installment unless there are legal requirements that cause a delay in the foreclosure action. In such a situation, the case must be referred within 90 days of the date when a foreclosure referral is possible. The lender must exercise due diligence and manage the process by ensuring that all required actions are completed timely. The lender also should encourage the borrower to either liquidate voluntarily or pursue a reasonable loss mitigation action to preclude acquisition of the property.

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Attachment 18-A to this Chapter lists the recommended method of foreclosure and the first public action required by law to initiate each foreclosure method. In states where more than one foreclosure method is available but only one option is listed, the Agency chose the method that is most cost effective in reducing legal fees and accrued interest expense. The Agency does not intend to prohibit the payment of loss claims where the lender obtains title through a method of foreclosure other than what is recommended. If a lender submits a loss claim in accordance with Chapter 20 of this Handbook, the Agency office processing the loss claim request must determine whether the foreclosure method chosen by the lender was in the best interest of the Federal Government. For example, if the recommended foreclosure method is non-judicial, but judicial foreclosures are required to preserve the lender's right to a deficiency judgment, the lender may demonstrate that recovery on a deficiency judgment is expected after considering the time and cost of litigation. In such case, the judicial foreclosure method should be considered acceptable.

B. The Foreclosure Sale

Lenders must exercise due diligence in completing the liquidation process. This due diligence should include an estimate of the total debt, whether the security value is sufficient to cover that debt and whether there is any recovery potential for any deficiency. The estimate of the total debt includes the unpaid principal, protective advances, interest accrual through the liquidation process, and other potential costs, such as the expense of the liquidation action and, if applicable, the cost of Real Estate Owned (REO) management and disposition.

The determination of the security value should be based on the current market value of the property. The recovery potential should be based on the borrower's assets and/or ability to pay the deficiency, as well as other potential sources of recovery, such as proceeds of insurance claims or pending litigation that might result in collection of the deficiency.

The determination of the amount to bid at the foreclosure sale will have a significant effect on the net loss to the lender and to the Government. In determining the amount and the strategy of the foreclosure bid, the lender must consider State statutory requirements as well as the following considerations. If the bid at the sale covers the full amount of the debt, it is satisfied in the eyes of the law and the lender has no basis for further collection from the borrower. The lender's position of first mortgage is extinguished and therefore, there is no right to collect any proceeds from insurance or litigation. In addition, when the bid is equivalent to or exceeds the market value of the property, potential buyers are less interested in bidding and it is more likely the lender will acquire the property as well as the costs of managing and disposing of it.

When the total debt, including the cost of acquiring, managing and disposing of REO property, is greater than the gross proceeds expected from a foreclosure sale at the market value of the security property and potential recovery from our sources, it is in the mutual interest of the lender and the Government, as guarantor, to encourage third-party bidding at the sale by entering a foreclosure sale bid less than the value of the property. The intent is to avoid acquiring REO and its associated management and disposition costs.

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Without prior concurrence of the Agency, a lender should enter a foreclosure sale bid at 80 percent of the market value of the security. 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.

C. Reinstatement of Account

Unless required otherwise by State statute, the lender may reinstate an accelerated account if the borrower meets the following conditions:

- Pays the total amount delinquent, including protective advances, accrued interest, any foreclosure related costs and other expenses incurred by the lender, in a lump sum.
- Has the documented ability to resume scheduled payments on the loan.
- Has not received an overpayment of interest assistance from the Agency based on false information as described in Appendix 6 of this Handbook.

18.8 MANAGING THE FORECLOSURE PROCESS [7 CFR 3555.306]

The lender must manage the foreclosure process so that the property is acquired in a cost effective, expeditious, and efficient manner. If the attorney or trustee requests additional documentation, the lender must provide it within five business days of receiving the request.

A. Acceptable Foreclosure Time Frames

Foreclosure must be initiated within 90 days of the date the decision to liquidate is made unless the foreclosure has been delayed by law or an alternative to foreclosure is recommended to resolve the delinquency. Initiation of foreclosure begins with the first public action required by law, such as filing a Complaint or Petition, recording a Notice of Default, or publication of a Notice of Sale.

Attachment 18-A of this Chapter provides time frames within which the Agency expects all foreclosure actions to be taken. These time frames are measured from the first legal action to the foreclosure sale date. The SFHGLP adheres to HUD's foreclosure time frames. The current published scheduled by HUD will be utilized by SFHGLP. These

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time frames are measured from the first legal action to the foreclosure sale date, which is when the REO marketing period begins. Basic time frames of foreclosure processes most commonly utilized by private attorneys in state courts compare favorably to the HUD time frames.

SFHGLP foreclosure time frames start with the date of the first legal action required by law, ends with the foreclosure sale date, and do not include post-sale redemption periods or sale confirmations. Since redemption periods may be adjusted under some state laws based on the circumstances surrounding a property, such as the amount of unpaid principal still owed or the occupancy status of the property, reasonable time frames for redemption periods and sale confirmations should be established on a case-by case basis in accordance with State law. Reimbursement of accrued interest may be reduced in accordance with Chapter 20 of this Handbook for each day that the foreclosure continues past the prescribed time frame unless the lender presents a valid reason that justifies the delay.

Lenders and the Agency must ensure that staff members are familiar with State guidelines related to foreclosures. Exceptions to the foreclosure time frame, which cause delays beyond the lender's control must be documented and submitted with the claim package. Examples of such circumstances include bankruptcy petitions filed after foreclosure initiation, contested foreclosures, and court scheduling delays or delays in obtaining service. Supporting documentation includes attorney correspondence or copies of court records. Lenders are responsible for including documentation to support the first public action and the foreclosure sale date in the claim package provided to the Agency office responsible for processing the claim.

The lender may be authorized a 90-day extension to the allowable time frame for compliance with State law when a Chapter 7 bankruptcy delays the completion of foreclosure. To determine the impact of a bankruptcy filing on the foreclosure time frame, the total number of days from first action to foreclosure sale will be calculated. The total number of days between the bankruptcy filing date and the date of bankruptcy release or dismissal for each applicable bankruptcy case will then be subtracted from the total number of foreclosure days. The resulting number of days will be compared to the SFHGLP foreclosure time frame plus an automatic 90-day extension to determine if the time frame was met.

The lender must exercise reasonable due diligence requirements by resolving a dismissal of the bankruptcy, termination of the automatic stay or trustee abandonment of all interest in the secured property. The lender's claim review documentation must indicate the case was promptly referred to the foreclosure attorney after bankruptcy filing. Any delay beyond 90 days from the date of the bankruptcy filing must be supported by documentation supporting the delay. Submit documentation with the loss claim, as described in Chapter 20 of this Handbook. Failure to submit the documentation supporting the extended foreclosure time-frame will result in denial of additional accrued interest request.

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Additional time allowed for a Chapter 13 bankruptcy delay shall not exceed 90 days from the date the payments under the bankruptcy plan became 60 days delinquent. The lender must make prompt and accurate notification to the bankruptcy court and closely monitor the payment required by the bankruptcy court. If the borrower becomes 60 days delinquent in payment under the Chapter 13 plan, the lender will ensure prompt legal action is taken to resolve. Any delay beyond 90 days from the date the account became 60 days delinquent under the terms of the bankruptcy plan must be supported by documentation.

B. Acceptable Liquidation Fees and Costs

SFHGLP regulations authorize the reimbursement of liquidation fees and costs that are actually paid by the lender for liquidated loans that result in a loss to the lender within the limits of the guarantee. Reasonable liquidation costs similar to those charged for like services in the area will be allowed. It is not the Agency's intent to regulate the amounts that lenders pay for services performed, but to limit the extent to which the SFHGLP reimburses the lender for attorney fees incurred for loss claims filed in accordance with Chapter 20 of this Handbook. The Schedule of Standard Attorney/Trustee's Fees published by HUD for foreclosure, deed-in-lieu of foreclosure and bankruptcy will be utilized as the basis for determining reasonable and customary attorney fees. Attachment 18-B of this Chapter provides the most current Schedule of Standard Attorney/Trustee's Fees. The current schedule published by HUD will be utilized by SFHGLP. Fees higher than the published amounts may be appropriate, in cases such as contested foreclosures, required probate procedures, etc., and are subject to approval by the Agency on a case-by-case basis. Justification for higher fees must be documented in the file.

It is important to make the distinction between attorney/trustee fees and attorney/trustee costs. Typically, the fee for the service performed by the attorney is listed separately on the attorney invoice from the actual costs involved in the liquidation proceedings. A complete list of allowable liquidation costs would not be practical since procedural requirements vary by jurisdiction. Generally, the Agency will reimburse a lender for costs, which must be paid to public officials such as sheriffs, clerks of court or recorders of deeds, as well as costs, which are required by law (i.e., private service of process and required publications).

In-house expenses of the lender will not be allowed during the liquidation process. Employee salaries, staff attorneys and overhead charges are considered examples of in-house expenses. Overhead expenses include, but are not limited to, items such as telephone calls, photocopying charges, overnight mail fees and postage (not including certified or registered mailings required by law). Typical overhead costs are inherent to the foreclosure process and payment of these expenses is not reimbursable.

Outsourcing of services, such as document preparation services, are customary in the industry and are also considered as attorney overhead. These fees are allowed as a separate expense *only* if the attorney fee is reduced in a proportionate amount to the document preparation fee that is charged.

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Example:

- State = Tennessee
- Acceptable Foreclosure Attorney Fee = $600

  $425 Attorney fee invoiced

  $125 Outsourced Document Preparation Fee

  $600 Total of fees charged

In the above example, the foreclosure attorney has chosen to outsource a portion of his service to a contractor. The total fee charged to the lender is the same as if the attorney firm had performed this function. This is considered an acceptable fee that is eligible for reimbursement.

If a foreclosure proceeding is interrupted due to a bankruptcy filed by the borrower, or if a deed-in-lieu of foreclosure or pre-foreclosure sale is accepted prior to the completion of the foreclosure, a maximum of 75% of the allowable attorney fee and all actual foreclosure costs incurred will be reimbursed. If state statute requires that the foreclosure be restarted from the beginning after a bankruptcy is dismissed or relief from stay is granted, the lender will be reimbursed for 100% of allowable foreclosure attorney fees and costs incurred after the bankruptcy stay is lifted. If state statute does not require that the foreclosure be restarted from the beginning, reimbursement of all foreclosure attorney fees incurred both before and after the bankruptcy is limited to the amount listed on the Schedule of Standard Attorney/Trustee's Fees.

The Agency will not reimburse any attorney fees or costs incurred for a prior liquidation action that has been reinstated by the borrower or for which the foreclosed property is redeemed. Attorney fees and costs should be included in the amount collected from the borrower with the reinstatement or foreclosure redemption.

The foreclosure fees in Attachment 18-B list the attorney or trustee fee limits allowed for each SFHGLP recommended method of foreclosure. In States where more than one foreclosure method is available, the limits listed are based on the method that is most cost effective in reducing legal fees and interest expense. The Agency does not intend to prohibit the payment of attorney fees and costs where the lender obtains title through a method of foreclosure other than what is recommended. However, the Agency must determine whether the foreclosure method chosen by the lender was in the best interest of the government. For example, the recommended foreclosure method in some states is non-judicial; however, judicial foreclosures are required to preserve the rights of a deficiency judgment. If the lender can demonstrate that the recovery of a deficiency judgment is expected, the foreclosure method should be considered acceptable and reasonable attorney fees and costs reimbursed within the limits of the guarantee.

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18.9 REPORTING REQUIREMENTS

In accordance with Appendix 8 of this Handbook, lenders are required to report to the Agency all delinquent accounts. Reporting occurs through an electronic transmission known as EDI. Quarterly, the lender will be required to submit a portfolio report of all SFHGLP loans.

When the lender initiates foreclosure, the first report following the month foreclosure is initiated; the lender will report all accounts in foreclosure. The account must be reported until:

- Loss mitigation efforts are completed;
- The mortgage is reinstated or paid in full;
- The property is sold to a third party purchaser at foreclosure sale and no loss claim will be filed; and
- Lender submits loss claim package for an REO sold/unsold.

Additional guidance regarding EDI reporting may be found in Appendix 8. An *EDI Implementation Guide* may be found online at: http://www.rurdev.usda.gov/regs/.

SECTION 4: ASSISTANCE IN NATURAL DISASTERS [7 CFR 3555.307]

The following provides guidance for servicing accounts when a county, parish or municipality has been declared by the President of the United States to be a major disaster where federal aid in the form of individual assistance is being made available.

18.10 PROPERTY PROTECTION [7 CFR 3555.307(b)]

When a servicer becomes aware that a property secured by a SFHGLP guarantee has incurred damage as the result of a natural disaster:

- Ascertain the number of affected properties.
- Determine the extent and nature of the damage and the effect on the borrower's ability to continue making mortgage payments.
- Determine if the property is adequately insured against the damage.
- Secure abandoned properties.
- Provide assistance to the borrower regarding the availability of appropriate relief provisions from local, State or Federal disaster assistance.
- Consider waiving any late payment charges if the borrower's payments are late because of added expenses or loss of income due to the disaster.
- Monitor and coordinate hazard insurance claims
- Monitor and coordinate the ~~and~~ progression of repairs when a deposit of insurance proceeds occurs in lieu of borrowers receiving insurance proceeds for properties.

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

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. A suspension would be 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 must be directly affected by the disaster. Relevant factors to consider in determining whether to suspend collection, foreclosure or eviction activity:

- Evaluate the effects of the disaster.
- ~~Before considering relief, require~~ Instruct the borrower to file insurance claims and apply for disaster assistance that may be available through FEMA, state and local governments.
- Offer appropriate repayment plans as outlined in Section 2 of this Chapter.
- Determine if foreclosure is the only option.

The borrower's income or ability to pay his/her mortgage, any increase in living expenses, the extent of damage, the delinquency status of the mortgage and the availability of alternative housing are additional factors to consider. The goal should be a formal relief provision that will cure the delinquency as soon as possible without imposing an undue hardship on the borrower. A relief measure that is very appropriate in disasters is forbearance. Under forbearance, the servicer can agree to reduce or suspend the borrower's monthly payments for a specified period. After which, the borrower must agree to resume his or her regular monthly payments and to pay additional money at scheduled intervals toward repayment of the amount reduced or suspended.

Regular follow-up during a suspension and reassessment of the individual borrower's circumstances, based upon property inspections, borrower financial information at the end of the suspension period should be conducted. If the servicer believes suspension beyond the 90 day period is warranted, the servicer should make a recommendation to the Agency.

Servicers may use existing workout options to reinstate a borrower ready to resume mortgage responsibilities. Late charges while the borrower is on a forbearance plan or paying as agreed on a repayment plan should not be assessed. A borrower for whom a forbearance or repayment plan is extended due to disaster-related circumstances must not be reported to credit repositories.

18.12 PROPERTY DAMAGE AND INSURANCE CLAIMS [7 CFR 3555.307(d)]

Servicers should ensure that hazard insurance claims are filed and settled as expeditiously as possible. Servicers are responsible for taking prompt action to protect the interests of the borrower and Agency when a hazard or flood occurs. This involves working closely with the insurance carrier, the borrower, and repair contractors. The

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lender will complete a thorough analysis concerning the decision to repair the security property and document the decision. The decision should support the best level of return to the lender and minimize loss to the Agency. Agency concurrence is required.

In damage cases, insurance proceeds will be issued jointly to the lender and the borrower. If the decision is to use the proceeds to repair the property, the lender must ensure a licensed contractor is used to complete the repairs. Unless the homeowner qualifies for direct payment of insurance proceeds in accordance with Paragraph 17.2 E of Chapter 17 of this Handbook, the lender will release the proceeds in draws based on periodic inspections. The final draw will be paid after verification that all repairs were satisfactorily completed. The lender is responsible for obtaining all lien waivers for work performed.

If the premises have been totally destroyed, the servicer should compare the unpaid principal balance with the ~~anticipated~~ insurance proceeds and any other circumstances affecting the case, such as local laws barring reconstruction of the destroyed property. Insurance loss payments, condemnation awards, or similar proceeds will be applied on debts in accordance with lien priorities, on which the guarantee was based, or to rebuild or otherwise acquire needed replacement collateral.

18.13 DEBT SETTLEMENT REPORTING

Lenders will be responsible for reporting to IRS and all national credit reporting repositories any discharge of indebtedness or any debt settled through liquidation in accordance with Internal Revenue Code.

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ATTACHMENT 18-A
ACCEPTABLE STATE FORECLOSURE TIME FRAMES

State	Typical Security Document	Foreclosure Method Reasonable Diligence Time Frames In Months (Days)[1] – Effective 9/1/2014		First Legal Action to Commence (Initiation) of Foreclosure
		Non-judicial	Judicial	
Alabama	Mortgage	~~5~~4 (1~~5~~2~~0~~0)		Publication
Alaska	Deed of Trust	~~4~~5 (1~~2~~5~~0~~0)		Recording of Notice of Default
Arizona	Deed of Trust	5 (150)		Recording of Notice of Sale
Arkansas	Deed of Trust	~~4~~5 (1~~2~~5~~0~~0)		Recording of Notice of Default
California	Deed of Trust	7 (210)		Recording of Notice of Default
Colorado	Deed of Trust	7(210)		Filing of Foreclosure Docs with Public Trustee
Connecticut	Mortgage		~~9~~10 (~~27~~300)	Delivery of Complaint to Sheriff
Delaware	Mortgage		~~8~~9 (2~~4~~70)	Complaint Filed
Florida	Mortgage		~~7~~15 (~~21~~450)	Complaint Filed
Georgia	Security Deed	4 (120)		Publication
Guam	Mortgage	1~~0~~1 (3~~0~~30)		Posting and Publishing of Notice of Sale
Hawaii	Mortgage	~~4~~6 (1~~2~~80)		Publication of Notice of Intent to Foreclose
	Mortgage		9 (270)	Publication of Notice of Intent to Foreclose
Idaho	Deed of Trust	~~6~~8 (~~18~~240)		Recording of Notice of Default
Illinois	Mortgage		12 (360)	Complaint Filed
Indiana	Mortgage		~~1~~01 (3~~0~~30)	Complaint Filed
Iowa	Mortgage		17 (510)	Petition Filed
	Deed of Trust	9 (270)		Delivering Notice to Clerk
Kansas	Mortgage		9 (270)	Complaint Filed
Kentucky	Mortgage		~~7~~9 (210)	Complaint Filed
Louisiana	Mortgage		~~7~~8 (2~~1~~40)	Petition for Executory Process
Maine	Mortgage		1~~2~~4 (~~36~~420)	Complaint Filed
Maryland	Deed of Trust	6 (180)		Filing an Order to Docket
	Mortgage		6 (180)	Petition in Equity
Massachusetts[2]	Mortgage	8 (240)		Filing Complaint Relative to Servicemembers Civil Relief Act
Michigan	Mortgage	9 (270)		Publication
Minnesota	Mortgage Deed	10 (300)		Publication
Mississippi	Deed of Trust	~~4~~9 (~~12~~270)		Publication

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[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).

		Non-judicial	Judicial	
Missouri	Deed of Trust	34 (9120)		Publication
Montana	Trust Indenture	7 (210)		Recording of Notice of Sale
Nebraska	Deed of Trust	5 (150)		Publication of Notice of Sale
	Mortgage		56 (1580)	Petition
Nevada	Deed of Trust	67 (18210)		Recording of Notice of Default
New Hampshire	Mortgage	4 (120)		Publication
New Jersey	Mortgage		145 (4250)	Complaint Filed
New Mexico	Mortgage		79 (21180)	Complaint Filed
New York	Mortgage		139 (39570)	Complaint Filed
North Carolina	Deed of Trust	5 (150)		Notice of Hearing
North Dakota	Mortgage		8 (240)	Complaint Filed
Ohio	Mortgage Deed		12 (360)	Complaint Filed
Oklahoma	Mortgage		79 (2170)	Petition Filed
Oregon	Deed of Trust	7 (210)		Recording of Notice of Default
Pennsylvania	Mortgage		101 (3030)	Complaint Filed
Puerto Rico	Mortgage		14 (420)	Complaint Filed
Rhode Island	Mortgage	36 (9180)		Publication
South Carolina	Mortgage		79 (2170)	Complaint Filed
South Dakota	Mortgage		10 (300)	Complaint Filed
	Deed of Trust	9 (270)		Publication of Notice of Sale
Tennessee	Deed of Trust	4 (120)		Publication
Texas	Deed of Trust	3 (90)		Posting and Filing of Notice of Sale
Utah	Deed of Trust	56 (1580)		Recording of Notice of Sale
	Mortgage		11 (330)	Complaint Filed
Vermont	Mortgage	4(120)	14 (420)	Complaint Filed
Virgin Islands	Mortgage		15 (450)	Complaint Filed
Virginia	Deed of Trust	4 (120)		Publication
Washington	Deed of Trust	6 (180)		Recording of Notice of Sale
West Virginia	Deed of Trust	5 (150)		Publication
Wisconsin	Mortgage		12 (360)	Complaint Filed
Wyoming	Mortgage	6 (180)		Publication

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ATTACHMENT 18-B
ACCEPTABLE STATE LIQUIDATION COSTS AND FEES
Schedule of Standard Attorney/Trustee Fees

STATE	NON-JUDICIAL FORECLOSURE	JUDICIAL FORECLOSURE	BANKRUPTCY CLEARANCE	POSSESSORY ACTION	DEED-IN-LIEU
AK	$1,250		Varies[13]	$375	$400
AL	$900[1]		Varies[13]	$375	$400
AR	$1,050		Varies[13]	$275	$400
AZ	$925		Varies[13]	$275	$400
CA	$1,000		Varies[13]	$525	$400
CO	$1,225		Varies[13]	$275	$400
CT		$1,700[2]	Varies[13]	$375	$400
DC	$650[1]		Varies[13]	$375	$400
DE		$1,350	Varies[13]	$325	$400
FL		$2,250	Varies[13]	$375	$400
GA	$900[1,3]		Varies[13]	$375	$400
GU	$1,250		Varies[13]	$375	$400
HI	$1,250	$2,400	Varies[13]	$525	$400
IA	$850	$1,350	Varies[13]	$325	$400
ID	$1,050		Varies[13]	$375	$400
IL		$1,750[5]	Varies[13]	$325	$400
IN		$1,500[6]	Varies[13]	$325	$400
KS		$1,250	Varies[13]	$325	$400
KY		$1,700	Varies[13]	$375	$400
LA		$1,350	Varies[13]	$325	$400
MA	$2,000		Varies[13]	$625	$400
MD	$2,100[1,3]	$1,600	Varies[13]	$375	$400
ME		$1,750	Varies[13]	$525	$400
MI	$1,000[7]		Varies[13]	$325	$400
MN	$1,025		Varies[13]	$325	$400
MO	$950		Varies[13]	$325	$400
MS	$900[1]		Varies[13]	$375	$400
MT	$1,000		Varies[13]	$375	$400
NC	$1,150[8]		Varies[13]	$375	$400
ND		$1,250	Varies[13]	$325	$400
NE	$900[9]	$900	Varies[13]	$325	$400
NH	$1,150		Varies[13]	$425	$400
NJ		$2,425	Varies[13]	$375	$400
NM		$1,500	Varies[13]	$275	$400
NV	$1,100		Varies[13]	$375	$400
NY		$2,000[10]	Varies[13]	$725	$400
OH		$1,700	Varies[13]	$325	$400
OK		$1,450[5]	Varies[13]	$275	$400
OR	$1,000	$2,050	Varies[13]	$375	$400
PA		$1,650[11]	Varies[13]	$425	$400
PR		$1,500[12]	Varies[13]	$300	$400
RI	$1,300		Varies[13]	$525	$400
SC		$1,650	Varies[13]	$375	$400

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STATE	NON-JUDICIAL FORECLOSURE	JUDICIAL FORECLOSURE	BANKRUPTCY CLEARANCE	POSSESSORY ACTION	DEED-IN-LIEU
SD	$600	$1,250	Varies[13]	$325	$400
TN	$900[1]		Varies[13]	$375	$400
TX	$900		Varies[13]	$325	$400
UT	$925	$925	Varies[13]	$275	$400
VA	$925[1,3]		Varies[13]	$375	$400
VI		$1,800	Varies[13]	$300	$400
VT		$1,700	Varies[13]	$375	$400
WA	$1,000		Varies[13]	$375	$400
WI		$1,500	Varies[13]	$325	$400
WV	$1,000[1,3]		Varies[13]	$375	$400
WY	$1,000		Varies[13]	$375	$400

Footnotes:

(1) The fee covers the combined attorney's and notary's fees.
(2) This fee applies to strict foreclosures. If the foreclosure orders a Foreclosure by Sale, the fee will be $1,950.
(3) The fee covers both the attorney's fee and the trustee's commission (or statutory fee).
(4) The fee includes reimbursement of any fee for the attorney's certificate of title.
(5) The fee increases by $100 if foreclosure is achieved by summary judgment.
(6) In addition to the allowable foreclosure fee, an auctioneer's fee of up to $250 is allowed for the services of a state licensed auctioneer requested by the lender and approved by the court.
(7) The fee increases to $1,100 for a non-judicial foreclosure for a case in which the attorney provides services for "proceedings subsequent" that involve registered land.
(8) The fee includes the notary's fee. An additional fee of $250 is allowed for an attorney court appearance for a foreclosure hearing.
(9) This fee relates to the exercise of the power of sale under a deed of trust.
(10) This fee applies to foreclosures other than those conducted in New York City and Long Island. A fee of $2,400 applies to foreclosures conducted in the five boroughs of New York City (Bronx, Brooklyn/Kings, Manhattan, Queens and Staten Island) and in Long Island (Nassau and Suffolk Counties).
(11) The fee covers certain additional legal actions necessary to complete the foreclosure, including motions to postpone or relist a sale and motions to reassess damages.
(12) In addition to the allowable foreclosure fee, $150 is allowed for a notary fee for completed foreclosures. However, if a deed of judicial sale cannot be executed contemporaneously with the foreclosure sale, $300 is allowed for the notary fee.
(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 $650.
- For Chapter 11, 12, and 13 bankruptcies, the maximum allowable fee is $1,000

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CHAPTER 19: CUSTODIAL AND REAL ESTATE OWNED PROPERTY

7 CFR 3555.306

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19.1 INTRODUCTION

The Agency holds the lender accountable for all servicing and property management responsibilities associated with both custodial and REO property. Custodial property is borrower-owned property that is vacant or has been abandoned and is in the possession of the lender for the purposes of property inspection, preservation and protection. REO is property to which the lender has acquired title, either as a result of foreclosure or conveyance by deed-in-lieu of foreclosure. This chapter outlines the requirements for managing these types of properties.

19.2 PROPERTY MANAGEMENT METHODS AND ACTIVITIES [7 CFR 3555.306 (e) and (f)]

Part of the mission of the SFHGLP program is to ensure that properties are effectively and prudently managed and maintained. The Agency mirrors HUD/FHA's maximum allowable costs for property preservation and maintenance costs. Information regarding their property and preservation cost reimbursements can be found at: http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/10-18ml.pdf. Any subsequent release regarding this subject by HUD/FHA is also applicable.

A. Vacant or Abandoned Properties

The lender may need to take custody of the security property when it has been determined that a security property is vacant or has been abandoned. The lender must inspect the property within 30 days or less of becoming aware of the possibility the borrower abandoned the property in order to determine and document its condition. When the inspection reveals the property is vacant, the lender should take the following actions:

- Try to locate the borrower to determine the reason for vacancy.
- Make immediate arrangements to protect the property from vandalism and the elements to the extent the local laws allow such.

Preservation and protection requirements for custodial property are as follows:

- The property should be secured by changing all exterior locks to prevent unauthorized entry, unless otherwise prohibited by state law.
- Secure windows and doors. Boarding the property should be avoided unless it is necessary to avert vandalism to the property.

- Determine if any emergency repairs are necessary to adequately preserve and protect the property. Early detection of problems is critical to minimize loss in the event of acquisition. Document emergency repairs performed with before and after repaired photographs. Repairs exceeding $2,000.00 require Agency concurrence. If the property sustains insurable damage, the lender is responsible to file a claim under the borrower's insurance policy. If the borrower redeems a property, the cost of any emergency repairs advanced will be the responsibility of the borrower. Loss claim payments are paid when a lender legally acquires a REO and experiences a loss in the resale.

- Protect plumbing and other operating systems against damage by freezing.

- Remove all debris (interior and exterior) that would pose a health, environmental, fire or safety hazard. Examples include, but are not limited to, highly flammable chemicals, decaying food or other organic matter, dead animals, broken glass or other sharp objects, and large quantities of paint or paint products.

- Mow lawns, maintain shrubs and perform snow removal.

- Perform monthly interior and exterior inspections to document the general condition of the property and any actions required to adequately protect and preserve the property. Proper documentation must be maintained by the lender in each claim review file on the performance of inspections and follow-up activities.

- Do not post signs or take other actions that might call attention to a vacant property unless boarding the property occurred.

- Maintain receipts and invoices for all costs incurred for preservation and protection of custodial properties. Services associated with preservation and protection of properties must be typical and reasonable.

- Notify the insurance carrier regarding the vacancy to ensure appropriate insurance coverage is maintained.

A mortgage may be current or delinquent when a lender becomes aware a borrower may have abandoned the security property. When an inspection reveals that the property is vacant and through follow-up actions determines the borrower has abandoned the property if liquidation is not already in progress, taking custodial possession should immediately initiate the foreclosure process.

B. Managing REO Property

The goal of the lender and the Agency is to market and dispose of REO property in a manner that maximizes recovery and minimizes loss. When the property is associated with a HOA, the lender will communicate with the association to redirect future billings for HOA fees owed to the lender.

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Consequently, efforts to secure and preserve the property should begin once the lender has possession of the property through a foreclosure sale or deed-in-lieu.

The lender must make reasonable and prudent efforts to ensure that the condition of the security property is maintained during the REO marketing period. The lender must ensure proper maintenance of the security property by performing regular interior and exterior assessment inspections and property preservation actions as follows:

- Inspections during REO. Perform monthly interior and exterior inspections once custody of the property through foreclosure or deed-in-lieu has occurred.

- Securing. Secure properties to prevent unauthorized entry and protect against the elements. Secure all windows and doors. Broken glass should be replaced or openings boarded. Boarding the property should be avoided unless it is necessary to avert vandalism to the property.

- Necessary Repairs. Perform necessary repairs to protect the property with the most cost effective method. An example of a necessary repair is roof damage. If left unattended, the structure could be exposed to property deterioration, moisture accumulation, or mold growth. Necessary repairs, such as tarping, patching, replacing loose shingles should be made immediately upon discovery of roof damage. Document any repairs made to the REO properties with before and after photographs of the damage and the subsequent repair work. Necessary repairs in excess of $2,000.00 require Agency concurrence.

- Suggested Repairs to Improve Marketability. Repairs to improve marketability can be submitted for approval with the lenders disposition plan required in Section 19.4 of this Chapter.

- Debris Removal. Lenders will maintain complete documentation on the amount and type of debris removed. Examples of debris other than household debris would include health and safety items, tires, appliances, cars, trucks, boats, batteries, etc. Documentation regarding who performed the debris removal service, the amount of debris by cubic yards disposed of and/or dumpster service engaged must be maintained for a future claim review. Photographs supporting unusually high debris removal expenses would further assist in supporting a lenders cost reimbursement request.

- Winterization. Plumbing and heating systems must be drained in a manner sufficient to prevent freeze and/or damage as required by weather conditions in the area.

- Utilities. Utilities should be turned off unless required to protect the property and/or obtain maximum exposure during the marketing period. Consideration must be given prior to turning off the electricity as to whether any sump pumps are in the property that need to be maintained and if the property needs de-humidification to decrease the likelihood for the growth of mold/mildew.

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- Yard Maintenance. Yard maintenance activities such as grass cuts, shrub trimming and snow removal are required for REO property. Lenders must comply with local code and ordinances regarding yard maintenance.

    - Grass Cuts. Lawn cutting (initial and subsequent cuts) includes mowing the lawn, weeding, edge-trimming, sweeping of all paved areas (e.g., sidewalks, driveways, patios), and removal of all lawn clippings, related cuttings, and incidental debris/litter (e.g., newspapers. flyers, bottles). Lawn maintenance should not be ordered if HOA dues cover this service.

    - Initial Grass Cut. Upon notice of a vacancy, an initial grass cut should be performed. An initial grass cut is defined as the first cut for each calendar year prior to termination of the loan or loss payment. Initial grass cuts may be completed when needed during any month of the year in the following States/territories: Alabama, Arizona, California, Florida, Georgia, Guam, Hawaii, Louisiana, Mississippi, Nevada, New Mexico, Puerto Rico, South Carolina, Virgin Islands, and Texas. Initial grass cuts are allowed from June 1 to September 30 in the State of Alaska. In all other States, initial grass cuts are allowed between April 1 and October 31. Initial grass cuts outside of the time frames provided must be justified.

    - Grass Re-Cuts. After the initial cut, grass should be typically re-cut twice a month during the periods listed above for initial cuts in each area. Depending on the level of rainfall in the area, one cut per month may be sufficient, while in other areas, more frequent lawn cuts may be needed.

    - Shrub Trimming. Overgrown shrubs or tree branches that are hazardous or obstruct doorways, public walks, and driveways shall be trimmed or removed.

    - Snow Removal. The lender should maintain a safe and accessible property throughout the winter season. Snow should be removed from the entry, walkway, porch, and driveway following a minimum three-inch accumulation. Lenders must comply with local codes and ordinances regarding the removal of snow and ice.

- Securing In-Ground Pools. Comply with all local ordinances pertaining to swimming pools. In-ground pools must be secured, but not drained. Pools must be covered with material in such a way to prevent an individual from accidently falling into the pool. The pool area must be secured to restrict access to the pool.

- Securing Above-Ground Pools. Properties with an above-ground pool in good condition should be treated as an in-ground pool. Above ground pools in poor condition, or cannot be secured, should be removed.

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- Maintenance of Pools. Lenders must perform monthly maintenance and chemical treatment of operational pools. Lenders must comply with city, county and other local ordinances regarding maintenance of non-operational swimming pools.

- Liability Insurance – Swimming Pools. The Agency will not reimburse lenders for the cost of insurance against potential liability arising from swimming pools. It remains the lender's decision on whether to purchase such insurance.

- Receipts for Property and Preservation Expenses. Maintain an accurate audit trail of all expenses incurred during liquidation and REO. Document any repairs made to the custodial or REO properties with before and after photographs of the damage and the subsequent repair work.

- Ensure Property Insurance is Maintained. Take all actions required in the mortgage clause of all applicable property insurance policies in order to preserve the coverage and its maximum benefits during liquidation. File a claim with the applicable insurance company, if the property sustained damages. Hazard insurance coverage must be provided on all REO through a blanket or individual dwelling policy. The maximum deductible for hazard insurance as an REO is $3,000.00. Flood insurance policies are required for REO when located in a SFHA. The maximum recommended deductible for flood insurance coverage as an REO is $3,000.00.

The lender is responsible for taking reasonable actions to protect the value of the security during the REO marketing period. Actions must be taken to preserve and protect the property to prohibit degradation and protect against any potential injury or death. The lender must carefully document all property management activities and decisions in order to ensure full reimbursement of costs at loss claim.

19.3 ENVIRONMENTAL HAZARDS [7 CFR 3555.306(e)]

If environmental issues affect the property's value at the time of liquidation, the lender must document how the hazard developed and became known. If the environmental hazard was caused by activities that took place after the loan guarantee was issued, or by factors that could not reasonably have been detected with appropriate due diligence, the Agency will include any resulting loss in the loss claim calculation. However, if the lender failed to conduct appropriate due diligence at loan origination, the loss claim will be denied or reduced by the decrease in market value attributable to the environmental hazard.

If a lien has been rendered valueless because of an environmental hazard, the lender should seek Agency concurrence to release the valueless lien to the borrower, rather than incur the cost of liquidation, as described in Chapter 18. Documentation to support this decision must remain a part of the loan file.

19.4 PROPERTY DISPOSITION [7 CFR 3555.306(f)]

Lenders should approach REO disposition of rural housing in the same manner as it would for its portfolio of conventional and other government loans. Effective management and sale of acquired

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properties should minimize costs and maximize recovery. The lender can negotiate a "cash for keys" option with the former borrower for a maximum of up to $2,500. The property must be left in broom swept condition with all personal property removed prior before the borrower can be eligible to receive "cash for keys."

A. Property Disposition Plan

When a lender takes legal possession of a property by foreclosure or deed-in-lieu, within thirty days of acquisition, the lender must submit a Property Disposition Plan (PDP) to the Agency. Lenders who have been delegated authority will utilize an electronic method of reporting property disposition. For lenders, who submit manual plans, the preferred format of the PDP is Attachment 19-A to this Chapter. The lender may use a similar format as long as it contains all elements noted below. Additional pages can be added to complete the plan as necessary. PDPs and any supporting documentation will be submitted to CSC by e-mail at guarantee.svc@stl.usda.gov or through the fax secure imaging server number at (314) 457-4463 or (314) 457-4473. Lenders who are delegated authority to electronically submit a PDP will upload documentation electronically when available. The Guaranteed Rural Housing Servicing Contact Information is located at the USDA LINC Training and Resource Library (https://usdalinc.sc.egov.usda.gov/RHShome.do) or in Appendix 4 of this Handbook. A PDP is not applicable to pre-foreclosure sales (short sales) or third party purchases at a foreclosure sale.

1. Contents of a PDP

The plan should address the following items and any additional information that could have an impact on the amount of the loss. Three types of value will be required to support the disposition plan – 1) market value, as is; 2) liquidation value, as is; and 3) market value, as-repaired. The purpose and use of the three values are expanded upon in Paragraph 19.4 C of this Chapter. Supporting documentation should be held in the lenders permanent file. The Agency reserves the right to request documentation in support of questions surrounding elements of the PDP or loss claim.

Borrower Information:

- Borrower's name
- Borrower Identification Number (unique Agency assigned account number in GLS)
- Date of the plan.

Lender/Servicer Information:

- Servicer and Holder's name and tax identification number(s).
- Contact person's name, telephone number, fax number, and e-mail address.

Loan and Property Information:

- Lender/Servicer's loan number.
- Property street address including county.

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- Date of foreclosure sale.
- Marketable title date, taking into account any redemption period or completed eviction.

Property Value Summary:

- Appraiser's name, company name and telephone number.
- Foreclosure date.
- Appraised Market Value, As-Is and date.
- Appraised Liquidation Value, As-Is and date.
- Appraised Market Value, As-Repaired and date.
- List of repairs and estimated cost of repairs.
- Attach a copy of the URAR and any appraisal reviews to the PDP.

Listing Summary:

- If an asset management company is involved, provide: the company name, the name of the contact person or asset manager, and telephone number. **NOTE:** asset manager costs are not a reimbursable expense in the loss claim.
- Real estate agent's name, telephone, and fax number.
- Local listing agency name, city and state.
- Proposed marketing strategy, including techniques to be used such as: an exclusive broker, open, or multiple listings; if the property will be sold "as-is" or "as improved"; the proposed advertising methodology (e.g. open house, broker tour, and any media or publicity frequency, including signs); and any financing or seller concessions that will be offered. The Agency encourages the use of websites such as Auction.com for maximum exposure of the REO.
- Any anticipated marketing expenses, including proposed advertising, real estate commissions, seller concessions, and any contributions to closing costs. Seller concessions in excess of 6% require prior Agency approval.
- A statement of listing price and dates of market discounts.
- Any other information related to the sale that might impact the amount of loss.

Costs incurred by the lender's in-house staff are not reimbursable. The Agency will review the lender's approach to property disposition during the monitoring process. A lender may risk loss claim reduction or denial for failure to act prudently on REO property disposition.

2. Agency Concurrence of the PDP

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Agency concurrence is required for a PDP, unless delegated authority to approve the PDP has been provided by the Agency. Delegated authority to lenders is the preferred method of managing the REO process. The PDP may be implemented within five (5) business days from the date of receipt, unless the Agency as provided alternative recommendations.

The Agency may provide a written waiver of the need for its concurrence on a case-by-case basis, if the lender demonstrates that it no longer needs the oversight. The Agency also reserves the right to revoke such a waiver, upon notice to the lender, with appeal rights, based on the lender's portfolio performance. If a waiver is obtained by the lender, the lender must maintain its disposition plan for the property and make it available to Agency upon request.

3. Loss Administration – Recording the PDP in GLS

Some lenders have delegated authority by the Agency to input/report loss claim information. For those lenders who do not have delegated authority, authorized Agency staff will capture information provided by the lender manually and populate GLS at the Add/Update Property Disposition Summary Information page. Refer to the User Documentation Guide: Loss Claim Administration found at the following link under the Training and Resource Library link:
https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do.

4. Revising the PDP

The most crucial and effective marketing period is the initial 90 days. The PDP may be revised after the initial marketing period of 90 days. The Lender may include a new appraisal if needed and revisions to the PDP should address the needs to sell the property in a reasonable time period and in a manner that maximizes recovery and minimizes the loss claim payment. The cost of an updated appraisal is an eligible holding cost.

Revisions to the initial PDP will require update and concurrence from the Agency The Agency will consider recommendations from the Lender to market and sell the property that are reasonable. Lenders who have been delegated authority to implement PDP plans do not require Agency approval for revised PDP plans.

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 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.

- Obtain a URAR with all values as requested:

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  - Market Value As-Is
  - Liquidation Value As-Is
  - Market Value As-Repaired, along with a list of repairs and estimated costs.
- The appraiser must provide support for each value and the analysis for each value must be presented in a summarized format. The different values required may require the use of different comparable sales for each. Provide a thorough explanation to any value approach (sales comparison, cost, and income) not considered in the opinion of value determined.
- The definition of "Liquidation Value" can be found in Section 20.3 C of Chapter 20. The contracted appraiser must perform a complete physical inspection of the interior and exterior of the subject property. This duty can be performed with another person, but cannot be delegated to another person.
- The contracted appraiser must perform, at a minimum, an exterior inspection of all of the comparable sales used. This duty can be performed with another person, but cannot be delegated to another person.
- Provide interior photographs of the core rooms of the subject property.
- Comparable sales considered in the opinion of value require an original photograph. Multiple Listing Service (MLS) photographs are unacceptable.
- Develop one opinion of value "as repaired" subject to repairs or alterations. Repairs or alterations must be detailed in the report defining a category of recommended repairs to meet health and safety hazards (emergency maintenance necessary to secure the property) and a category of recommended repairs for marketing the property. Include a general estimate for each repair item. Include photographs of recommended repairs.
- Include Form 1004MC, "Market Condition Analysis."
- Appraisal independence standards must be met. The individual selected must not have a direct or indirect interest, financial or otherwise in the property transaction.
- The individual selected must be competent to perform the assignment. Consideration must be given to the individual's qualifications, experience and education background.
- The lender or the lender's agent must directly engage the appraiser and is financially responsible for payment to the appraiser. The lender's appraisal regulations must address appraisal independence.
- Include an itemization of the cost of any planned capital improvements, including the expected amount of property value added.

When the property value or condition changes due to: deterioration; significant damage or vandalism the lender must obtain a new appraised value. The need for a new appraisal should be established as quickly as possible so that the property is offered at its true value.

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Fannie Mae Form 1004D/Freddie Mac Form 442, “Appraisal Update and/or Completion Report” may be utilized by lenders to report the completion of a repair and/or satisfaction of requirements and conditions noted in the original appraisal report.

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C. List Price

The Agency expects a Lender/Servicer to list and sell REO, given prevailing market conditions, in a manner that maximizes recovery and minimizes the loss claim payment. The initial list price will be based on the market value of the property and may include a discount as further discussed in this Paragraph. All properties must be exposed to the market for a minimum marketing period of ten days before any offers can be accepted. Lenders are encouraged to use auction services in conjunction with traditional REO marketing strategies. Any fees related to using auction services shall be assumed by the purchaser.

- **Market Value.** The value used for the initial list price will be based on either market value as-is or market value as-repaired. When repairs are needed or recommended as discussed in Section 19.2 B of this Chapter the list price will be based on "Market Value As-Repaired". When no repairs are required or suggested then the list price will be based on "Market Value As-Is".

- **Marketing Discounts.** The initial list price may be discounted by ~~1~~20% of the market value, as determined by the appraisal. The REO list price will continue to be discounted 10% of the market value each 30 days~~, but not less than appraised liquidation value in the first 90 day market period~~. This discount will allow an aggressive marketing strategy that should result in a sale of the REO in the initial 90 day marketing period.

  - Every 30 days the respective current list price can be discounted a maximum of ~~10~~5% of the initial market value ~~until it is equal to the appraised liquidation value. The property may not be offered for sale below the liquidation value until it has been marketed a minimum of 90 days and until a revised PDP has been submitted by the lender and approved by the Agency~~.

- **Acceptable Offers.** The lender can accept offers that meet or exceed the current list price. The lender may also consider forthcoming discounts which could be applied within the next 30 days. ~~but cannot accept any offers below liquidation value within the initial 90 day marketing period and without a revised and approved PDP.~~ As an example;

Market Value (MV)-	$200,000	
~~Liquidation Value (LV)-~~	~~$140,000~~	
Initial List Price-	$1~~8~~60,000	(~~1~~20% of $200,000 MV = $~~2~~40,000)
List Price at 30 days-	$1~~6~~50,000	(~~10~~5% of $200,000 MV = $~~2~~10,000)
Offer Received at 50 days-	$1~~5~~47,000	

To determine if the offer of $1~~5~~47,000 received at 50 days could be accepted by the Lender the next discount to be offered (at 60 days) ~~along with the Liquidation Value should be considered~~. The discount calculation would be as follows;

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Discount Price at 60 days- $140,000 (~~10~~5% of $200,000 MV = $~~2~~10,000)

~~List Price at 60 days- $140,000 (minimum- Liquidation Value)~~

The $1~~5~~4~~7~~,000 offer received at 50 days could be accepted by the Lender since it either meets or exceeds both the forthcoming discount within the next 30 days ~~and the liquidation value~~.

If the offer at 50 days was $139,000 it would not be acceptable. ~~The property cannot be listed for sale or be sold for any value below liquidation value within the initial 90 day marketing period.~~

If the property received an immediate offer of $1~~6~~5~~5~~,000 during the initial offering at $1~~8~~6~~0~~,000 the Lender could accept the offer if the property has been exposed to the market for the minimum ten days since the offer meets or exceeds the forthcoming list price at 30 days of $1~~6~~5~~0~~,000.

D. Permissible Marketing Period

The initial marketing period of 90 days from settlement dated is considered to be the most critical of the overall permissible marketing period. Lenders must make every attempt to aggressively sell the property in the initial 90 day marketing period remaining responsible to maximizing the return, while reducing the loss payment to the Agency. The Agency recognizes more time may be needed to sell properties affected by market down-turn, properties affected by redemption rights, or located on American Indian Restricted land. Eviction proceedings should be initiated on unlawfully occupied properties within 30 calendar days of the foreclosure sale, redemption period, or other prevailing State law affecting acquisition of title. The maximum permissible sales periods established for these situations are as follows.

- **States without Redemption Rights**. The Agency allows a sale period of 9 months from the foreclosure sale date.
- **States with Redemption Rights.** The Agency allows a sale period of 9 months from the expiration of any redemption rights.
- **American Indian Restricted Land.** The Agency allows a sale period of 12 months from the foreclosure sale date or 12 months from the end of the redemption period, whichever is later.

The Agency expects lenders to undertake aggressive marketing and sales efforts to dispose of REO properties within the required time frames. The optimum resale period is within the first 90 days from the settlement date. Lenders will be assertive by listing the REO with market discounts as soon as possible following the settlement date of the REO. Therefore, the Agency will reimburse the lender for additional interest from the settlement date to the date the claim is paid, but no more than 90 days from the settlement date. If the REO sells by the end of the permissible marketing period, the Agency will reimburse the lender customary and reasonable costs associated with holding and disposing of the REO.

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If the REO remains unsold at the end of the permissible marketing period, a liquidation value appraisal will be ordered. An acquisition and management resale factor which estimates holding and disposition costs will be applied to the value to determine the amount of loss payment.

Failure to comply with the established marketing timelines could result in reduction or denial of the claim. Additional interest accrued beyond the initial permissible marketing period of 90 days will be the responsibility of the lender.

Lenders may request a loss payment, based upon liquidation value, any time during the permissible marketing period.

E. Exceeding the Permissible Sales Period

. The lender may encounter special circumstances in which additional time is needed to sell the property. The Agency can grant an extension to the allowable marketing period in the following two situations.

Eviction. When a separate legal action is necessary to gain possession following foreclosure, an automatic extension of the allowable sale period will be allowed provided the mortgagee begins such action promptly. In cases involving eviction, the Agency may extend the allowable sale period up to 60 days. Additional time may be granted when state law supersedes this time frame, or evictions are contested. Mortgagees must take the first public legal action to initiate the eviction or possessory action within 30 calendar days of foreclosure completion to qualify for this extension. When the loss claim is submitted, the lender must include documentation, such as a sheriff's report, verifying the date that the eviction proceedings took place.

Sale. If the lender has, or is in final negotiation for, a firm purchase agreement, the Agency may extend the allowable sale period by up to 30 days to allow the sale to take place. The lender must include an executed copy of the sales agreement with the request for extension.

The lender must request the extension in writing prior to the expiration of the allowable sale period. The lender must provide information about the circumstances that warrant the extension, and estimate when the eviction or sale is expected to be completed.

The Agency must document in the loan file the lender's request and the Agency's response. The Agency will determine the length of the extension based on the amount of time the lender anticipates will be needed to get through the eviction or sale process. An extension to the marketing period may be granted by the Agency with supportive documentation. However the Agency will reimburse additional interest for up to 90 days from settlement date to the date the claim is paid, but not more than 90 days from the settlement date.

If the property remains unsold at the end of the maximum permissible sales/marketing period, a new liquidation value appraisal following the appraisal guidelines found above in Section 19.4 B of this Chapter will be followed. Liquidation appraisals should be ordered within 15 days of the end of the

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permissible marketing period. The lender must submit a loss claim request within 30 calendar days of receiving the results of the liquidation value appraisal, which includes the appraisal report. Refer to Chapter 20 for information on loss claim processing.

F. Obtaining an Appraisal for a Loss Claim on Unsold REO

For REO properties that remain unsold at the expiration of the permissible sales/marketing period, the lender will obtain a third party liquidation value appraisal. The liquidation value will be utilized for loss claim calculation as it takes into consideration market pressures on a distressed property. The definition of a liquidation value appraisal and general procedures the Agency follows when using a liquidation value appraisal report to calculate a loss claim is outlined in Chapter 20 of this Handbook.

G. Reporting

Monthly default and quarterly loan status reporting through EDI must be maintained during the life of the loan and during the REO marketing period.

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ATTACHMENT 19-A

Property Disposition Plan Worksheet

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Part A. Borrower Information

Borrower:	Borrower SSN:	Plan Date:

Part B. Lender Information

Servicer/Holder Name:	Prepared by:		
Tax ID Number:	Telephone Number:	Fax Telephone Number:	E-mail:

Part C. Loan and Property Information

Lender Loan Number:	USDA Borrower ID: (Unique USDA Borrower ID - Not SSN)

Street Address:		
City:	State:	Zip Code:
REO Date:	Eviction Completed Date (if applicable):	County:

Part D. Property Value Summary

Appraisal Date:	Market Value "As Is" Value: $	Market Value "As Repaired" Value: $	Estimated Cost of Repairs: $
Liquidation Value: $	Appraiser:	Appraisal Company Name:	Telephone Number:
			Foreclosure Date:

List Planned Repair(s) and Amount(s) from Market Value, As-Repaired Appraisal, including any emergency maintenance, if applicable. Place a check or "X" to denote (E) for emergency maintenance or (M) for marketing repairs recommended:		$ (E) or (M)
		$ (E) or (M)
		$ (E) or (M)
		$ (E) or (M)
		$ (E) or (M)
		$ (E) or (M)

Part E. Listing Summary

Asset Management Company Name:		Contact Name:	Asset Manager's Telephone No.:
Real Estate Agent:		Agent's Phone No.:	Agent's Fax No.:
Local Listing Agency Name:		Listing Agency City and State:	
Marketing Strategy (Check or X): As-Is Market Value As-Repaired Market Value	Suggested List Price (apply market discount): $	Scheduled List Price Reduction(s): $ Date: $ Date: $ Date: $ Date:	MLS Listing (Check or X): Yes No

Advertising Methodology: (provide proposed detail)

	Suggested Sales Commission: **% or $**	**Seller Concessions, if applicable:** **%**

Estimated 90-day REO Expenses Anticipated:

Initial Cleaning	$
Securing	$
Utilities	$
Lawn Service	$
Winterization	$
Other (Explain)	$
Total	$

Additional Comments:
Explain any "other" expenses noted:

This plan should be reviewed and approved by the Agency within **five (5) business days** from the date of receipt. **The plan may be implemented** unless Agency provides alternative recommendations. Resubmit plan for concurrence to indicate changes in marketing strategy during the marketing period.

Authorized Lender's Signature	Print or Type Name	Date
Agency Approval Official	Print or Type Name	Date

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CHAPTER 20: LOSS CLAIMS - COLLECTING ON THE GUARANTEE 7 CFR 3555.351

20.1 OVERVIEW

A key part of the SFHGLP is ensuring that lenders who fulfill their responsibilities under the program and incur losses receive reimbursement quickly and simply. At the same time, the Agency must protect the interests of the Government by ensuring that claims are not paid to lenders that have failed to uphold their responsibilities under the program, or who claim reimbursement for unacceptable expenses.

This chapter outlines the loan guarantee limits. It provides a description of allowable costs, the lender process for submitting a loss claim, outlines the Agency review, describes penalties that could be assessed for failure to meet program requirements and provides guidance on net recovery value. This chapter also provides guidance on funds recovered after loss claim payment.

20.2 LOSS CLAIM COVERAGE

A. Loan Guarantee Limits

The maximum that a lender may collect from the Agency under the SFHGLP is the lesser of:

- Ninety percent of the original principal amount actually advanced to the borrower; or
- One hundred percent of any loss equal to or less than 35 percent of the original principal advanced, plus 85 percent of any remaining loss up to 65 percent of the principal advanced.

For example, if the original principal amount (OPA) guaranteed on a loan was $50,000, the maximum loss payment would be $45,000, or the lesser of:

1. Ninety percent of principal

- OPA is $50,000.
- 90 percent of OPA is $45,000.

2. One hundred percent of 35 percent and 85 percent of 65 percent

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- OPA is $50,000.
- 35 percent of OPA is $17,500.
- 65 percent of OPA is $32,500.
- 85 percent of 65 percent of OPA is $27,625.
- Payment amount is 100 percent of 35 percent of OPA ($17,500) plus 85 percent of 65 percent of OPA ($27,625). This equals $45,125.

The Agency's exposure would be limited to $45,000, which is the lesser of the two loss payment amounts.

B. Losses Covered by the Guarantee

Losses that are covered by the loan guarantee include the following:

- Principal and interest owed on the loan;
- Additional interest accrued up to 90 days from the settlement date through the date the loss claim is paid;;
- Principal and interest indebtedness on protective advances provided by the lender to protect the security property; and
- Liquidation and disposition costs as outlined in Chapter 18 and 19 of this Handbook.

C. Reasonable and Customary

To be considered reasonable and customary for the area, liquidation and disposition costs should be similar to costs the lender incurs when liquidating non-guaranteed loans. Refer to Chapters 19 for further guidance on customary costs related to the acquisition and management of REO. Allowable costs might include:

- Appraisal-related costs;
- Securing the property;
- Real estate commissions to sell the REO of no greater than 6% of the sales price unless incentives can be justified or a minimum of $2,000 commission for low value sales. Incentives require Agency concurrence; or

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- Acquisition and management costs associated with property disposition.

Costs associated with lender in-house expenses (e.g. employee salaries, in-house legal fees, travel, REO management fees and other company expenses) are not allowed.

Allowable liquidation and disposition costs differ for properties sold within the nine-month marketing time frame from those that remain in the lender's inventory at payment of the loss claim.

1. Sold Properties

Sold to a Third Party:

If the property is sold to a third-party at the foreclosure sale or by an approved pre-foreclosure sale (short sale), the loss claim will be based on the actual sales price. The Agency will reimburse the lender for actual liquidation expenses plus additional interest for up to 45 days from the foreclosure sale date or the date the proceeds were disbursed by the court, whichever is later. Actual additional interest paid will be based upon the loss claim filing date. A loss claim must be filed accurately and timely by the lender within the 45 days following funds disbursement or the foreclosure sale date. Loss claims made beyond this period may be rejected or reduced. The lender must retain documentation of claimed expenses.

Acquired by the Lender at a Foreclosure Sale or by Deed-in-Lieu:

For REO property sold within the nine month marketing period from lender acquisition, the lender may seek reimbursement for the actual costs associated with acceleration, foreclosure, maintenance costs (including preparation for sale), and sales costs, as applicable. Any limitations to these costs are outlined in Chapters 18 and 19. The lender must document all expenditures included in the loss claim. Claims must be filed within 45 days of the REO sale date. Loss claims made beyond this period will be rejected or reduced by the Agency. Documentation of expenses associated with a loss claim request must be retained in the lender's permanent file.

2. Unsold REO Properties

For property not located on American Indian restricted land, the Agency allows the lender a nine month marketing period from legal acquisition of REO property. The acquisition date is the date the lender acquires title to the property. For property located on an American Indian restricted land, the Agency allows a 12 month marketing period from foreclosure, or the from the expiration of a redemption period, whichever is later.

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If the property remains unsold at the expiration of the marketing period, the Agency will obtain a liquidation value appraisal and issue the lender a notice of value on which the loss claim should be based. A loss will be calculated on based upon an acquisition and management factor. Foreclosure liquidation costs incurred should be documented for inclusion in the loss claim calculation. In order to estimate disposition costs, a standard acquisition and management factor of 14.95 percent of the liquidation appraised value is used. Lenders must ~~order a~~ 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.

20.3 FILING A LOSS CLAIM

Lenders submit loss claim requests to the CSC located in St. Louis, Missouri. Servicing contact information can be found at the following website: https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do. The resource is titled "Guaranteed Servicing Contact Information."

Requests for loss claim payments can be made by submitting a report with supportive documentation or through an electronic web submission electronically through GLS. With either process, the Agency relies on the accuracy of the information provided by the lender/servicer on the claim. All information entered on the claim form must be supported by documentation in the claim file. It remains the lender/servicer's responsibility for the completeness and accuracy of the claim submission.

A loss claim filed with CSC will require the lender to prepare and submit *Form RD 3555-20, "Rural Housing Report of Loss."* A detailed guide, "Loss Claim and Future Recovery Guide" designed to assist lenders in organizing and preparing information provided to the Agency in support of loss claims, future recoveries and additional recoveries beyond payment of the loss can be found at the following website under the Training and Resource Library link: https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do. The guide provides the lender with worksheets to use as a tool to process loss claims and future recovery discussed in Section 3.

A lender approved to submit loss claim requests electronically will not be required to submit Form RD 3555-20. The Agency completes an approval process involving GLS security clearance, training and monitoring of claim files during a conditional approval stage before a lender receives written approval authority to fully utilize the automated claim process. A guide "Loss Claim Administration User Guide" can be found at the

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following website under the "Training and Resource Library" link: https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do.

A claim can be submitted when a lender experiences a loss as a result of a pre-approved pre-foreclosure sale (short sale), a third party purchase at a foreclosure sale, acquisition through voluntary liquidation, or as a result of a purchase by the lender at a foreclosure sale.

A. Property That Is Sold

For property that is sold before the end of the allowable marketing period, the loss claim must be submitted within 45 days after the date of REO sale. This 45-day limit applies to properties that are sold through voluntary liquidation (short sale), sold to a third party at the foreclosure sale or sold from the lender's inventory within the allowable sale period. A guide "Loss Claim Administration User Guide" can be found at the following website under the "Training and Resource Library" link: https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do. This guide outlines the manual and automated process of submitting loss claims. Within the guide, a checklist of documentation required to process a loss claim request is included. Lenders may utilize an optional excel worksheet, included in a guide, which when utilized collectively assembles the dates of action and monetary information in the required loss claim package.

The Agency mirrors HUD/FHA's maximum allowable costs for property preservation and maintenance costs. Information regarding their property and preservation cost reimbursements can be found at: http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/files/10-18ml.pdf. Any subsequent release regarding this subject by HUD/FHA is also applicable.

B. Unsold Real Estate Owned (REO) Property

The lender must notify the Agency if an REO property remains unsold at the end of the allowable marketing period. Notification to the Agency must be made within 30 days of the expiration of the marketing period. The Agency will retain a qualified appraiser to provide a liquidation value appraisal of the unsold REO at the end of the marketing period. The Agency will notify the lender of the value obtained. The value established will be utilized to base a loss claim payment by applying a cost factor, known as an *acquisition management factor*, and established by the Department of Veterans Affairs (VA), which estimates REO expenses. The most current cost factor is 14.95 percent. The loss claim must be submitted to the Agency within 30 days of the day the lender receives the appraised liquidation value notification.

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A guide "Loss Claim Administration User Guide" can be found at the following website under the "Training and Resource Library" link: https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do. This guide outlines the manual and automated process of submitting loss claims. Within the guide, a checklist of documentation required to process a loss claim request is included. Lenders may utilize an optional Excel worksheet, included in a guide, which when utilized collectively assembles the dates of action and monetary information in the required loss claim package

C. Definition of Value Types in the Appraisal Process and General Procedures

For a claim calculation on unsold REO, a third party *liquidation value* appraisal obtained by the lender will be the liquidation value as it takes into consideration market pressures on a distressed property.

An authoritative source for the definition of *liquidation value* appraisal is the Appraisal Institute's 4th Edition of The Dictionary of Real Estate Appraisal, available online for purchase at the Appraisal Institute's website at: http://www.appraisalinstitute.org/ecm/publications.

"Liquidation value: the most probable price that a specified interest in real property is likely to bring under all of the following conditions:

- *Consummation of a sale will occur within a severely limited future marketing period specified by the client.*
- *The actual market conditions currently prevailing are those to which the appraised property interest is subject.*
- *The buyer is acting prudently and knowledgeably.*
- *The seller is under extreme compulsion to sell.*
- *The buyer is typically motivated.*
- *The buyer is acting in what he or she considers his or her best interest.*
- *A limited marketing effort and time will be allowed for the completion of a sale.*
- *Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.*

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- *The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."*

This definition clearly differs from that of market value due to the *motivation of the seller* and the *limited marketing period factors*.

An appraisal report will be prepared by a Qualified State Licensed or Certified Appraiser and comply with the USPAP. The Agency will order the liquidation value appraisal. The first step in the appraisal process is to identify the intended user, intended use and the type of value for the appraisal. The following are items that should be identified in an appraisal order process when ordering a liquidation value appraisal:

- When the appraisal assignment is to determine liquidation value, the Agency's Statement of Work (SOW) should clearly identify the value type to be reported. Incorporate the definition above into each State or Customer Service Center (CSC) SOW.

- The severely abbreviated marketing period should be identified in the SOW. The client specified marketing period as identified by SFHGLP is 30 days and must be used by the appraiser whenever the typical marketing period exceeds 30 days. If the typical marketing period is identified by the appraiser as less than 30 days the appraiser should base their estimate of value on the shorter period and identify the time period used. The appraisal should be developed based on the actual physical condition of the property

- The type of written appraisal report should be identified for the vendor. Appraisal reports should be the most recent revision of one of the following:

  - Uniform Residential Appraisal Report (Fannie Mae Form 1004 or Freddie Mac Form 70)
  - Manufactured Home Appraisal Report (Fannie Mae Form 1004C or Freddie Mac Form 70-B)
  - Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073 or Freddie Mac Form 465)

The Agency allows modification of the above forms to capture the liquidation value. As part of the appraisal assignment, the appraiser will be requested to complete the following to support the value and condition of the property:

- Market Conditions Addendum to Appraisal Report (Fannie Mae Form 1004MC or Freddie Mac Form 71). This form will further enhance and document a clear

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and accurate understanding of the market trends and conditions prevalent to neighborhoods. If information is unavailable document the Appraisal Report on the attempts when information is not available to support completion of this form.

- Photographs documenting the interior inspection are part of the appraisal assignment. Interior photographs should include the living room, kitchen, bathroom, furnace, central air unit (if applicable), water heater, electrical panel and photographs of any damage or deferred maintenance.

- The appraisal order should summarize the appraisal assignment information and confirm the appraisal fee, payment method, responsible party for payment, verify means of delivery and confirm any special instructions or assignment conditions, as discussed with the appraiser.

- Prior to ordering a liquidation appraisal, the Agency approval official is responsible for determining the need for to request a liquidation value appraisal, in accordance with Paragraph 20.3 C noted above will request a certification of funds from the Fiscal Control Branch (FCB) in the Office of the Deputy Chief Financial Officer (DCFO) 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.

  - Borrower's identification number obtained from GLS. Do not include or reference a social security number (SSN) or a borrower's name.

  - Lenders name.

  - Name of appraiser and company.

  - Amount of quoted appraisal fee.

This process ensures that funds are available to fund the request. Funding has been ample to cover all liquidation value appraisal requests. However, to ensure funds are available for your request, this step must be followed. Questions on this portion of the process may be directed to FCB at (314) 457-4143. States who order liquidation value appraisals on behalf of the Centralized Servicing Center (CSC) are responsible for fund certification.

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- A confirmation of the residential appraisal order obtained from the vendor, once an order is placed, is encouraged.

The appraisal should be ordered by Agency personnel. The Agency may utilize Attachment 20-A as an appraisal order form. The Department of Veterans Affairs' Appraisal Fee Schedule represents the customary and reasonable fee associated with the payment of a liquidation value appraisal. The fee schedule with timeline may be found at: http://benefits.va.gov/homeloans/appraiser_fee_schedule.asp.

Payment to the vendor will be completed through use of Form *RD 3555-46, Report of Liquidation Expense Transaction 4040*. The program loan cost expense account is not utilized for payment of SFHGLP liquidation value appraisals.

The form can be scanned and emailed with the Personally Identifiable Information (PII) required of the form, as long as the sender securely protects the document when sending though encryption. The sender may also fax or mail to the address/number provided below.

- In Block 1 insert the 14 digit case number. This is the state, county and SSN of the borrower. This procedure differs from requesting fund certification. Personally Identifiable Information (PII) must be protected when working with sensitive information. The format is either ##-###-######### or ##############.

- Continue completion of blocks 2 through 7 as published in the Forms Manual Insert (FMI).

  - The actual cost of the appraisal is to be inserted into Block 8.

  - Complete the total amount of Block 8 in Block 9 of the form.

  - In Block 10, "Remarks," insert the following:

    "Loss Claim Appraisal – Guaranteed Rural Housing Loan Program" followed by the borrower's identification number assigned in GLS. It is helpful to utilize the following format to identify the number in Block 10: Borrower ID: #########

- By e-mail, scan the document to either a .PDF or .TIF document type.

Forward the completed form and invoice requesting payment to:

RD.DCFO.GLB@stl.usda.gov

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The form and invoice **MUST** be securely protected when utilizing the e-mail method.

- Forward the completed form and invoice requesting payment to:
  USDA, Rural Development

  DCFO – FC-350/GLB

  PO Box 200011

  St. Louis, MO 63120-0011

- By priority mail, forward the completed form and invoice requesting payment to:
  USDA, Rural Development

  4300 Goodfellow Blvd.

  Bldg. 104 South End

  2nd Floor, Post H37

  St. Louis MO 63120

  General Branch Telephone #: 314.457.4192

- By fax, forward the completed form and invoice requesting payment to: 314.457.4279

It is important that the appraisal be obtained and the loss claim payment request be completed in a timely manner to prevent unnecessary payment of additional interest. In addition, this loss settlement calculation can be completed immediately following the foreclosure sale or at any time during the 9-month marketing period. If the lender then sells the property for an amount greater than the appraised amount used in calculating the loss, this recovery would be paid to the Government in accordance with this Chapter.

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D. Loss Administration – Record the Loss Claim in GLS

Authorized Agency staff will capture information provided by a lender submitting a manual claim outlined in Paragraph 20.3 of this Chapter and populate GLS at the Add/Update Loss Claim page. Refer to the *User Documentation Guide: Loss Claim Administration* found at the following link under the *Training and Resource Library* link: https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do. Lenders who are approved to electronically submit a loss claim will populate the GLS page when submitting their claim.

20.4 CALCULATING NET RECOVERY VALUE

As a part of the loss claim, the Agency will reimburse the lender for the difference between the loss incurred by the lender and the net recovery value of the property, within the limits of the guarantee. Net recovery value is the amount the lender recovers from the sale of a property after accounting for all costs. Net recovery value is calculated differently for properties that have been sold than for properties that are in the lender's inventory at the time the loss claim is filed. For property that has already been sold, the actual net recovery value is used. For property that remains in the lender's inventory, the estimated net recovery value is used.

A. Sold Properties

When the lender disposed of the property at the time of a loss claim submission, the actual net recovery value is calculated as the difference between:

- The proceeds from the sale and any other amounts recovered, such as recovered escrow funds; and
- Allowable liquidation and disposition costs.

B. Unsold REO Properties

The Agency estimates the net recovery value on unsold REO as the difference between:

- The value of the property based on a liquidation value appraisal; and
- Allowable liquidation costs.

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The lender is not obliged to market the property prior to submitting a loss claim. A lender may file a loss claim using an estimated net recovery value at any time after property liquidation and during the allowable marketing period. However, the filed claim is considered a final claim. If the lender then sells the REO property for an amount greater than the appraised amount used in calculating the loss, this recovery would be paid to the Government in accordance with Section 3 of this Chapter.

20.5 AGENCY REVIEW

The Agency will review the loss claim package from the lender. Loss claim checks or electronic funds transfer (EFT) payments will be made within 60 days of the lender's properly filed loss claim will be issued to the lender by the Agency's finance office. Agency staff will notify the lender of any additional documentation required. The requirement for additional documentation must be noted in the loss claim file.

Once all required information has been supplied, the Agency must take the following actions:

- Determine whether the lender has fulfilled all SFHGLP obligations and if not, whether reduction or denial of the loss claim is warranted;
- Enter the loss claim into the GLS under the *Loss Claim Administration* menu which will calculate the loss payment amount. This step is not applicable to lenders who are approved to utilize the electronic web submission outlined in Paragraph 20.3;
- Have the claim reviewed and approved by the Agency designee with approval authority;
- Notify lender in writing by providing a copy of the GLS *View/Update Loss Claim* screen;
- When an estimated claim is paid, the Agency will advise the lender, servicer, or payee, as appropriate, of the following:
  - The estimated sale price (appraised value) used to calculate the claim,
  - That future recovery may be due if the actual sale price exceeds the estimated sale price,
  - When and how to report future recovery of sale proceeds, and

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- The consequences of failure to report future recoveries, including agency monitoring and the possible termination of lender eligibility.

- Provide appropriate appeal rights for any adjustments, reductions, or denials with specific reasons and clear explanation for the decision in accordance with Appendix 3 of this handbook; and

- Issue payment as appropriate.

Payment of the loss claim simultaneously fulfills and terminates the loan note guarantee. A termination notice will be mailed to the servicing lender at the time of payment.

A. When Claims Are Reduced or Denied

Losses to the lender and Agency are less when lenders originate, service, and liquidate loans according to Agency requirements. The Agency will review each loss claim for adherence to program regulation and make any reductions and/or denial of loss claim as noted below.

When reviewing the loss claim, Agency staff will use information provided by the lender to determine if the loss claim amount should be adjusted or denied. The Agency must show that any reduction in the lender's claim is commensurate with the lender's action, or failure to act. This section provides guidance regarding reduction or denial of a claim, and when applicable, the specific penalties attached to those factors. Additional information regarding penalties may be found in Appendix 9 of this Handbook.

B. Reasons for Reduction or Denial

Loss claims can be reduced or denied for reasons ranging from failure to submit the claim within prescribed timeframes, to instances of program fraud or abuse on the part of the lender. The Agency will reduce the loss claim when appropriate~~, regardless of whether the error that caused the reduction was the fault of the loan holder~~. Lenders can refer to Appendix 9 of this Handbook for reasons a reduction or denial of a claim will occur.

C. Calculation and Approval of Loss Payment

Agency staff will calculate the loss claim amount using *Form RD 3555-20* and supportive documentation submitted by the lender. Agency staff will utilize the *Add/Update Loss Claim* transaction in the *Loss Claim Administration* menu of GLS to document and create a loss payment to the lender**.** The Agency's reviewer should contact the lender if there are questions about the information submitted by the lender.

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D. Loss Claim Payment Process

The Agency will use the following procedures for loss claim processing and disbursement of any loss claim checks.

1. Notification of Loss Payment Amount

The Agency will notify the lender in writing of the amount to be paid within 60 days of receipt of a properly completed loss claim package. If the claim has been reduced or denied, the Agency will provide a clear explanation of its decision, including an analysis of how the amount of any reduction was determined, and provide notification of appeal rights in accordance with Appendix 3 of this handbook. The Agency will pay the claim, or the reduced claim, promptly.

2. Payment and Post Payment Activities

Payments for approved claims will be distributed within 60 days of receipt of a properly completed loss claim form. Lenders who have voluntarily agreed to electronic funds transfer (EFT) will receive payment electronically for a properly completed and submitted loss claim within 3 working days of claim processing. For all other lenders, a check will be generated for approved claims and distributed within 3 working days of receipt of a properly completed and submitted loss claim. Loss claim checks will be issued to the lender by the Agency's finance office. Payment of the loss claim simultaneously fulfills and terminates the loan note guarantee. A termination notice will be mailed to the servicing lender at the time of payment. Any questions concerning the status of a loss claim payment should be addressed to the Agency office where the loss claim was originally submitted by the lender.

3. Review and Appeal Rights.

If a claim is reduced or denied, the Agency will notify the lender of its review and appeal rights, as described in Appendix 3 of this handbook. If the lender seeks to request a review or appeal a loss claim decision, the Agency will pay the approved portion of the loss claim within the time frames described above. Interest will not accrue on any disputed loss amount during the review or appeals process, regardless of the outcome of the review or appeal.

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4. Supplemental Claims

The Agency may allow the lender to submit 1 supplemental loss claim in addition to the original claim submitted. The supplemental claim must be received by the Agency within six months from payment date of the initial claim The Agency reserves the right to limit the payment of additional interest and expenses. The six month expiration period may be exceeded if unusual circumstances exist such as a domestic incident as defined by the Department of Homeland Security or when a geographic location in which the property is located has been declared a Presidential Disaster.

E. Verification of REO Sale

The Agency will flag claims that were paid based on estimated net recovery value and contact the lender quarterly after loss claim payment to inquire about the REO status if the actual sale information has not been received.

If the REO has been sold, the Agency will request the lender to submit a HUD-1, or similar documentation as verification of the sale amount.

Agency follow-up should continue until the sale information is received. Once confirmation has been received the REO has sold, the Agency will update the GLS by inputting the information collected into the *Add Recovery Calculator* of the *Loss Claim Administration* menu of GLS for lenders who are not approved to submit their claims electronically. For those lenders approved to submit claims electronically, the lender will complete the *Add Recovery Calculator* page in GLS. If the REO sold for a higher price than the liquidation value appraisal in which the loss claim was based, future recovery may be due from the lender as described in Section 3 of this Chapter.

SECTION 3: FUTURE RECOVERY

20.6 OVERVIEW

The Agency requires that the lender notify the Agency if they recover additional funds after the loss claim has been paid. Future recovery can come in two different forms:

- **Actual Payment**. For example, a check received for a delayed insurance payment, a credit for prepaid real estate taxes would be reported as future recovery.

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- **Higher Than Liquidation Value Actual Sales Price.** When the loss claim is calculated for an unsold REO property, it is based on the liquidation value appraisal. If the property is later sold for an amount greater than the liquidation value in which the claim was calculated on. That difference must be reported to the Agency as a future recovery. The Agency will not reimburse the lender after the loss claim is paid if an REO property sells for a price lower than the liquidation value appraisal.

The proceeds of any amounts recovered shall be shared in proportion to the amount of loss borne between the Agency and the lender. This may result in a different distribution of the proceeds depending upon what percentage of the loss was originally paid by the Agency. Although the lender's actual loss may be different than the amount on which loss settlement was based, the proportion of recovery sharing must be based on the loss percentage upon which the loss payment calculation was based.

A. Agency Covered 100 percent of Original Loss

In the future recovery calculation, if the loss paid on a liquidation value appraisal was less than 35 percent of the original loan amount, the Agency will have reimbursed the lender for its entire loss. Since the lender incurred no loss, all future recovery proceeds must be returned to the Agency to offset its losses adjusted by the following allowances for the lender:

- Allowance for additional real estate commission. The commission allowed is based upon the liquidation value appraisal and the actual sales price and is capped at 6%.

- Cost of any capital improvement expenses the lender incurred that directly resulted in an increase in the sales price of the REO property. Confirmation/documentation is required.

- Seller concessions paid from the sale proceeds above what is reasonable and customary for the area, which directly resulted in an increased sales price. Confirmation/documentation is required.

B. Agency and Lender Shared Original Loss

If the loss was greater than 35 percent of the original loan amount, the Agency will have reimbursed the lender for any loss up to 35 percent of the original loan amount. Losses in excess of that amount will be shared between the lender and the Agency.

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In such a situation, any recovery goes first to reimburse the lender and the Agency for their respective portions of the loss over 35 percent of the original loan amount. The remaining portion of the recovery amount, if any, goes entirely to the Agency to offset its remaining loss.

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ATTACHMENT 20-A

Liquidation Value Appraisal Order Form

Date: _____

Client Information

USDA
Rural Development

Contact: _____ E-Mail Address: _____ Telephone and Fax No. _____

Mailing Address: _____

Billing Address (if different from mailing): _____

Owner Information

Former Borrower Information: _____

Current Owner: _____

Foreclosure Sale Date: _____

Property Information

Address of Property to be Appraised: _____

Property Access Information

Contact: _____

Contact Type: ☐ Realtor ☐ Lender/Owner

Contact Telephone: _____

Alternate Contact Telephone: _____

Lockbox Combination: _____

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Appraisal, Property and Report Type

Appraisal Type:	☒ As-Is Value ☒ Full Appraisal ☒ Liquidation Value ☒ Marketing Time Frame: _____	Property and Report Type:	☐ Single Family Detached (FNMA 1004 /Freddie Mac 70) ☐ Condo (FNMA 1073 /Freddie Mac 465) ☐ Manufactured Home (FNMA 1004C)

Other Information

Other Information Required:	☒ FNMA 1004MC / Freddie Mac 71) Market Condition Addendum Report ☐ Interior Photographs ☐ Supplemental Real Estate Owned Appraisal Addendum	Appraisal Purpose Statement of Work:	Loss payment consideration to owner.

Pricing/Delivery

Quoted Price:	$_____	Anticipated Delivery Date:	_____

Definition of Liquidation Value: *The most probable price that a specified interest in real property is likely to bring under all of the following conditions:*

- *Consummation of a sale will occur within a severely limited future marketing period specified by the client.*
- *The actual market conditions currently prevailing are those to which the appraised property interest is subject.*
- *The buyer is acting prudently and knowledgeably.*
- *The seller is under extreme compulsion to sell.*
- *The buyer is typically motivated.*
- *The buyer is acting in what he or she considers his or her best interest.*
- *A limited marketing effort and time will be allowed for the completion of a sale.*
- *Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.*
- *The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."*

APPENDIX 2

FORMS AND INSTRUCTIONS

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APPENDIX 2
FORMS AND INSTRUCTIONS

List of Forms and Instructions

The following are forms noted within the handbook. Forms are separated by action. Some forms are Agency only specific and require only Agency action (as noted in the "Agency Use Only" column). Some forms are optional and should be used at the discretion of the lender (as noted in the "Optional Use by Lender" column).

All forms are in-fillable format and can be accessed from the Rural Development Instructions website at: http://www.rurdev.usda.gov/regs/, unless otherwise noted with a link to the form. Select "*Forms*" from the home page and then the applicable "*Form Series*" and browse for the form number.

Lender Participation

Form Number	Form Name	Optional Use by Lender	Agency Use Only	See HB Chapter
Form RD 3555-16	Agreement for Participation in Single Family Housing Guaranteed/Insured Loan Programs of the United States Government			16

Origination and Processing

Form Number	Form Name	Optional Use by Lender	Agency Use Only	See HB Chapter
Form RD 3555-21	Request for Single Family Housing Loan Guarantee			10, 15
Form RD 1910-5	Request for Verification of Employment	√		9
Form RD 1944-4	Certification of Disability or Handicap	√		9
Form RD 1944-62	Request for Verification of Deposit	√		9

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Form Number	Form Name	Optional Use by Lender	Agency Use Only	See HB Chapter
FEMA Form 086-0-32	Standard Flood Hazard Determination Form http://www.fema.gov/library/viewRecord.do?id=1394			12
Form RD 1922-15	Administrative Appraisal Review for Single Family Housing		√	12
Form RD 1940-21	Environmental Assessment for a Class I Action		√	6, 15
Form RD 1940-22	Environmental Checklist for Categorical Exclusions		√	6, 15

Commitment

Form Number	Form Name	Optional Use by Lender	Agency Use Only	See HB Chapter
Form RD 3555-18	Conditional Commitment for Single Family Housing Loan Guarantee		√	15

Loan Closing

Form Number	Form Name	Optional Use by Lender	Agency Use Only	See HB Chapter
Form RD 451-2	Schedule of Remittances		√	16
Form RD 1980-19	Guaranteed Loan Closing Report			16
Form RD 3555-11	Lender Record Change			4, 16, 17
Form RD 3555-17	Loan Note Guarantee		√	16

Interest Assistance

Form Number	Form Name	Optional Use by Lender	Agency Use Only	See HB Chapter
Form RD 3555-87	Shared Equity Payment		√	App. 6
Form RD 3555-12	Master Interest Assistance and Shared Equity Agreement with Promissory Note			App. 6
Form RD 3555-13	Annual Interest Assistance Agreement			App. 6
Form RD 3555-14	Interest Assistance Shared Equity Determination		√	App. 6

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Servicing

Form Number	Form Name	Optional Use by Lender	Agency Use Only	See HB Chapter
Form RD 1980-7	Notification of Transfer and Assumption of a Guaranteed Loan		√	17

Loss Claim

Form Number	Form Name	Optional Use by Lender	Agency Use Only	See HB Chapter
Form RD 3555-20	Rural Housing Guarantee Report of Loss			20
Form RD 3555-46	SFHGLP - Report of Liquidation Expenses		√	20

Instructions Referenced

RD Instruction 1901-E	Civil Rights Compliance Requirements
RD Instruction 1900-D	Processing and Servicing Rural Development Assistance to Employees, Relatives, and Associates
RD Instruction 1924-A	Planning and Performing Construction and Other Development
RD Instruction 1940-G	Environmental Program
RD Instruction 1940-M	Government wide Debarment and Suspension (nonprocurement) and Requirements for Drug-Free Work Place
RD Instruction 1951-B	Collections

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APPENDIX 3

REVIEW AND APPEALS

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APPENDIX 3

REVIEW AND APPEALS

A. Review and Appeal Options

Agency decisions that are not made in favor of a program participant (lender, applicant or borrower) are known as adverse decisions, and may be reviewed or appealed. Adverse decisions include: (1) administrative actions taken by Agency staff; and (2) the Agency's failure to take required actions within time frames specified in statutes or regulations or within a reasonable time if no deadline is specified. 7 CFR Part 11 is the regulation of the National Appeals Division (NAD) and provides procedures that both Agency officials and program participants must follow when an appeal is made. Applicable portions of 7 CFR Part 11 to the SFHGLP can be found later in this appendix. Handbook letters 1through 7 are provided to inform program participants of their rights. Program participants for the SFHGLP in part are defined as an applicant; borrower or lender. Refer to 7 CFR Part 11 for complete information on program participants.

Adverse decisions are subject to the following review and appeal procedures.

- **Informal Administrative Review by Agency Decision-Maker**. Program participants have the right to request that any adverse decision be reviewed by the Agency staff member who made the adverse decision.
- **Appeal Request to NAD.** Most adverse decisions, whether or not they have been reviewed by the Agency decision-maker, may be appealed to NAD.
- **Mediation as a Form of Alternative Dispute Resolution (ADR).** Adverse decisions which are appealable to NAD require the participant be given the opportunity to seek an ADR prior to a hearing with NAD. Mediation is the only form of ADR funded in part by Rural Development. The purpose of mediation is to resolve disputes through the use of a neutral mediator. A mediator's role is to offer procedural suggestions on a resolution and summarizes each party's perception of the issues, which may lead to a mutual resolution of the adverse decision.

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B. Informing Program Participants of Their Rights

Whenever an Agency official makes a decision that will adversely affect a program participant, the Agency will make the proper notification in writing that an informal administrative review with the person who made the decision may be requested. If the decision is appealable, the participant will be informed of their rights to seek mediation and to request a hearing with NAD. Handbook Letter 1 of this appendix is used for this purpose. If the decision is not appealable, the participant will be informed of their rights to have NAD review the accuracy of the Agency's finding that the decision cannot be appealed. Mediation rights are not provided on decisions which cannot be appealed. Handbook Letter 2 of this appendix is used for this purpose.

Letters notifying program participants of adverse decisions must contain the information needed for the program participant to make decisions regarding involvement in the review and appeals process. Specific civil rights language also must be included in these letters. Handbook Letters 1through 7 following this appendix are available for guidance and are titled to assist the Field Staff in selecting the correct language for the decision made.

The lender will be responsible for notifying the applicant or borrower if the lender declines an applicant or borrowers request. Denial of loan request or servicing actions made by the lender does not require Agency concurrence as the adverse decision was not made by an Agency official, and therefore, is not subject to review or appeal rights.

Notification of adverse decisions by the Agency will include notification to the lender and the applicant/borrower when declining a request for commitment. Adverse decisions regarding loss payments will be directed to the lender/servicer

C. Adverse Decisions That Cannot Be Appealed

Certain decisions made by the Agency cannot be appealed. In these cases, the participant is still provided the opportunity for an informal administrative review; however, mediation and appeal rights to NAD are not offered. The participant will be informed through Handbook Letter 2 of this appendix that they may request an informal administrative review and write to NAD for a review of the accuracy of the Agency's determination that the case cannot be appealed. Decisions that cannot be appealed

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include:

- Decisions made by parties outside the Agency (such as when an applicant disagrees with a private lender's decision not to provide a loan);
- An official's refusal to request an administrative waiver;
- Decisions made in accordance with statue (such as rural area designations); and
- Denial of credit due to lack of funds.

When one or more of the reasons for an adverse decision are reasons that cannot be appealed, the adverse decision cannot be appealed. In these cases, the letter containing the adverse decision will include only the items which cannot be appealed as the reason why the decision cannot be appealed. If other reasons also exist for the adverse decision, they will be listed separately in the decision letter as other reasons the assistance could not be granted.

D. Informal Administrative Review

Participants who want to request an informal administrative review with the person who made the decision must do so within 15 days of the date of the Agency's letter notifying the participant of the adverse decision. The participant must make a request for an informal administrative review in writing, and the request will be retained in the participant's case file. The informal administrative review can be conducted by telephone or through a face-to-face meeting, at the discretion of the Agency. The informal administrative review can also be conducted by a representative of the person who made the decision. The purpose of the informal administrative review is to further explain the Agency's reasons for the adverse decision, listen to why the participant feels the decision may be incorrect, and obtain any further information from the participant to support their request. The review must be completed within 45 days of the request and the participant is notified in writing of the results. The State Director may require that the decision be reviewed by the next-level supervisor or other designated Rural Development staff before the participant is notified of the decision. Handbook Letter 3 of this appendix is used if the adverse decision is not reversed as a result of the informal administrative review. If the decision is reversed, a letter will be sent to the participant notifying them of the decision and next steps.

The participant may skip an informal administrative review and, if applicable, request mediation or an appeal. In doing so, the participant automatically waives their rights to an informal administrative review.

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E. Mediation

Adverse decisions which are appealable to NAD also require that the participant be given the opportunity to seek mediation prior to having a hearing with NAD. The purpose of mediation is to resolve disputes through the use of a neutral mediator. A participant may skip mediation and request an appeal to NAD. In doing so, they automatically waive their rights to mediation.

Requests for Mediation

After receiving Handbook Letters 1 or 3 of this appendix, as applicable, a program participant may request mediation services. Upon receipt of the program participant's request for mediation Handbook Letter 4 of this appendix is sent to the participant to begin the process. Handbook Letter 4 of this appendix is generally sent by the State Director since costs are involved; however, they can be sent directly by the Field Office at the discretion of the State Director.

Cost of Mediation

There is generally a cost associated with participation in mediation. When there are costs, they will be shared equally between the Agency and the program participant, if Agency funds are available. Where Agency program funds are not available, the Agency will participate in mediation if requested by the program participant; however, the program participant will be notified in advance of the portion of the cost the Agency will pay (if any) and their estimated cost for this service. The State Director will ensure that all participants requesting mediation in their State are treated consistently and pay the same percentage of the cost toward this service. The State Director may also consent to pay a larger percentage (up to 100 percent) of the cost of mediation for participants with incomes below the poverty level. The Agency will notify the mediation source of how the cost of such service will be paid. Handbook Letters 4 and 5 of this appendix include language to meet this requirement.

Mediation in States with a USDA-funded mediation program

Many States have a mediation program that is annually certified by USDA. These programs are funded, in part, by USDA, and were established primarily to mediate cases

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originating from the Farm Service Agency (FSA). If you are unsure if a USDA-funded mediation program exists in your State, you should contact your State Director. In States with a USDA-s funded mediation program, program participants who are provided appeal rights will be generally referred to the USDA-funded mediation program. Handbook Letter 4 of this appendix may be sent to the program participant to acknowledge their request, and Handbook Letter 5 of this appendix may be used to refer the case to the mediation service provider. In States where alternative mediation sources are readily available at a lower cost than the USDA-funded mediation program, the State will follow the guidance for States with a Community-Based Mediation Center (CBMC) or States without a USDA-funded mediation program, and include the USDA mediation program on the list of acceptable providers.

Mediation in States with a Community-Based Mediation Center

A CBMC is a nonprofit, public entity operating under the guidance of a governing board. Its goal is to provide an alternative to the judicial system by the use of trained mediators located in the geographical area served. The CBMC provides mediation services to clients regardless of their ability to pay. In States without a USDA-funded State mediation program, the CBMC is an option. Program participants with appeal rights who request mediation can be referred to the CBMC. The State ADR Coordinator should establish a source/vendor list of CBMCs. The list should include the director, contact information and cost.

Mediation in States without a USDA-funded mediation program

In States without a USDA-funded mediation program or access to a CBMC, Agency officials are responsible for maintaining a list of mediation service providers. The State Office will generally maintain this list as program participants are referred to the State Director to initiate mediation. FSA can generally provide a list of acceptable mediation sources in a State. Other contacts include the National Association of Conflict Resolution or State bar association. When making contacts with these sources, make sure the Agency requests the services of a mediator and not an arbitrator. A mediator resolves disputes by negotiating a resolution through mutual agreement. An arbitrator resolves disputes through hearing both parties and then rendering a binding decision and should not be used. The list will contain the approximate cost of each service provider, if

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known. States may handle the list of mediation sources as follows:

- The State may select a mediation provider from the list, provided there is not a significant variation in the cost of service providers. The list will be maintained alphabetically and sources selected in sequential order. Handbook Letter 4 of this appendix may be sent to the program participant to acknowledge their request for mediation, and Handbook Letter 5 may be used to refer the case to the provider. States will need to maintain documentation to ensure that mediation providers receive an equal number of referrals. If there is a significant variation in cost between service providers, this option will not be used.

- The State may provide the list of mediators to the participant and request the participant to select the source or provide the name of another acceptable source of mediation services. The list will contain the approximate cost of each service provider, if known. Handbook Letter 4, of this appendix, is used for this purpose and provides the participant with 10 days to select a service provider. After selection, Letter 5 of this appendix will be used to refer the case to the mediator. If the program participant does not provide the name of a mediation provider within 10 days, their request for mediation will be considered withdrawn. Handbook Letter 7 of this exhibit will be used to notify the program participant of expiration of selection of mediation service provider. Withdrawal or cancellation of mediation does not extinguish the participant's right to an appeal with NAD.

Timing of mediation

Mediation must be completed within 45 days after the case is referred to the mediation source, unless the complexity of the case warrants a longer time frame and all parties agree to a specific time frame. A mediator will generally conduct a teleconference between the parties prior to accepting a case to determine if the case can be mediated. The Agency encourages the use of such pre-mediation conference since many adverse decisions in the single family housing program may not lend themselves to mediation. Regardless, the Agency will not refuse to participate in mediation if requested to do so by the program participant.

Mediation occurs prior to having a hearing with NAD. Requests for mediation made prior to filing an appeal with NAD stop the clock on the 30-day period during which a participant may appeal to NAD. After mediation has concluded, any days that remain from the 30-day period are available to the participant to request an appeal to NAD. Handbook Letter 7 of this appendix is used for this purpose. The Agency official completing Letter 7 will need to determine the number of days the participant took to request mediation. Hearing dates for participants who request mediation after filing an

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appeal must be selected within 45 days of the conclusion of mediation. Participants may also request mediation after filing an appeal with NAD but prior to the hearing.

Mediation on cases involving CSC

Mediation is handled through local sources, and the Agency may contribute to the cost of the service. As such, mediation requests from program participants who receive adverse decisions from CSC must be coordinated through the State Office.

When a program participant receives Handbook Letters 1 or 3 of this appendix as a result of an adverse decision made by CSC, the participant is referred to the State Director to initiate mediation. Upon receipt of a program participant's request, the State Office will send Handbook Letters 4, 5 or 7 of this appendix, as applicable. A copy will be provided to the Appeals Coordinator in CSC. When Handbook Letter 5 is sent to the service provider, the Agency contact will be CSC. While the State Office coordinates this service, CSC is responsible for participating in the actual mediation.

Appeals

Participants who wish to appeal an adverse decision must submit a written request to NAD within 30 days of receiving notice of an adverse decision. The request must be signed by the participant and include: (1) a copy of the adverse decision to be appealed; and (2) a brief statement describing why the participant believes the decision is wrong.

Upon receiving a notice from NAD that an appeal has been filed, the Field Office will promptly provide NAD with a copy of the Agency record, specific references in 7 CFR Part 3555 to support the decision, and any other pertinent information. A copy will also be provided to the program participant.

In accordance with NAD regulations, the program participant has the right to a face-to-face hearing in the participant's State of residence. The program participant also has the right to request that the hearing be handled by teleconference. An adverse decision made by CSC may result in an appeal hearing and require a face-to-face hearing. In these cases, the CSC Appeal Coordinator may request the State Director to provide Field Staff to attend the hearing and represent CSC. The CSC Appeals Coordinator will provide sufficient documentation and phone resources to the person selected by the State Director to adequately represent the Agency in the case.

NAD will notify the participant and the Agency once it has made a final determination. If NAD reverses the Agency's decision, the next loan processing action that would have occurred had no adverse decision been made must be taken within 30 days after the effective date of the notice from NAD; unless the Agency requests a review

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of the case by the Director of NAD. See 7 CFR Part 11 of this appendix for more guidance on Director Reviews and other information regarding appeals.

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EQUAL CREDIT OPPORTUNITY ACT

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

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HANDBOOK LETTER 1
NOTIFYING CUSTOMERS OF
AN ADVERSE DECISION THAT IS APPEALABLE

The decision described in the attached letter did not grant you the assistance you requested or will terminate or reduce the assistance you are currently receiving. If you believe this decision or the facts used in this case are in error, you may pursue any or all of the following three options.

Option 1 – Request an Informal Administrative Review
If you have questions concerning this decision or the facts used in making it and desire further explanation, you may write this office to request an informal administrative review. ***There is no cost for an informal administrative review.*** This written request must be received no later than 15 calendar days from the date of the attached letter. You must present any new information, evidence, and possible alternatives along with your request. You may also have a representative or legal counsel participate in the process, at your cost. The informal administrative review may be conducted by telephone or in person, at the discretion of the Agency. Please include a daytime phone number in your request to arrange for the review. You may skip this step in the informal administrative review process and select one of the following two options. If you do, you will automatically waive your right to an informal administrative review.

Option 2 – Request Mediation
You have the right to request mediation. In most cases, the mediator is not a Federal Government employee. A mediator will listen to all parties involved in the dispute and work with all parties to achieve a mutually agreeable resolution. Many cases that go to mediation are resolved without further action, extended delays, or the cost of formal litigation. You have 30 days to request mediation, 10 days to select a mediator, and then 45 days to complete mediation. If you need more information on the mediation process to assist you in deciding whether to use this Option, 2 contact the Rural Development State Director listed below.

[*Rural Development State Director]*

There may be a cost for mediation, if so it is Rural Development policy to pay 50 percent of the reasonable cost for mediation. When there is a cost, it is your responsibility to pay the other 50 percent. Every effort, however, is made to keep any cost to a minimum, and in some cases, the mediator will waive the customer's 50 percent share.

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If you elect to seek mediation, your written request for this service must be sent to the Rural Development State Director and **must be postmarked no later than 30 days from the date when you receive the attached letter**. Once you request mediation, it stops the running of the 30-day period in which you may request an appeal hearing (described in Option 3), but does not waive your right to an appeal.

Once you have requested mediation, the Rural Development State Director will advise you of the mediation service provider, the estimated cost of mediation, the amount the Agency will contribute, and the process and procedures for this service:

1. In states with a USDA-funded state mediation program, you will be referred to such a services.
2. In states without a USDA-funded state mediation program, you will be either directed to a local community mediation service; or you will be provided the names of mediators from which to select one.
3. Also, you may suggest a mediator subject to the Agency's approval.

Once a mediation service provider has been identified, you will have **10 days to contact the mediator:** Following the 10 days you are allowed to select the mediator, you will be advised directly by the mediation source if they can mediate your case.

Once you have been referred to a mediator, you have 45 days to complete the mediation. The Agency can agree to an extension. If mediation does not result in resolution of these issues, you have the right to continue with a request for an appeal hearing as set forth in Option 3.

When mediation is concluded, you will be notified of the result and your right, if applicable, to request an appeal hearing.

Mediation does not take the place of, or limit your right to, an appeal to the National Appeals Division (NAD); however, a NAD appeal hearing would take place only after mediation. You may skip mediation and request an appeal hearing. However, in doing so, you will automatically waive your right to an informal meeting. Once the appeal hearing begins, you also waive your right to mediation.

Option 3 - Request an Appeal

You may request an appeal hearing by the NAD rather than an informal administrative review or mediation. ***There is no cost for an appeal hearing*.** Your request for an appeal must be made no later than 30 days from the date you receive the attached letter. To request an appeal hearing,

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you must write the NAD Assistant Director for your region at the following address:

[NAD Assistant Director Address]

Your request must state the reasons why you believe the decision is wrong, be personally signed by you, and must include a copy of the attached letter. A copy of your request must also be sent to the Rural Development State Director at:

[Rural Development State Director Address]

You, or your representative or counsel, may contact this office anytime during regular office hours to examine or copy the Agency's record relevant to this adverse decision. Photocopies will be provided to you. Your representative or counsel must have your written authorization to represent you and review your file. The NAD Hearing Officer will contact you regarding a time and place for the hearing.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

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HANDBOOK LETTER 2
NOTIFYING CUSTOMERS OF
AN ADVERSE DECISION THAT CANNOT BE APPEALED

The decision described in the attached letter did not grant you the assistance you requested or will terminate or reduce the assistance you are currently receiving.

If you have questions concerning this decision or the facts used in making it and desire further explanation, you may write this office to request an informal administrative review. This written request must be received no later than 15 calendar days from the date of the attached letter. You must present any new information, evidence, and possible alternatives along with your request. You may also have a representative or legal counsel participate in the process, at your cost. The informal administrative review may be conducted by telephone or in person, at the discretion of the Agency. Please include a daytime phone number in your request to arrange for the review.

Program participant generally have a right to appeal adverse decisions, but decisions based on certain reasons cannot be appealed. We have determined that reasons for the decision cannot be appealed under our regulations. You may, however, write the Assistant Director, National Appeals Division (NAD) for a review of the accuracy of our finding that the decision cannot be appealed. Your request must be made no later than 30 days from the date you receive the attached letter.

[NAD Assistant Director Address]

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

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HANDBOOK LETTER 3
NOTIFYING CUSTOMERS
OF UNFAVORABLE DECISION REACHED AS A RESULT
OF AN INFORMAL ADMINISTRATIVE REVIEW

We appreciated the opportunity to review the facts relative to your request for assistance. We regret that the decision in the attached letter did not grant the assistance you requested or will terminate or reduce the assistance you are currently receiving. If you believe that facts used in this case are in error, you may pursue any or all of the following two options.

Option 1 – Request Mediation

You have the right to request mediation. The purpose of mediation is to resolve disputes through the use of a certified, neutral mediator. In most cases, the mediator is not a Federal employee. A mediator will listen to all parties involved in the dispute and work will all parties to achieve a mutually agreeable resolution. Many cases that go to mediation are resolved without further action, extended delays, or the cost of formal litigation. You have 30 days to request mediation, 10 days to select a mediator, and then 45 days to complete mediation.

There may be a cost for mediation. If so, Rural Development will pay for 50 percent of the reasonable cost for mediation. Where there is a cost, it is your responsibility to pay the other 50 percent. Every effort, however, is made to keep any cost to a minimum, and in some cases, the mediator will waive the customer's 50 percent share.

If you elect to seek mediation, your written request for this service must be sent to the Rural Development State Director listed below and must be **postmarked no later than 30 days from the date of the attached letter**. Once you request mediation, it stops the running of the 30-day period in which you may request an appeal hearing (described in Option 3) but does not waive your right to an appeal.

Once you have requested mediation, the Rural Development State Director will advise you of the mediation service provider, the estimated cost of mediation, the amount the Agency will contribute to the cost, and the process and procedures for this service.

1. In States with a USDA-funded mediation program, you will generally be referred to this service.
2. In States without a USDA-funded mediation program, you will be either directed to a local community mediation service; or, you will be provided the names of mediators from which to select one.

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3. Also, you may suggest a mediator subject to the Agency's approval.

Once a mediation service provider has been identified, they will contact you and you will have **10 days to contact the mediator:** Following the 10 days that you are allowed to select the mediator, you will be advised directly by the mediation source if they can mediate your case.

Once you have been referred to a mediator, you have **45 days to complete the mediation.** The Agency can agree to an extension. If mediation does not result in resolution of these issues, you have the right to continue with a request for an appeal hearing as set forth in Option 2.

When mediation is concluded, you will be notified of the result and your right, if applicable, to request an appeal hearing.
If you request mediation prior to filing for an appeal, the number of days you will have to request an appeal will be 30 days from the adverse decision minus the number of days you took to request mediation. Mediation does not take the place of, or limit your rights to, an appeal to the NAD; however, a NAD appeal hearing would take place only after mediation. You may skip mediation and request an appeal hearing. However, in doing so, you will automatically waive your rights to an informal meeting. Once the appeal hearing begins you also waive your right to mediation.

Option 2 - Request an Appeal Hearing

Following your mediation, you may request an appeal hearing by the National Appeals Division (NAD) as long as there are days remaining from the original 30 days to request mediation as outlined in the original adverse decision letter. You must immediately contact the NAD Assistant Director for your region (at the following address) to determine if you can file for an appeal hearing.

[NAD Assistant Director Address]

There is no cost for an appeal hearing. Your request must state the reasons why you believe the decision is wrong, be personally signed by you, and must include a copy of the attached letter. A copy of your request must also be sent to the Rural Development State Director at the following address:

[Rural Development State Director Address]

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You, or your representative or counsel, may contact this office anytime during regular office hours to examine or copy the Agency's record relevant to this adverse decision. Photocopies will be provided to you. Your representative or counsel must have your written authorization to represent you and review your file. The NAD Hearing Officer will contact you regarding a time and place for the hearing.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

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HANDBOOK LETTER 4
ATTACHMENT FOR NOTIFYING CUSTOMERS WHO HAVE REQUESTED MEDIATION OF THE ASSIGNEMENT OF THEIR CASE TO:
A USDA-FUNDED STATE MEDIATION PROGRAM
OR:
A COMMUNITY-BASED MEDIATION CENTER
OR:
CERTIFIED MEDIATION PROVIDER FOR MEDIATION

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TO: [CUSTOMER]

FROM: RURAL DEVELOPMENT STATE DIRECTOR

SUBJECT: Request for Mediation Services

This replies to your request for mediation of your adverse decision. Your request has been referred to a *[USDA-funded state mediation program] [Community Based Mediation Center] or [you must select from the attached list of certified mediation providers*].

As indicated in our adverse decision letter, there may be a cost for the mediation. The following is an estimate, but you will be advised by the mediation service provider if there will be a cost. Rural Development policy is to pay 50 percent of the reasonable cost for mediation.

$_____USDA-funded state mediation program [*and address*]

$_____Community-Based Mediation Center [*and* address]

Attached is an alphabetical list of certified mediators to select a mediator, or subject to our concurrence you may request the use of another mediator.

Within 10 days of the date of this letter, you must provide this office, in writing, with the concurrence/selection of the mediator. If you do not, you will waive your right to mediation. Rural Development will then contact the mediator, who in turn will contact you to determine if they can mediate the issues in your case. You will then have 45 days to complete the mediation.

When the mediation is concluded, you may file an appeal of the original adverse decision by immediately contacting the National Appeals Division (NAD):

[*NAD Assistant Director Address*]

Once you have been contacted by the mediation provider and if you decide not to pursue mediation, you must immediately contact this office (address at the top of this letter). You are responsible for all costs incurred by the mediation provider from the time of selection until your cancellation.

Mediation, or the cancellation of mediation, does not affect your rights to seek an appeal with NAD.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

CC: State Office Program Director
State ADR Coordinator

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HANDBOOK LETTER 5
ATTACHMENT FOR ASSIGNMENT BY RURAL DEVELOPMENT/USDA OF A CUSTOMER MEDIATION REQUESTTO A MEDIATION SERVICES PROVIDER

TO: [*Mediation Service Provider*]

FROM: Rural Development State Director

SUBJECT: Request for Mediation

CUSTOMER: [*Name of the Rural Development customer requesting mediation]*

[*Customer contact information*]

The above Rural Development customer has received an adverse decision from our Agency and has requested mediation. Attached is a copy of the adverse decision letter and the customer's request for your mediation.

Informal Administrative Review:

___ The Customer was provided with the opportunity for an informal administrative review with the Agency; however, the customer chose not to exercise this option.

___ An informal administrative review was conducted; however, the Agency did not reverse its decision.

Jurisdiction of the Case

The adverse decision in this case was made by the following office. You should contact this office for further information on the case.

[*Agency contact: program, individual, address phone and e-mail*]

Payment for Service:

The Rural Development policy is to pay 50 percent of the reasonable cost of the mediation service and the customer will pay 50 percent. In addition, we encourage the mediation service to

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consider the customer's ability to pay. The customer is solely responsible for their portion of the cost of this service and should be billed directly. The bill for the Agency's portion should be submitted to this Rural Development State Office:

[*State ADR Coordinator Name and Address*]

Mediation must be completed within 45 days from the date of this letter, unless both parties agree to an extension. We also request a teleconference prior to your acceptance of this case to determine whether the adverse decision lends itself to mediation by your service.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

Attachments (2): Adverse decision letter
Customer's request for mediation

CC: State and/or National Office Program Director
CSC St. Louis for SFH Cases
State ADR Coordinator

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HANDBOOK LETTER 6
ATTACHMENT FOR NOTIFYING CUSTOMERS OF UNRESOLVED RESULT OF THE MEDIATION OF THE ADVERSE

TO: [*CUSTOMER*]

FROM: [*State Director*]

SUBJECT: Unresolved Result of the Requested Mediation

Your request for mediation has been completed. We regret that we that mediation did not result in resolution of the issues. [*We are unable to grant the assistance you requested, or will terminate, or reduce the assistance you requested*].

If you believe the decision or facts used in the case are in error, you may continue to pursue your right to an appeal by the National Appeals Division (NAD). ***There is no cost for an appeal Please follow the guidance in the paragraph indicated with an "X".***

___ You requested an appeal hearing to NAD prior to entering into mediation. You must immediately write to the Assistant Director of NAD at the address below to determine the number of days remaining, if any, to schedule the appeal hearing:

[*NAD Assistant Director Address*]

___ You did not request an appeal hearing to NAD prior to entering into mediation. If you wish to schedule an appeal hearing, you must immediately write to the Assistant Director of NAD at the address below to determine the number of days remaining, if any, to schedule the appeal hearing. Your appeal request must be received within the remaining days, as determined by NAD, from the date when you requested mediation.

___ [*NAD Assistant Director Address*]

Information Regarding Appeals

If NAD determines that you have appeal rights and you want to exercise those appeal rights, you or your representative or counsel, may contact this office anytime during regular office hours to examine or copy relevant Agency's record relating to the original adverse decision. .

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Photocopies will be provided. Your representative or counsel must have your written authorization to represent you and review your file.

The NAD Hearing Officer will contact you regarding a time and place for the hearing. You may also request a teleconference hearing in lieu of the face-to-face hearing. At any time before the scheduled hearing you may also request that the Hearing Officer make a decision without a hearing.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

CC: State and/or National Office Program Director
CSC St. Louis for SFH cases
State ADR Coordinator

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HANDBOOK LETTER 7
ATTACHMENT FOR NOTIFYING CUSTOMERS OF EXPIRATION OF THE 10 DAYS TO SELECT A MEDIATION SERVIE PROVIDER

TO: [*Customer*]

FROM: [*State Director*]

SUBJECT: Expiration of Selection of Mediation Service Provider

On [*date]*, you requested mediation of the adverse decision as outlined in the attached letter which did not [*grant the assistance you requested or will terminate or reduce the assistance you are currently receiving*, or *will give you relief from foreclosure]*. You were also informed that you had 10 days from [*date*] to either concur in the mediation service assigned by Rural Development to your case, or name mediation service for our consideration.

The 10 days to acknowledge the selection of the mediation service provider has expired. Your request for mediation therefore has expired, and Rural Development will begin to process the initial adverse decision as outlined in the attached letter.

Request an Appeal Hearing

Your request for mediation did not take the place of, or limit your right to request an appeal to the National Appeals Division (NAD). You may request an appeal hearing by NAD as long a there are days remaining from the original 30 days to request an appeal as outlined in the original adverse decision letter. You must immediately contact the NAD Assistant Director for your region (at the following address) to determine if you can file for an appeal hearing.

[*NAD Assistant Director Address*]

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There is no cost for an appeal hearing. Your request must state the reasons why you believe the decision is wrong, be personally signed by you, and include a copy of the attached original decision letter. A copy of your request must also be sent to the Rural Development State Director:

[*Rural Development State Director Address*]

You, or your representative or counsel, may contact this office at anytime during regular office hours to examine or copy the Agency's record relative to the adverse decision. Photocopies will be provided to you. Your representative or counsel must have your written authorization to represent you and review your file. The NAD Hearing Officer will contact you regarding a time and place for the hearing.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

Attachment: Copy of denial letter

CC: State and/or National Office Program Director
CSC St. Louis for SFH Cases
State ADR Coordinator

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HANDBOOK 3

7 CFR PART 11--NATIONAL APPEALS DIVISION RULES OF PROCEDURE

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Authority: 5 U.S.C. 301; Title II, Subtitle H, Pub. L. 103-354, 108 Stat. 3228 (7 U.S.C. 6991 et seq.); Reorganization Plan No. 2 of 1953 (5 U.S.C. App.).

§ 11.1 Definitions.

For purposes of this part:

Adverse decision means an administrative decision made by an officer, employee, or committee of an agency that is adverse to a participant. The term includes a denial of equitable relief by an agency or the failure of an agency to issue a decision or otherwise act on the request or right of the participant within timeframes specified by agency program statutes or regulations or within a reasonable time if timeframes are not specified in such statutes or regulations. The term does not include a decision over which the Board of Contract Appeals has jurisdiction.

Agency means:

(1) The Agricultural Stabilization and Conservation Service (ASCS);

(2) The Commodity Credit Corporation (CCC);

(3) The Farm Service Agency (FSA);

(4) The Farmers Home Administration (FmHA);

(5) The Federal Crop Insurance Corporation (FCIC);

(6) The Natural Resources Conservation Service (NRCS);

(7) The Rural Business-Cooperative Service (RBS);

(8) The Rural Development Administration (RDA);

(9) The Rural Housing Service (RHS);

(10) The Rural Utilities Service (RUS) (but not for programs authorized by the Rural Electrification Act of 1936 and the Rural Telephone Bank Act, 7 U.S.C. 901 et seq.);

(11) The Soil Conservation Service (SCS);

(12) A State, county, or area committee established under section 8(b)(5) of the Soil Conservation and Domestic Allotment Act (16 U.S.C. 590h(b)(5)); and

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(13) Any successor agency to the above-named agencies, and any other agency or office of the Department which the Secretary may designate.

Agency record means all the materials maintained by an agency related to an adverse decision which are submitted to the Division by an agency for consideration in connection with an appeal under this part, including all materials prepared or reviewed by the agency during its consideration and decision-making process, but shall not include records or information not related to the adverse decision at issue. All materials contained in the agency record submitted to the Division shall be deemed admitted as evidence for purposes of a hearing or a record review under Sec. 11.8 of this Appendix.

Agency representative means any person, whether or not an attorney, who is authorized to represent the agency in an administrative appeal under this part.

Appeal means a written request by a participant asking for review by the National Appeals Division of an adverse decision under this part.

Appellant means any participant who appeals an adverse decision in accordance with this part. Unless separately set forth in this part, the term ``appellant'' includes an authorized representative.

Authorized representative means any person, whether or not an attorney, who is authorized in writing by a participant, consistent with Sec. 11.6(c), to act for the participant in an administrative appeal under this part. The authorized representative may act on behalf of the participant except when the provisions of this part require action by the participant or appellant personally.

Case record means all the materials maintained by the Secretary related to an adverse decision. The case record includes both the agency record and the hearing record.

Days means calendar days unless otherwise specified.

Department means the United States Department of Agriculture (USDA).

Director means the Director of the Division or a designee of the Director.

Division means the National Appeals Division established by this part.

Equitable relief means relief which is authorized under section 326 of the Food and Agriculture Act of 1962 (7 U.S.C. 1339a) and other laws administered by the agency.

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Ex parte communication means an oral or written communication to any officer or employee of the Division with respect to which reasonable prior notice to all parties is not given, but it shall not include requests for status reports, or inquiries on Division procedure, in reference to any matter or proceeding connected with the appeal involved.

Hearing, except with respect to Sec. 11.5, means a proceeding before the Division to afford a participant the opportunity to present testimony or documentary evidence or both in order to have a previous determination reversed and to show why an adverse determination was in error.

Hearing Officer means an individual employed by the Division who conducts the hearing and determines appeals of adverse decisions by any agency.

Hearing record means all documents, evidence, and other materials generated in relation to a hearing under Sec. 11.8.

Implement means the taking of action by an agency of the Department in order fully and promptly to effectuate a final determination of the Division.

Participant means any individual or entity who has applied for, or whose right to participate in or receive, a payment, loan, loan guarantee, or other benefit in accordance with any program of an agency to which the regulations in this part apply is affected by a decision of such agency. With respect to guaranteed loans made by FSA, both the borrower and the lender jointly must appeal an adverse decision except that the denial or reduction of a final loss payment to a lender shall be appealed by the lender only. The term does not include persons whose claim(s) arise under:

(1) Programs subject to various proceedings provided for in 7 CFR part 1;

(2) Programs governed by Federal contracting laws and regulations (appealable under other rules and to other forums, including to the Department's Board of Contract Appeals under 7 CFR part 24);

(3) The Freedom of Information Act (appealable under 7 CFR part 1, subpart A);

(4) Suspension and debarment disputes, including, but not limited to, those falling within the scope of 7 CFR parts 1407 and 3017;

(5) Export programs administered by the Commodity Credit Corporation;

(6) Disputes between reinsured companies and the Federal Crop Insurance Corporation;

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(7) Tenant grievances or appeals prosecutable under the provisions of 7 CFR part 1944, subpart L, under the multi-family housing program carried out by RHS;

(8) Personnel, equal employment opportunity, and other similar disputes with any agency or office of the Department which arise out of the employment relationship;

(9) The Federal Tort Claims Act, 28 U.S.C. 2671 et seq., or the Military Personnel and Civilian Employees Claims Act of 1964, 31 U.S.C. 3721; or

(10) Discrimination complaints prosecutable under the nondiscrimination regulations at 7 CFR parts 15, 15a, 15b, and 15e.

Record review means an appeal considered by the Hearing Officer in which the Hearing Officer's determination is based on the agency record and other information submitted by the appellant and the agency, including information submitted by affidavit or declaration.

Secretary means the Secretary of Agriculture.

§ 11.2 General statement.

(a) This part sets forth procedures for proceedings before the National Appeals Division within the Department. The Division is an organization within the Department, subject to the general supervision of and policy direction by the Secretary, which is independent from all other agencies and offices of the Department, including Department officials at the state and local level. The Director of the Division reports directly to the Secretary of Agriculture. The authority of the Hearing Officers and the Director of the Division, and the administrative appeal procedures which must be followed by program participants who desire to appeal an adverse decision and by the agency which issued the adverse decision, are included in this part.

(b) Pursuant to section 212(e) of the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, Public Law 103-354 (the Act), 7 U.S.C. 6912(e), program participants shall seek review of an adverse decision before a Hearing Officer of the Division, and may seek further review by the Director, under the provisions of this part prior to seeking judicial review.

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§ 11.3 Applicability.

(a) Subject matter. The regulations contained in this part are applicable to adverse decisions made by an agency, including, for example, those with respect to:

(1) Denial of participation in or receipt of benefits under, any program of an agency;

(2) Compliance with program requirements;

(3) The making or amount of payments or other program benefits to a participant in any program of an agency; and

(4) A determination that a parcel of land is a wetland or highly erodible land.

(b) Limitation. The procedures contained in this part may not be used to seek review of statutes or USDA regulations issued under Federal law.

§ 11.4 Inapplicability of other laws and regulations.

The provisions of the Administrative Procedure Act generally applicable to agency adjudications (5 U.S.C. 554, 555, 556, 557, & 3105) are not applicable to proceedings under this part. The Equal Access to Justice Act, as amended, 5 U.S.C. 504, does not apply to these proceedings. The Federal Rules of Evidence, 28 U.S.C. App., shall not apply to these proceedings.

§ 11.5 Informal review of adverse decisions.

(a) Required informal review of FSA adverse decisions. A participant must seek an informal review of an adverse decision issued at the field service office level by an officer or employee of FSA, or by any employee of a county or area committee established under section 8(b)(5) of the Soil Conservation and Domestic Allotment Act, 16 U.S.C. 590h(b)(5), before NAD will accept an appeal of an FSA adverse decision. Such informal review shall be done by the county or area committee with responsibility for the adverse decision at issue. The procedures for requesting such an informal review before FSA are found in 7 CFR part 780. After receiving a decision upon review by a county or area committee, a participant may seek further informal review by the State FSA committee or may appeal directly to NAD under Sec. 11.6(b).

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(b) Optional informal review. With respect to adverse decisions issued at the State office level of FSA and adverse decisions of all other agencies, a participant may request an agency informal review of an adverse decision of that agency prior to appealing to NAD. Procedures for requesting such an informal review are found at 7 CFR part 780 (FSA), 7 CFR part 614 (NRCS), 7 CFR part 1900, subpart B (RUS), 7 CFR part 1900, subpart B (RBS), and 7 CFR part 1900, subpart B (RHS).

(c) Mediation. A participant also shall have the right to utilize any available alternative dispute resolution (ADR) or mediation program, including any mediation program available under title V of the Agriculture Credit Act of 1987, 7 U.S.C. 5101 et seq., in order to attempt to seek resolution of an adverse decision of an agency prior to a NAD hearing. If a participant:

(1) Requests mediation or ADR prior to filing an appeal with NAD, the participant stops the running of the 30-day period during which a participant may appeal to NAD under Sec. 11.6(b)(1), and will have the balance of days remaining in that period to appeal to NAD once mediation or ADR has concluded.

(2) Requests mediation or ADR after having filed an appeal to NAD under Sec. 11.6(b), but before the hearing, the participant will be deemed to have waived his right to have a hearing within 45 days under Sec. 11.8(c)(1) but shall have the right to have a hearing within 45 days after conclusion of mediation or ADR.

§ 11.6 Director review of agency determination of appealability and right of participants to Division hearing.

(a) Director review of agency determination of appealability.

(1) Not later than 30 days after the date on which a participant receives a determination from an agency that an agency decision is not appealable, the participant must submit a written request to the Director to review the determination in order to obtain such review by the Director.

(2) The Director shall determine whether the decision is adverse to the individual participant and thus appealable or is a matter of general applicability and thus not subject to appeal, and will issue a final determination notice that upholds or reverses the determination of the agency. This final determination is not appealable. If the Director reverses the determination of the agency, the Director will notify the participant and the agency of that decision and inform the participant of his or her right to proceed with an appeal.

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(3) The Director may delegate his or her authority to conduct a review under this subsection to any subordinate official of the Division other than a Hearing Officer. In any case in which such review is conducted by such a subordinate official, the subordinate official's determination shall be considered to be the determination of the Director and shall be final and not appealable.

(b) Appeals of adverse decisions.

(1) To obtain a hearing under Sec. 11.8, a participant personally must request such hearing not later than 30 days after the date on which the participant first received notice of the adverse decision or after the date on which the participant receives notice of the Director's determination that a decision is appealable. In the case of the failure of an agency to act on the request or right of a recipient, a participant personally must request such hearing not later than 30 days after the participant knew or reasonably should have known that the agency had not acted within the timeframes specified by agency program regulations, or, where such regulations specify no timeframes, not later than 30 days after the participant reasonably should have known of the agency's failure to act.

(2) A request for a hearing shall be in writing and personally signed by the participant, and shall include a copy of the adverse decision to be reviewed, if available, along with a brief statement of the participant's reasons for believing that the decision, or the agency's failure to act, was wrong. The participant also shall send a copy of the request for a hearing to the agency, and may send a copy of the adverse decision to be reviewed to the agency, but failure to do either will not constitute grounds for dismissal of the appeal. Instead of a hearing, the participant may request a record review.

(c) If a participant is represented by an authorized representative, the authorized representative must file a declaration with NAD, executed in accordance with 28 U.S.C. 1746, stating that the participant has duly authorized the declarant in writing to represent the participant for purposes of a specified adverse decision or decisions, and attach a copy of the written authorization to the declaration.

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§ 11.7 Ex parte communications.

(a) Ex parte communications.

(1) At no time between the filing of an appeal and the issuance of a final determination under this part shall any officer or employee of the Division engage in ex parte communications regarding the merits of the appeal with any person having any interest in the appeal pending before the Division, including any person in an advocacy or investigative capacity. This prohibition does not apply to:

(i) Discussions of procedural matters related to an appeal; or

(ii) Discussions of the merits of the appeal where all parties to the appeal have been given notice and an opportunity to participate.

(2) In the case of a communication described in paragraph (a)(1)(ii) of this section, a memorandum of any such discussion shall be included in the hearing record.

(b) No interested person shall make or knowingly cause to be made to any officer or employee of the Division an ex parte communication relevant to the merits of the appeal.

(c) If any officer or employee of the Division receives an ex parte communication in violation of this section, the one who receives the communication shall place in the hearing record:

(1) All such written communications;

(2) Memoranda stating the substance of all such oral communications; and

(3) All written responses to such communications, and memoranda stating the substance of any oral responses thereto.

(d) Upon receipt of a communication knowingly made or knowingly caused to be made by a party in violation of this section the Hearing Officer or Director may, to the extent consistent with the interests of justice and the policy of the underlying program, require the party to show cause why such party's claim or interest in the appeal should not be dismissed, denied, disregarded, or otherwise adversely affected on account of such violation.

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§ 11.8 Division hearings.

(a) General rules.

(1) The Director, the Hearing Officer, and the appellant shall have access to the agency record of any adverse decision appealed to the Division for a hearing. Upon request by the appellant, the agency shall provide the appellant a copy of the agency record.

(2) The Director and Hearing Officer shall have the authority to administer oaths and affirmations, and to require, by subpoena, the attendance of witnesses and the production of evidence. A Hearing Officer shall obtain the concurrence of the Director prior to issuing a subpoena.

(i) A subpoena requiring the production of evidence may be requested and issued at any time while the case is pending before the Division.

(ii) An appellant or an agency, acting through any appropriate official, may request the issuance of a subpoena requiring the attendance of a witness by submitting such a request in writing at least 14 days before the scheduled date of a hearing. The Director or Hearing Officer shall issue a subpoena at least 7 days prior to the scheduled date of a hearing.

(iii) A subpoena shall be issued only if the Director or a Hearing Officer determines that:

(A) For a subpoena of documents, the appellant or the agency has established that production of documentary evidence is necessary and is reasonably calculated to lead to information which would affect the final determination or is necessary to fully present the case before the Division; or

(B) For a subpoena of a witness, the appellant or the agency has established that either a representative of the Department or a private individual possesses information that is pertinent and necessary for disclosure of all relevant facts which could impact the final determination, that the information cannot be obtained except through testimony of the person, and that the testimony cannot be obtained absent issuance of a subpoena.

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(iv) The party requesting issuance of a subpoena shall arrange for service. Service of a subpoena upon a person named therein may be made by registered or certified mail, or in person. Personal service shall be made by personal delivery of a copy of the subpoena to the person named therein by any person who is not a party and who is not less than 19 years of age. Proof of service shall be made by filing with the Hearing Officer or Director who issued the subpoena a statement of the date and manner of service and of the names of the persons served, certified by the person who made the service in person or by return receipts for certified or registered mail.

(v) A party who requests that a subpoena be issued shall be responsible for the payment of any reasonable travel and subsistence costs incurred by the witness in connection with his or her appearance and any fees of a person who serves the subpoena in person. The Department shall pay the costs associated with the appearance of a Department employee whose role as a witness arises out of his or her performance of official duties, regardless of which party requested the subpoena.

The failure to make payment of such charges on demand may be deemed by the Hearing Officer or Director as sufficient ground for striking the testimony of the witness and the evidence the witness has produced.

(vi) If a person refuses to obey a subpoena, the Director, acting through the Office of the General Counsel of the Department and the Department of Justice, may apply to the United States District Court in the jurisdiction where that person resides to have the subpoena enforced as provided in the Federal Rules of Civil Procedure (28 U.S.C. App.).

(3) Testimony required by subpoena pursuant to paragraph (a)(2) of this section may, at the discretion of the Director or a Hearing Officer, be presented at the hearing either in person or telephonically.

(b) Hearing procedures applicable to both record review and hearings.

(1) Upon the filing of an appeal under this part of an adverse decision by any agency, the agency promptly shall provide the Division with a copy of the agency record. If requested by the appellant prior to the hearing, a copy of such agency record shall be provided to the appellant by the agency within 10 days of receipt of the request by the agency.

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(2) The Director shall assign the appeal to a Hearing Officer and shall notify the appellant and agency of such assignment. The notice also shall advise the appellant and the agency of the documents required to be submitted under paragraph (c)(2) of this section, and notify the appellant of the option of having a hearing by telephone.

(3) The Hearing Officer will receive evidence into the hearing record without regard to whether the evidence was known to the agency officer, employee, or committee making the adverse decision at the time the adverse decision was made.

(c) Procedures applicable only to hearings.

(1) Upon a timely request for a hearing under Sec. 11.6(b), an appellant has the right to have a hearing by the Division on any adverse decision within 45 days after the date of receipt of the request for the hearing by the Division.

(2) The Hearing Officer shall set a reasonable deadline for submission of the following documents:

(i) By the appellant:

(A) A short statement of why the decision is wrong;

(B) A copy of any document not in the agency record that the appellant anticipates introducing at the hearing; and

(C) A list of anticipated witnesses and brief descriptions of the evidence such witnesses will offer.

(ii) By the agency:

(A) A copy of the adverse decision challenged by the appellant;

(B) A written explanation of the agency's position, including the regulatory or statutory basis therefore;

(C) A copy of any document not in the agency record that the agency anticipates introducing at the hearing; and

(D) A list of anticipated witnesses and brief descriptions of the evidence such witnesses will offer.

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(3) Not less than 14 days prior to the hearing, the Division must provide the appellant, the authorized representative, and the agency a notice of hearing specifying the date, time, and place of the hearing. The hearing will be held in the State of residence of the appellant, as determined by the Hearing Officer, or at a location that is otherwise convenient to the appellant, the agency, and the Division. The notice also shall notify all parties of the right to obtain an official record of the hearing.

(4) Pre-hearing conference. Whenever appropriate, the Hearing Officer shall hold a pre-hearing conference in order to attempt to resolve the dispute or to narrow the issues involved. Such pre-hearing conference shall be held by telephone unless the Hearing Officer and all parties agree to hold such conference in person.

(5) Conduct of the hearing.

(i) A hearing before a Hearing Officer will be in person unless the appellant agrees to a hearing by telephone.

(ii) The hearing will be conducted by the Hearing Officer in the manner determined by the Division most likely to obtain the facts relevant to the matter or matters at issue. The Hearing Officer will allow the presentation of evidence at the hearing by any party without regard to whether the evidence was known to the officer, employee, or committee of the agency making the adverse decision at the time the adverse decision was made. The Hearing Officer may confine the presentation of facts and evidence to pertinent matters and exclude irrelevant, immaterial, or unduly repetitious evidence, information, or questions. Any party shall have the opportunity to present oral and documentary evidence, oral testimony of witnesses, and arguments in support of the party's position; controvert evidence relied on by any other party; and question all witnesses. When appropriate, agency witnesses requested by the appellant will be made available at the hearing. Any evidence may be received by the Hearing Officer without regard to whether that evidence could be admitted in judicial proceedings.

(iii) An official record shall be made of the proceedings of every hearing. This record will be made by an official tape recording by the Division. In addition, either party may request that a verbatim transcript be made of the hearing proceedings and that such transcript shall be made the official record

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of the hearing. The party requesting a verbatim transcript shall pay for the transcription service, shall provide a certified copy of the transcript to the Hearing Officer free of charge, and shall allow any other party desiring to purchase a copy of the transcript to order it from the transcription service.

(6) Absence of parties.

(i) If at the time scheduled for the hearing either the appellant or the agency representative is absent, and no appearance is made on behalf of such absent party, or no arrangements have been made for rescheduling the hearing, the Hearing Officer has the option to cancel the hearing unless the absent party has good cause for the failure to appear. If the Hearing Officer elects to cancel the hearing, the Hearing Officer may:

(A) Treat the appeal as a record review and issue a determination based on the agency record as submitted by the agency and the hearing record developed prior to the hearing date;

(B) Accept evidence into the hearing record submitted by any party present at the hearing, and then issue a determination; or

(C) Dismiss the appeal.

(ii) When a hearing is cancelled due to the absence of a party, the Hearing Officer will add to the hearing record any additional evidence submitted by any party present, provide a copy of such evidence to the absent party or parties, and allow the absent party or parties 10 days to provide a response to such additional evidence for inclusion in the hearing record.

(iii) Where an absent party has demonstrated good cause for the failure to appear, the Hearing Officer shall reschedule the hearing unless all parties agree to proceed without a hearing.

(7) Post-hearing procedure. The Hearing Officer will leave the hearing record open after the hearing for 10 days, or for such other period of time as the Hearing Officer shall establish, to allow the submission of information by the appellant or the agency, to the extent necessary to respond to new facts, information, arguments, or evidence presented or raised at the hearing. Any such new information will be added

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by the Hearing Officer to the hearing record and sent to the other party or parties by the submitter of the information. The Hearing Officer, in his or her discretion, may permit the other party or parties to respond to this post-hearing submission.

(d) Interlocutory review. Interlocutory reviews by the Director of rulings of a Hearing Officer are not permitted under the procedures of this part.

(e) Burden of proof. The appellant has the burden of proving that the adverse decision of the agency was erroneous by a preponderance of the evidence.

(f) Timing of issuance of determination. The Hearing Officer will issue a notice of the determination on the appeal to the named appellant, the authorized representative, and the agency not later than 30 days after a hearing or the closing date of the hearing record in cases in which the Hearing Officer receives additional evidence from the agency or appellant after a hearing. In the case of a record review, the Hearing Officer will issue a notice of determination within 45 days of receipt of the appellant's request for a record review. Upon the Hearing Officer's request, the Director may establish an earlier or later deadline. A notice of determination shall be accompanied by a copy of the procedures for filing a request for Director review under Sec. 11.9. If the determination is not appealed to the Director for review under Sec. 11.9, the notice provided by the Hearing Officer shall be considered to be a notice of a final determination under this part.

§ 11.9 Director review of determinations of Hearing Officers.

(a) Requests for Director review.

(1) Not later than 30 days after the date on which an appellant receives the determination of a Hearing Officer under Sec. 11.8, the appellant must submit a written request, signed personally by the named appellant, to the Director to review the determination in order to be entitled to such review by the Director. Such request shall include specific reasons why the appellant believes the determination is wrong.

(2) Not later than 15 business days after the date on which an agency receives the determination of a Hearing Officer under Sec. 11.8, the head of the agency may make a written request that the Director review the determination. Such request shall include specific reasons why the agency believes the determination is wrong, including citations of statutes or regulations that the agency believes the

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determination violates. Any such request may be made by the head of an agency only, or by a person acting in such capacity, but not by any subordinate officer of such agency.

(3) A copy of a request for Director review submitted under this paragraph (a) shall be provided simultaneously by the submitter to each party to the appeal.

(b) Notification of parties. The Director promptly shall notify all parties of receipt of a request for review.

(c) Responses to request for Director review. Other parties to an appeal may submit written responses to a request for Director review within 5 business days from the date of receipt of a copy of the request for review.

(d) Determination of Director.

(1) The Director will conduct a review of the determination of the Hearing Officer using the agency record, the hearing record, the request for review, any responses submitted under paragraph (c) of this section, and such other arguments or information as may be accepted by the Director, in order to determine whether the decision of the Hearing Officer is supported by substantial evidence. Based on such review, the Director will issue a final determination notice that upholds, reverses, or modifies the determination of the Hearing Officer. The Director's determination upon review of a Hearing Officer's decision shall be considered to be the final determination under this part and shall not be appealable. However, if the Director determines that the hearing record is inadequate or that new evidence has been submitted, the Director may remand all or a portion of the determination to the Hearing Officer for further proceedings to complete the hearing record or, at the option of the Director, to hold a new hearing.

(2) The Director will complete the review and either issue a final determination or remand the determination not later than--

(i) 10 business days after receipt of the request for review, in the case of a request by the head of an agency; or

(ii) 30 business days after receipt of the request for review, in the case of a request by an appellant.

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(3) In any case or any category of cases, the Director may delegate his or her authority to conduct a review under this section to any Deputy or Associate Directors of the Division. In any case in which such review is conducted by a Deputy or Associate Director under authority delegated by the Director, the Deputy or Associate Director's determination shall be considered to be the determination of the Director under this part and shall be final and not appealable.

(e) Equitable relief. In reaching a decision on an appeal, the Director shall have the authority to grant equitable relief under this part in the same manner and to the same extent as such authority is provided an agency under applicable laws and regulations.

§ 11.10 Basis for determinations.

(a) In making a determination, the Hearing Officers and the Director are not bound by previous findings of facts on which the agency's adverse decision was based.

(b) In making a determination on the appeal, Hearing Officers and the Director shall ensure that the decision is consistent with the laws and regulations of the agency, and with the generally applicable interpretations of such laws and regulations.

(c) All determinations of the Hearing Officers and the Director must be based on information from the case record, laws applicable to the matter at issue, and applicable regulations published in the Federal Register and in effect on the date of the adverse decision or the date on which the acts that gave rise to the adverse decision occurred, whichever date is appropriate under the applicable agency program laws and regulations.

§ 11.11 Reconsideration of Director determinations.

(a) Reconsideration of a determination of the Director may be requested by the appellant or the agency within 10 days of receipt of the determination. The Director will not consider any request for reconsideration that does not contain a detailed statement of a material error of fact made in the determination, or a detailed explanation of how the determination is contrary to statute or regulation, which would justify reversal or modification of the determination.

(b) The Director shall issue a notice to all parties as to whether a request for reconsideration meets the criteria in paragraph (a) of this section. If the request for reconsideration meets such criteria, the Director shall include a copy of the request for reconsideration in the notice to the non-requesting parties to the appeal. The non-

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requesting parties shall have 5 days from receipt of such notice from the Director to file a response to the request for reconsideration with the Director.
(c) The Director shall issue a decision on the request for reconsideration within 5 days of receipt of responses from the non-requesting parties. If the Director's decision upon reconsideration reverses or modifies the final determination of the Director rendered under Sec. 11.9(d), the Director's decision on reconsideration will become the final determination of the Director under Sec. 11.9(d) for purposes of this part.

§ 11.12 Effective date and implementation of final determinations of the Division.

(a) On the return of a case to an agency pursuant to the final determination of the Division, the head of the agency shall implement the final determination not later than 30 days after the effective date of the notice of the final determination.

(b) A final determination will be effective as of the date of filing of an application, the date of the transaction or event in question, or the date of the original adverse decision, whichever is applicable under the applicable agency program statutes or regulations.

§ 11.13 Judicial review.

(a) A final determination of the Division shall be reviewable and enforceable by any United States District Court of competent jurisdiction in accordance with chapter 7 of title 5, United States Code.

(b) An appellant may not seek judicial review of any agency adverse decision appealable under this part without receiving a final determination from the Division pursuant to the procedures of this part.

§ 11.14 Filing of appeals and computation of time.

(a) An appeal, a request for Director review, or any other document will be considered ``filed'' when delivered in writing to the Division, when postmarked, or when a complete facsimile copy is received by the Division.

(b) Whenever the final date for any requirement of this part falls on a Saturday, Sunday, Federal holiday, or other day on which the Division is not open for the transaction of business during normal working hours, the time for filing will be extended to the close of business on the next working day.

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(c) The time for filing an appeal, a request for Director review, or any other document expires at 5:00 p.m. local time at the office of the Division to which the filing is submitted on the last day on which such filing may be made.

§ 11.15 Participation of third parties and interested parties in Division proceedings.

In two situations, parties other than the appellant or the agency may be interested in participating in Division proceedings. In the first situation, a Division proceeding may in fact result in the adjudication of the rights of a third party, e.g., an appeal of a tenant involving a payment shared with a landlord, an appeal by one recipient of a portion of a payment shared by multiple parties, an appeal by one heir of an estate. In the second situation, a party may desire to receive notice of and perhaps participate in an appeal because of the derivative impact the appeal determination will have on that party, e.g., guaranteed lenders and reinsurance companies. The provisions in this section set forth rules for the participation of such third and interested parties.

(a) Third parties. When an appeal is filed, the Division shall notify any potential third party whose rights may be adjudicated of its right to participate as an appellant in the appeal. This includes the right to seek Director review of the Hearing Officer determination. Such third parties may be identified by the Division itself, by an agency, or by the original appellant. The Division shall issue one notice to the third party of its right to participate, and if such party declines to participate, the Division determination will be binding as to that third party as if it had participated. For purposes of this part, a third party includes any party for which a determination of the Division could lead to an agency action on implementation that would be adverse to the party thus giving such party a right to a Division appeal.

(b) Interested parties. With respect to a participant who is a borrower under a guaranteed loan or an insured under a crop insurance program, the respective guaranteed lender of reinsurance company having an interest in a participant's appeal under this part may participate in the appeal as an interested party, but such participation does not confer the status of an appellant upon the guaranteed lender or reinsurance company such that it may request Director review of a final determination of the Division.

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APPENDIX 4

AGENCY AND EMPLOYEE ADDRESSES

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APPENDIX 4

AGENCY AND EMPLOYEE ADDRESSES

The following is contact information for National, State, Deputy Chief Financial Officer, and Customer Service Center (CSC). Additional information can also be obtained regarding each State from the Rural Development website at: **http://www.rurdev.usda.gov** by choosing *State Offices* and the State of choice.

RURAL DEVELOPMENT

Housing and Community Facilities Programs

Administrator
RURAL DEVELOPMENT
National Office
1400 Independence Avenue SW
Room 5014-S, Mail Stop 0701
Washington, DC 20250-0701

Single Family Housing Guaranteed Loan Division – (202) 720-1452
Fax # (202) 205-2476

Director
RURAL DEVELOPMENT
National Office
1400 Independence Ave., SW
Room 2250, Mail Stop 0784
Washington, DC 20250-0784

Members of the public may contact the national office or their state representatives with information obtained at the following website:

http://www.rurdev.usda.gov/ContactUs.html

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DEPUTY CHIEF FINANCIAL OFFICE (DCFO)
ST. LOUIS, MISSOURI

Mailing Address:

USDA, Office of the Deputy Chief Financial Officer
Program Management Division, Guaranteed Loan Branch
FC-350
Goodfellow Boulevard - Federal Center
P. O. Box 200011
St. Louis, MO 63120-0011

Courier Address:

USDA, Office of the Deputy Chief Financial Officer
Program Management Division, Guaranteed Loan Branch
4300 Goodfellow Boulevard - Federal Center
Building 104 - South End
2nd Floor – Post H37
St. Louis, MO 63120

E-Mail Address: RD.DCFO.GLB@stl.usda.gov
Fax Number: (314) 457-4279
Toll Free Telephone Number: (877) 636-3789

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CUSTOMER SERVICE CENTER (CSC)
ST. LOUIS, MISSOURI

Priority Mail:

Customer Service Center – USDA
Rural Development
4300 Goodfellow Boulevard
Building 105E
FC-225
St. Louis, MO 63120-1703

E-Mail Address:	guarantee.svc@stl.usda.gov
Toll Free Telephone Number:	(866) 550-5887
Fax Server Telephone Number:	(314) 457-4463
Fax Server Telephone Number:	(314) 457-4473

Complete List of Servicing Contacts:

To obtain a complete list of SFHGLP servicing representatives, visit the following website:
https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do.

Under the "Documentation and Resource" menu item of the *Loss Claim Administration and Servicing* menu, select "Guaranteed Servicing Contact Information."

STATE REPRESENTATIVES
Single Family Housing Guaranteed Loan Program

To obtain information from a State Representative regarding the Single Family Housing Guaranteed Loan Program (SFHGLP) the following web address will provide you a list of Agency representatives in your State to assist you.

- **http://eligibility.sc.egov.usda.gov/eligibility/**

- From the navigation menu, under "*Contact Us*" select: "***Guaranteed***"

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APPENDIX 5

INCOME LIMITS

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APPENDIX 5

INCOME LIMITS

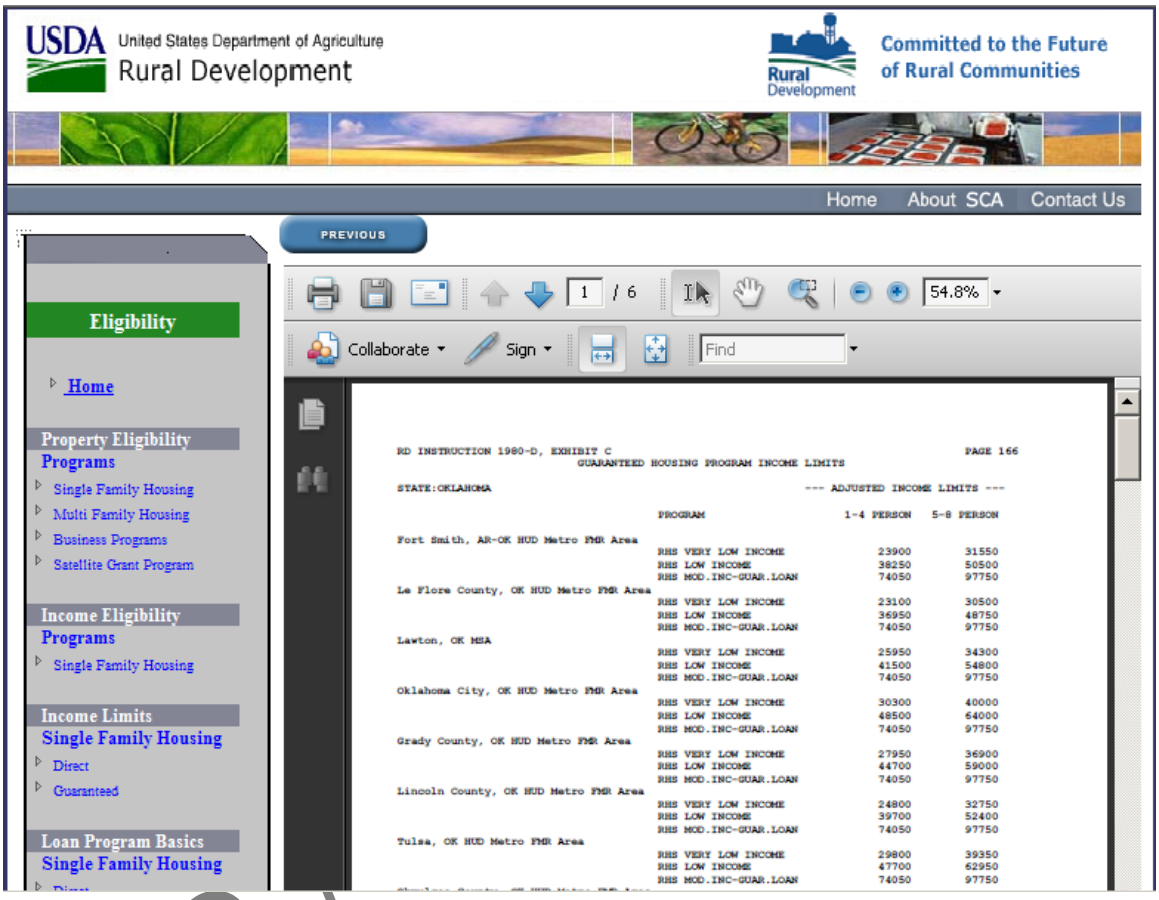
The following USDA Income and Property Eligibility site is used to determine eligibility for USDA home loan programs. To determine income eligibility:

- http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do
  Note: Bookmark this site for future reference/use.

<u>To view the county income limits of a specific state:</u>

- From the "Eligibility" Navigation Menu on the left side of the page, under "Income Limits" select "Guaranteed" to obtain a listing of all States Income Limits.
- Select the State.

- Locate the county or MSA area where the property is located. Refer to the "RHS MOD. INC-GUAR.LOAN" limit under the applicable household number.



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<u>To determine eligibility of an individual or applicant/household:</u>

- Select "Income Eligibility" from the "Eligibility" Navigation Menu. Select "Single Family Housing." The following is a step-by-step guide in utilizing the website.

This site is utilized to determine program eligible income and will include income from all household members, regardless if they are a party to the note to be taken. The "question" symbol - ? may be utilized to seek additional information on each topic.

This site is dynamic.

- Enter the total number of people in the household.
- Enter the number of residents in the household under 18 years of age, disabled, or are full-time students. A deduction field for annual child care expenses will display on the following page.
- If loan applicant or co-applicant is age 62 years of age or older, select "Yes." A deduction field for eligible expenses will display on the following page.
- If there are any disabled household members select "Yes." A deduction field for eligible expenses will display on the following page.

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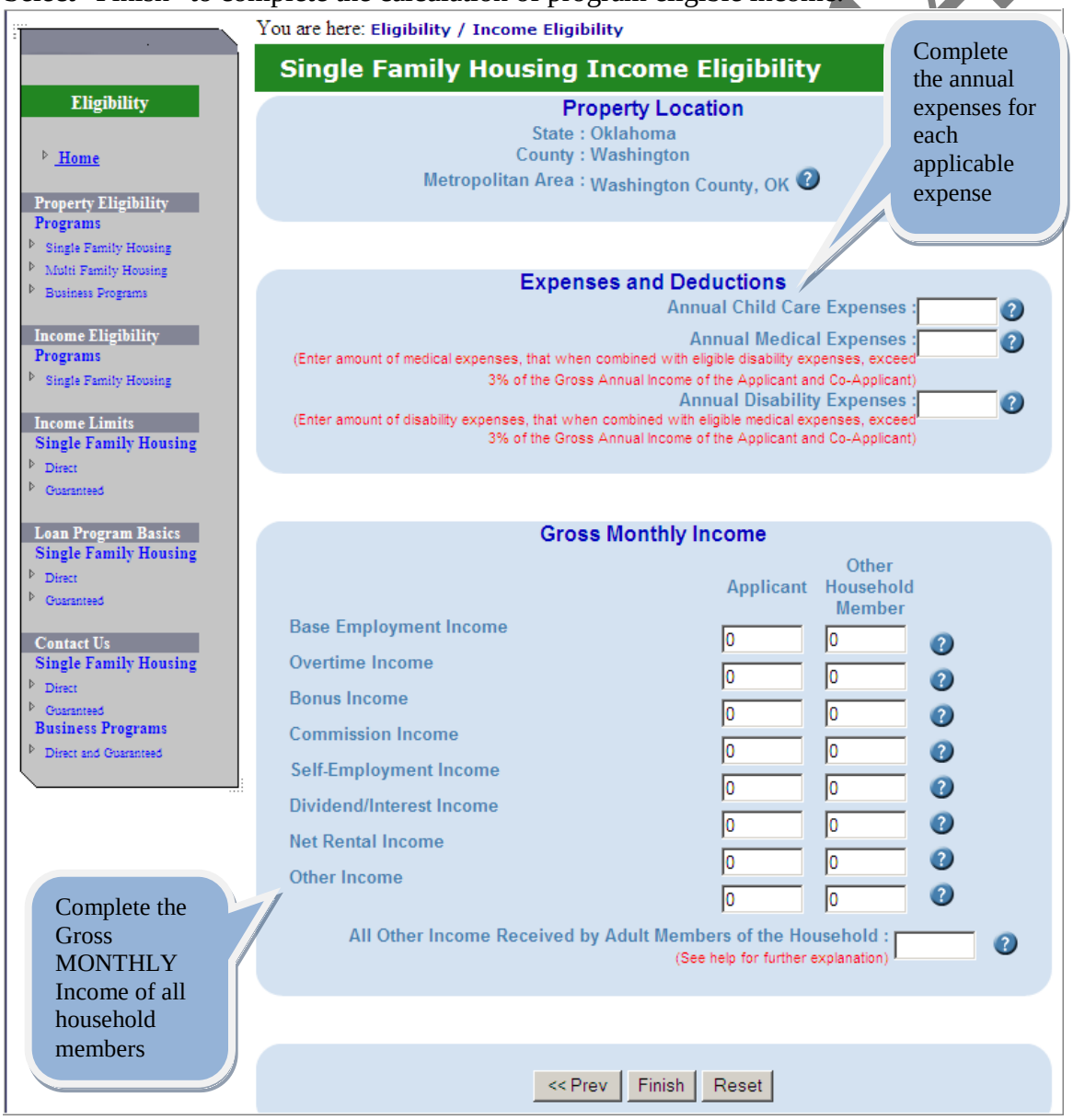
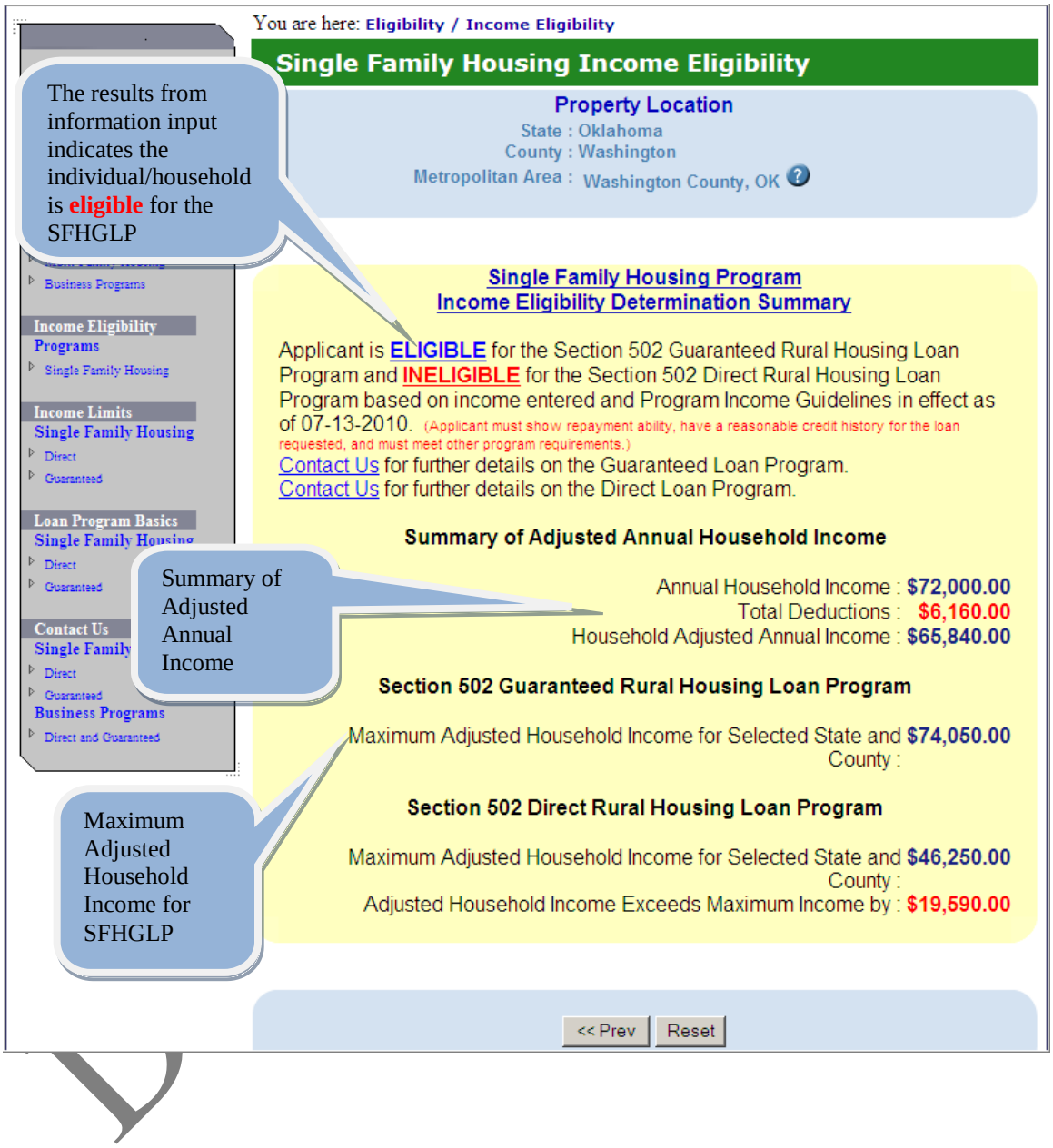
Select “Next>>” to advance the page.

- Complete the “Expenses and Deductions” section. Available data fields will appear based upon the responses provided on the “Household Member Information” page.
- Complete “Gross Monthly Income” section for all household members.

Select “Finish” to complete the calculation of program eligible income.



The “Income Eligibility Determination Summary” page displays.



APPENDIX 6

INTEREST ASSISTANCE

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APPENDIX 6

INTEREST ASSISTANCE

In 1991, the Agency provided interest assistance to eligible borrowers to enhance their repayment ability. Beyond 1991, interest assistance was not offered in connection with a SFHGLP guarantee. A relatively small number of loans providing interest assistance are still active. For those lenders who have interest assistance guarantees in their portfolio, it is important to administer the remaining loans correctly. Section 1, Interest Assistance, provides instructions for conducting annual and interim reviews, calculating interest assistance, and paying the lender's processing fee. Section 2 of this Appendix provides guidance on what triggers recapture and how it is calculated.

SECTION 1: INTEREST ASSISTANCE

AGREEMENTS

The lender is responsible for conducting annual and interim reviews of household income to ensure that the household continues to be eligible to receive interest assistance, and that the amount of the assistance provided is correct. *Form RD 3555-13, "Annual Interest Assistance Agreement,"* is used to determine the amount of assistance for the coming year. The Agency's Deputy Chief Financial Officer, St. Louis, Missouri generates to lenders on an annual basis a *Notice of SFH Interest Assistance Expiring within 90 Days* which provides lenders with a list of expiring interest assistance agreements within the ensuing 90 days. A copy of this notice is provided to the Agency office. The lender provides *Form RD 3555-13* to the borrower, who fills out Section II, signs the form, attaches any required documentation, and returns it to the lender. When the borrower returns the form to the lender, the lender verifies sources and amounts and determines adjusted income.

The lender then submits *Form RD 3555-13* to the Agency for approval, and the Agency reviews the lender's calculations. If any errors are found, the Agency will contact the lender and provide guidance on the necessary corrective actions. It is the lender's responsibility to resolve any inconsistencies with the borrower.

In the case of a transfer/assumption, approved by the Agency, in accordance with Chapter 17 of this handbook, interest assistance may be granted to the transferor provided the eligibility criteria of this appendix are met and the transferor executes *Form RD 3555-12, "Master Interest Assistance and Shared Equity Agreement with Promissory Note*."

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PROCESSING FEE

The Agency will reimburse the lender in the amount of $40.00 for the cost of processing *Form RD 3555-13* whether or not the agreement results in continued assistance. The Agency will pay the fee upon receipt of a valid agreement if:

- A new agreement is made at the annual renewal date;
- The borrower has a change in circumstances that requires a revision to the current agreement. However, a processing fee will not be paid when the revision to an existing agreement is required due to an error on the part of the lender or borrower; or
- The borrower is eligible for but not presently on interest assistance and enters into a new *Form RD 3555-13*.

ANNUAL AND INTERIM REVIEWS

Annual Reviews

The lender must review annually each borrower receiving interest assistance to determine whether the household is eligible to continue to receive interest assistance, and whether any adjustments need to be made. It is expected that borrower incomes will change from year to year. However, if the household's income exceeds the previous year's income by 20 percent or more, the lender must determine when the change in income occurred, and whether it resulted in an overpayment of interest assistance. If so, the lender must follow the procedures for collecting overpayment of interest assistance.

Approximately 90 days before the expiration date of the borrower's current interest assistance agreement the Deputy Chief Financial Officer (DCFO) will generate a notice to the lender to initiate the annual review process. The lender should complete the annual review in time for the new amount to be effective on the anniversary date of the borrower's current agreement. If the annual review is not completed by the expiration date of the existing agreement, the renewal date will be either:

- The expiration date of the previous agreement, if an Agency or lender error caused the delay; or
- In all other cases the next payment due date after the renewal is approved.

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The Review Period for Self-Employed Applicants

For a self-employed applicant, the initial interest assistance agreement will run from the effective date to three months after the end of the applicant's business fiscal year, but not more than a 12-month period. This will allow subsequent agreements to coincide with the applicant's business fiscal year, with a three-month overlap, to provide sufficient time for the applicant to supply verification of the previous year's income.

The Review Period for Unemployed Applicants

For an applicant receiving unemployment benefits, the agreement will be effective for the period during which the applicant will receive unemployment benefits, or, if the period is unknown, no longer than six months. The lender will establish the expiration date of the agreement.

Interim Reviews

Interim reviews are triggered when the lender becomes aware that an adult member of the household receiving interest assistance changes jobs or obtains employment, when the household composition changes, or when income increases by more than $100.00 per month. A borrower whose income decreases by $100 or more per month may report the change and ask the lender to determine whether the decrease qualifies the borrower for additional interest assistance. When the borrower provides new information, the lender must determine whether the change would grant at least $20 per month additional interest assistance. If so, the lender processes a new interest assistance agreement. The borrower's next annual review is scheduled for 12 months after the effective date of the change in payments.

DETERMINING ELIGIBILITY FOR CONTINUED INTEREST ASSISTANCE

Lenders must determine whether any of the following conditions keep the borrower from qualifying for continued interest assistance:

The borrower has ceased to occupy the property, unless the lender determines that the dwelling is uninhabitable or that the borrower may be absent temporarily from the property for reasons such as seasonal or migratory employment, military callings, or hospitalization;

- The security property has been sold or title to the property has been transferred;
- The borrower's subsidized interest rate equals or exceeds the promissory note rate; or

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- The borrower qualifies for less than $20 per month interest assistance.

If the borrower has ceased to occupy the property, or has sold or transferred title to the property, the lender must determine when the change occurred. If the borrower has received interest assistance since the change, the lender must notify the Agency that the borrower may have received an overpayment. The lender must also notify the borrower of the potential for repayment of the overpayment.

CALCULATING INTEREST ASSISTANCE

The household's adjusted median income and whether the property is located in a high-cost area are the key factors in determining the subsidized interest rate the borrower must pay. The amount of interest assistance granted will be the difference between the monthly installment due on the promissory note eligible for interest assistance and the amount the borrower would pay if the note were amortized at the rate corresponding to the borrower's income range as follows: However, the borrower's interest rate can never fall below the floor interest rate – the subsidized interest rate that was in place at loan closing. The interest rate to be paid by the borrower is determined as follows. Note that the interest rate will be either the rate described below or the note rate, whichever is less; in no case will the interest rate be less than 3 percent or less than the floor interest rate the borrower received at loan closing.

Percentage of Median Income		**Interest Assistance**	
When the Borrower's income is:		*Borrower's Floor Rate is:*	
More Than:	But Less Than:	High Cost Area Floor Rate is:	Non-High Cost Area Floor Rate is:
55 percent	60 percent	3 percent	3 percent
60 percent	65 percent	4 percent	3 percent
65 percent	70 percent	5 percent	4 percent
70 percent	75 percent	6 percent	5 percent
75 percent	80 percent	7 percent	6 percent

If the dollar amount of the payment to be made by the Agency falls below $20 per month, the borrower will no longer be eligible for interest assistance.

PROCESSING ANNUAL INTEREST ASSISTANCE

Upon review and approval of a lender's submitted Form *RD 3555-13*, the Agency will access the system production environment (block mode) known as NITC. Choose *Guaranteed Loan*

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from the NITC menu. At the *Guaranteed Loan MAIN MENU*, select *Loan Servicing Menu*. Select *UPDATE Interest Asst Agreement* to renew or change the interest assistance. Select *CANCEL Interest Asst Agreement* to cancel the interest assistance. Select *VIEW Interest Assistance* for summary information regarding the interest assistance.

The Agency will not receive a report that the agreement will be expiring. The Agency may monitor the agreements in their portfolio by pulling a GLS Report from the Single Family Housing Reports menu under "*Lender Notice*" submenu, followed by the selection of *"GLSNT07 - Notice of SFH Interest Assistance expiring in 90 Days"* report.

The Agency may also monitor payment of interest assistance to borrowers, by processing a GLSBR01 – Borrower Register report from the Activity Register Reports submenu of the Single Family Housing Reports menu in GLS. The transaction code to enter at the search criteria for payments is transaction code "*4055*."

From the "*GLS Loan View"* screen, the Agency may confirm the eligibility or continued assistance of a borrower by viewing the "*RH Information"* section. The subsection "*Interest Asst*" will bear a code 1 (Eligible for Int Asst); 2 (Ineligible for Int Asst) or 3 (Eligible & Receiving Int Asst). The "*Active Interest Asst"* will be Yes (receiving) or No (not receiving).

The Agency remains responsible for the timely submission of interest assistance renewal requests by lenders. Assistance with processing questions can be directed to DCFO.

RETURNING TO INTEREST ASSISTANCE

Some borrowers who have received interest assistance experience increases in income such that they no longer qualify for interest assistance. Should such a household experience a decline in income later in the life of the loan, the borrower may be eligible to begin receiving interest assistance again. To qualify to receive assistance again, the loan must have been approved as a subsidized guaranteed loan on or after April 17, 1991, the borrower must have executed *Form RD 3555-12* at loan closing, and must have an adjusted household income that is at or below the applicable low-income limit.

INTEREST ASSISTANCE DURING LOAN LIQUIDATION

If a borrower's loan is accelerated, the interest assistance is not canceled. However, should the agreement expire during the liquidation process, it will not be renewed. If the lender

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stops its liquidation proceedings after the interest assistance agreement has expired, interest assistance can be reinstated, provided the borrower remains eligible for assistance. The lender must request reinstatement from the Agency approving office, which will then update the action in the Guaranteed Loan System.

OVERPAYMENT OF INTEREST ASSISTANCE

Requirements after an Overpayment

Borrowers may receive more interest assistance then they were eligible for as a result of factors such as misreported household income, calculation errors, or failure on the part of the borrower to report income increases. The difference between the amount of interest assistance the borrower received and the amount that would have been received at the proper interest rate constitutes an overpayment.

The lender must ensure that an arrangement for repayment of the overpayment amount are done through one of the approved methods and is put in place within 30 days after all appeal rights have been exhausted. If no arrangement has been made, the lender must accelerate the guaranteed loan. If a satisfactory repayment arrangement is made, the Agency will continue to honor the loan guarantee.

Methods of Collecting Overpayments of Interest Assistance

Borrowers who provided false information must repay the overpayment amount in a lump sum within 30 days after all appeal rights have been exhausted, or the loan will be accelerated. For all other borrowers, including borrowers who unintentionally provide inaccurate information, repayment can be made in the following ways.

- Borrowers who can do so are encouraged to repay the overpayment amount in a lump sum.

- If the borrower is eligible for further interest assistance and has not repaid the overpayment amount in a lump sum, the Agency will collect the overpayment amount over the course of the following 12 months by reducing the amount of its interest assistance payments by 1/12 of the overpayment amount each month as shown on Form RD 3555-13.

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- Some borrowers who do not repay the overpayment amount in a lump sum may not be eligible for further interest assistance, or the amount of interest assistance may not be sufficient to cover the overpayment. In this case, the lender must negotiate a repayment schedule with the borrower in a way that will minimize the possibility that the repayment of the loan will suffer. The lender will collect monthly payments from the borrower and remit the payments to the Agency. Interest Assistance repayment will never take more than 12 months unless prior authorization is obtained by the State Director.

- If the borrower is unwilling to cooperate and repay the interest assistance overpayment through interest assistance deductions or voluntary repayment, the Rural Development servicing official will obtain the advice of the State or National Office as appropriate.

SECTION 2: INTEREST ASSISTANCE SHARED EQUITY RECAPTURE REQUIREMENTS

OVERVIEW

Borrowers with interest assistance receive substantial amounts of subsidy over the course of the loan repayment period. At the time of loan closing, the borrower will have signed *Form RD 3555-12*which requires repayment of some or the entire subsidy when the borrower ceases to occupy the property or transfers title. The purpose of this policy is to provide borrowers with the opportunity to realize a benefit from increased equity in their properties, while requiring repayment of a portion of the assistance received if the borrower has realized value appreciation.

TRIGGERING RECAPTURE

General Rule

Interest assistance subject to recapture must be repaid whenever the borrower ceases to occupy the property or transfers title. If the borrower is absent from the property temporarily for reasons such as seasonal or migratory employment, military duty, or hospitalization, recapture is not triggered.

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Exceptions

When a loan is assumed in connection with a transfer, recapture will not be calculated or collected at that time. When the new borrower transfers title or ceases to occupy the property, all interest assistance subject to recapture from both before and after the assumption must be repaid.

Generally, when a loan is foreclosed the Agency will not require the recapture of interest assistance. However, recapture is required if:

- The property is sold at or prior to foreclosure for an amount exceeding the lender's unpaid balance and costs of foreclosure; or
- A junior lienholder takes over the lender's loan.

Lender Responsibilities

The lender is responsible for collecting the amount of recapture due from the borrower. When recapture is triggered, the lender must notify the Agency and request information regarding the amount of interest assistance that could be subject to recapture. Agency staff will obtain the amount of interest assistance from the Guaranteed Loan System account records and the average interest rate paid from the Deputy Chief Financial Office in St. Louis, Missouri. The lender must then notify the borrower of the maximum potential recapture amount and offer the borrower an opportunity to provide the information needed to calculate a reduced amount. If an entity other than the Agency provides assistance to a borrower and requires recapture, collection of the Agency's recapture amounts has priority over recapture by the other entity.

The recapture amount is calculated based on a projected payoff date. If the actual payoff date is different than the date used to calculate the recapture amount, the borrower may be entitled to a refund, or may owe an additional amount. If the borrower is entitled to a refund, the Agency will provide the lender with the reimbursement. If the borrower owes an additional amount, the lender must collect the remaining funds and submit them to the Agency before releasing the security instruments. Security instruments must not be released until the Agency receives and verifies the recapture payment.

SHARED EQUITY DETERMINATION - CALCULATING RECAPTURE

Even though the Agency will calculate the recapture amount, it is important for lenders to understand the recapture calculation well enough to explain to borrowers, should they have questions. This paragraph describes each component of the recapture formula. At the end of this

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appendix is a recapture worksheet that illustrates how the recapture amount is calculated and a case study that illustrates the recapture concepts discussed in this section. The lender will submit the final documentation requesting calculation of the recapture to the Agency. The Agency will utilize *Form RD 3555-14* to calculate the recapture due the Agency.

The amount of recapture the borrower must pay is the lesser of:

- The total amount of interest assistance received over the life of the loan; or
- The calculation of shared equity due Rural Development. Thus, if there is no value appreciation in the property, there will be no recapture amount due.

CALCULATION OF VALUE APPRECIATION

"Appreciation" generally means the difference between the value of the property when it was purchased and its current market value. "Value appreciation" for the purposes of recapture is calculated with a specific formula that accounts for the borrower's mortgage debt and sales expenses related to the property, as well as equity. The formula for calculating value appreciation is:

Current market value

less the following:

- Balance due prior lien holders;
- Guaranteed mortgage balance owed by borrower;
- Sales/refinancing costs;
- Principal reduction;
- Original equity; and
- Capital improvement equity.

equals **Value Appreciation**

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The following paragraphs explain each element of the calculation of the distribution of funds.

CURRENT MARKET VALUE

Recapture must be based on the current value of the property, whether it is being sold or not. The amount of the recapture to be collected can only be reduced based on an accurate assessment of market value documented from one of the following sources:

- A sales contract;
- An appraisal conducted by a lender;
- Another current appraisal that meets the Agency's requirements if neither a sales contract nor a lender's appraisal is available;
- The amount of the insurance payoff, information from tax records, comparable sales, or a recent appraisal that represents an accurate indication of the value, if the property has been damaged or destroyed so that an appraisal is not a viable alternative for determining value; or
- Agency appraisal, with prior approval of the State Director.

A BPO is not acceptable documentation of market value for this purpose.

BALANCE DUE TO PRIOR LIEN HOLDERS

Deferred and past-due real estate taxes and assessments that are to be paid by the borrower without reimbursement by another party should be included in this figure.

BALANCE OWED BY BORROWER

With the exception of late fees, all amounts owed by the borrower that are being paid off, including principal and interest, protective advances, and unauthorized assistance, should be included.

SALES/REFINANCING COSTS

The costs involved in selling or refinancing the property can be deducted from the market value if they are not reimbursed from another source, such as an employer, and if they are

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documented by a good faith estimate provided by the lender or closing agent. Such costs should be customary and typical for the type of transaction and include, but are not limited to the following:

- Sales commission;
- Advertising costs;
- Recording fees;
- Pro rata share of taxes;
- Points based on the current interest rate;
- Appraisal fees;
- Transfer tax;
- Deed preparation fee; and
- Loan origination fee.

In refinancing situations, only those expenses necessary to refinance the amount of the current guaranteed debt, plus recapture, are allowed. Estimated expenses may be used if Agency staff is confident that the estimates are accurate. Anticipated costs for future transactions are not permissible.

PRINCIPAL REDUCTION

This figure is based on the amount of principal reduction at the note rate on the account.

ORIGINAL EQUITY

Original equity includes any down payment made by the borrower and any difference between the original market value of the property and the amount of the original loan. Prepaid taxes and insurance are not considered original equity, nor are contributions toward closing costs. This amount can be found on *Form RD 3555-12*.

Recapture amounts paid may be considered mortgage interest paid, which may be a deductible expense for the purposes of personal income taxes in the year paid. The borrower should be advised to seek the guidance of a tax counselor or the IRS regarding allowable tax deductions.

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CAPITAL IMPROVEMENT CREDIT

Capital improvements are additions that add to the value of the property above and beyond repairs that maintain the property in good condition. General maintenance to keep the property in good condition is not considered a capital improvement. Examples of activities that do not qualify as capital improvements include: yard maintenance, painting, wallpapering, floor coverings, roofing, siding, wells, septic systems, appliances, furnaces, or water heaters. Examples of capital improvements include: building a garage, constructing a den or playroom, or adding a deck, patio, pool, porch, fence, storm windows, sky lights, outside lighting, or landscaping.

The value of a capital improvement can be determined by an appraiser based on the change in the property's value attributable to the improvement. The **cost** of making the improvement **should not be considered** when making this assessment. A borrower who wishes to receive credit for capital improvements should specifically request the appraiser to provide this service.

CALCULATION OF SHARED EQUITY DUE THE AGENCY

If there is no value appreciation, there is no shared equity due the Agency. For guarantees who received interest assistance, the calculation of shared equity due the Agency is computed by considering the average interest rate factor (obtained from the Deputy Chief Financial Officer) applied to the following table to obtain the table factor. Multiply the table factor by the value appreciation less the percentage of original equity to determine amount. The amount due equals the lesser of the amount arrived at when utilizing the table factor calculation or the actual interest assistance received over the life of the loan.

months loan outstanding	Average interest rate paid							
	1%	1.1 2%	2.1 3%	3.1 4%	4.1 5%	5.1 6%	6.1 7%	>7%
0 - 59	.50	.50	.50	.50	.44	.32	.22	.11
60 - 119	.50	.50	.50	.49	.42	.31	.21	.11
120 - 179	.50	.50	.50	.48	.40	.30	.20	.10
180 - 239	.50	.50	.49	.42	.36	.26	.18	.09
240 - 299	.50	.50	.46	.38	.33	.24	.17	.09
300 - 359	.50	.45	.40	.34	.29	.21	.14	.09
360 & up	.47	.40	.36	.31	.26	.19	.13	.09

The Agency will process receipt of the shared equity payment on Form RD 451-2 as a

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Miscellaneous Collection Code 35. *Form RD 3555-87, "Shared Equity Payment"* will be forwarded to DCFO as notification of the payoff of recapture.

The lender is responsible for requesting calculation of the shared equity due the Agency for any loan granted interest assistance during the term of the loan and prior to payment in full of unpaid principal balance, accrued interest and fees, if any.

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RECAPTURE WORKSHEET

Part I. Value Appreciation ***(If any calculation in this section yields zero or less, skip to Line 21 and record a zero.)***	
1. Current market value	
2. *(less)* Balance due prior lien holders	
3. Balance (Line 1 - Line 2)	
4. *(less)* Balance owed by borrower	
5. Balance (Line 3 - Line 4)	
6. *(less)* Sales/Refinancing costs	
7. Balance (Line 5 - Line 6)	
8. *(less)* Principal reduction	
9. Balance (Line 7 - Line 8)	
10. (*less)* Original equity	
11. Balance (Line 9 - Line 10)	
12. (less) Capital improvement credit	
13. Value appreciation (Line 11 - Line 12)	
Part II. Value Appreciation Subject to Recapture	
14. Dollar value of value appreciation (Line 13)	
15. Table factor.	
16. Value appreciation by table factor (Line 14 x Line 15)	
17. Percentage of original equity (from Interest Assistance Agreement)	
18. Value appreciation (Line 16 x Line 17)	
19. Value appreciation subject to recapture (Line 16 - Line 18)	
Part III. Amount Due if There is Value Appreciation	
20. Amount of interest assistance received	
21. Recapture amount (lesser of Line 19 or 20)	

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INTEREST ASSISTANCE RECAPTURE CASE STUDY

THE SITUATION

John and Sharon Potter bought their home 10 years ago for $50,500. The home appraised for $50,500 but they only qualified for a loan of $50,000. They borrowed $50,000 through a 30 year guaranteed loan and paid the remaining $500 of the purchase price and $1,000 for closing costs out of their savings.

The Potters' note rate is 7 percent, but they received interest assistance with a reduced interest rate of 4 percent for the first 5 years. Then John got a big promotion, at which point the Potters were no longer eligible for interest assistance.

Last year, the Potters added a deck. The materials cost $1,250, but since they built it themselves, there were no labor costs.

Sharon just got a great new job, and the family is selling the house and moving to a larger home. They are working with Big Bank to finance the new home. They are putting down $5,000, paying $1,000 in points, and are financing the rest of the closing costs.

In preparation for selling the house, the Potters spent $3,000 on new wall-to-wall carpeting and installed a new high-efficiency water heater for $500.

The Potters have found buyers for their house and have signed a sales contract for $65,000. They must pay $1,500 in sales costs, and must pay their current lender $42,988 to pay off their existing loan (exclusive of recapture).

INPUTS FOR VALUE APPRECIATION CALCULATION

- **Current market value.** The house is being sold in an arm's length transaction, the $65,000 sales contract price can be used as current market value.
- **Balance due to prior lien holders.** There are no prior lien holders in this case.
- **Balance owed by borrower.** The remaining loan balance due the lender is $42,988.
- **Non-reimbursable sales costs.** The Potters are paying $1,500 in non-reimbursable sales costs to sell their home.
- **Principal reduction.** The Potters' principal reduction at the note rate was $7,012.
- **Original equity.** The difference between the purchase price and the amount of the loan was $500 and represents 1% of the market value of the security at the time the loan was made to the Potters.

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- **Capital improvement credit.** When the new buyer's appraiser appraised the property, the Potters asked if he would document the increased value attributable to the improvements they had made. They showed him their receipts for $1,250 for the deck and described the labor they had put into it. However, the appraiser concluded that the deck only added $500 to the overall value of the home.

  They also provided receipts for the carpet ($3,000) and the water heater ($500) for a total of $3,500. However, since the carpet and water heater are not capital improvements, only the $500 value increase from the deck can be counted.

INPUTS FOR RECAPTURE CALCULATION

- **Value appreciation.** As Part I. of the Recapture Worksheet shows, the Potters' value appreciation was $12,500.

- **Recapture factor from table.** The Potters' average interest rate was .50, derived from information obtained from DCFO and the factor table above.

- **Appreciation attributable to original equity.** The Potters' original equity was $500 or 1 percent of the original market value of $50,500.

- **Amount of interest assistance received**. The Agency provided $7,101 of interest assistance over the course of the loan.

RESULTS

- **Value appreciation subject to recapture**. As line 19 of the Potter Family Recapture Worksheet shows, the value appreciation subject to recapture is $6,188.

Recapture amount. The value appreciation subject to recapture is less than the amount of interest assistance the household received; therefore, the Potter's recapture amount is $6,188.

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POTTER FAMILY
RECAPTURE WORKSHEET

Part I. Value Appreciation ***(If any calculation in this section yields zero or less, skip to Line 21 and record a zero.)***	
1. Current market value	$65,000
2. *(less)* Balance due prior lien holders	$0
3. Balance (Line 1 - Line 2)	$65,000
4. *(less)* Balance owed by borrower	$42,988
5. Balance (Line 3 - Line 4)	$22,012
6. *(less)* Sales/Refinancing costs	$1,500
7. Balance (Line 5 - Line 6)	$20,512
8. *(less)* Principal reduction	$7,012
9. Balance (Line 7 - Line 8)	$13,500
10. (*less)* Original equity	$500
11. Balance (Line 9 - Line 10)	$13,000
12. (less) Capital improvement credit	$500
13. Value appreciation (Line 11 - Line 12)	$12,500
Part II. Value Appreciation Subject to Recapture	
14. Dollar value of value appreciation (Line 13)	$12,500
15. Recapture percentage (lesser of 50% or percentage contained in Interest Assistance Agreement)	50%
16. Value appreciation reduced by recapture percentage (Line 14 x Line 15)	$6,250
17. Percentage of original equity (from Interest Assistance Agreement)	1%
18. Value appreciation, reduced by recapture percentage, attributable to original equity (Line 16 x Line 17)	$62
19. Value appreciation subject to recapture (Line 16 - Line 18)	$6,188
Part III. Amount Due if There is Value Appreciation	
20. Amount of interest assistance received	$7,101
21. Recapture amount (lesser of Line 19 or 20)	$6,188

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APPENDIX 7

CAIVRS ACCESS INSTRUCTIONS

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APPENDIX 7

CAIVRS - THE CREDIT ALERT VERIFICATION REPORTING SYSTEM

What is CAIVRS?

CAIVRS is a Federal government database of delinquent Federal debtors that allows federal agencies to reduce the risk to federal loan and loan guarantee programs. CAIVRS alerts participating Federal lending agencies when an applicant for credit benefits, or for a position of trust in support of the administration of a Federal credit program, has a Federal lien, judgment or a Federal loan that is currently in default or foreclosure, or has had a claim paid by a reporting agency.

What does it do?

CAIVRS allows authorized employees of participating Federal agencies to access a database of delinquent Federal borrowers for the purpose of pre-screening direct loan applicants for credit worthiness, and permits approved private lenders acting on the Government's behalf to access the delinquent borrower database for the purpose of pre-screening the credit worthiness of applicants for federally guaranteed loans.

How does it work?

CAIVRS has delinquent borrower records from the Department of Housing and Urban Development (HUD), the Department of Veterans Affairs (VA), the Department of Education (DOE), the Department of Agriculture (USDA), the Small Business Administration (SBA), the Federal Deposit Insurance Corporation (FDIC), and the Department of Justice (DOJ). Authorized users may access CAIVRS via the Internet.

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How does CAIVRS relate to Government Financial Management?

Federal law prevents "delinquent Federal debtors from obtaining Federal loans or loan insurance guarantees." CAIVRS provides a single repository of delinquent Federal debtor records with easy access through a variety of media for pre-screening applicants for Federal benefits. Most credit bureau reports do not identify insured debts as being delinquent Federal debts. By participating in CAIVRS, Federal lending agencies have ready access to an interdepartmental database of delinquent Federal debts that provide Federal financial managers with the information necessary to comply with the U.S. Code requirements.

Access to CAIVRS

FHA approved lenders have FHA Connection User Ids which provide them access to CAIVRS.

Non-FHA lender staff can request access from HUD's Internet site at https://entp.hud.gov/caivrs/public/home.html. Each non-FHA lender must request at least one Application Coordinator User ID and as well as a Standard User ID for each individual user. If the non-FHA lender is new to the SFHGLP and has not yet made a SFHGLP loan, prior to completing the steps below, the lender must request CAIVRS access from the DCFO guaranteed loan branch in St. Louis. This may be requested at:

E-Mail Address:	RD.DCFO.GLB@stl.usda.gov
Telephone Number:	(314) 457-4192
Toll Free Telephone Number:	(877) 636-3789

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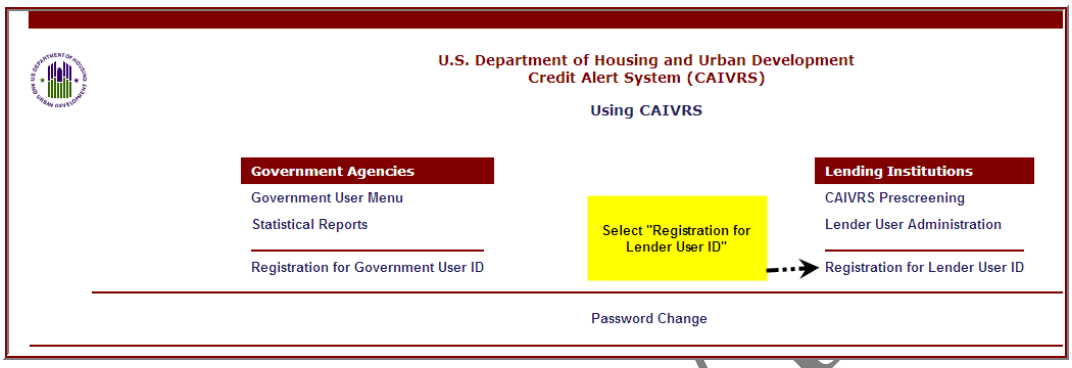
Select "*Registering Lender User ID*" from the main menu. Each non-FHA lender must request at least one Application Coordinator User ID as well as a Standard User ID for each individual user.



The following page will appear with the following instructions:

To apply for an **Application Coordinator ID** (Note: You need at least one Application Coordinator User ID), check the "***Coordinator***" radio button, fill out the form below, and click ***Send Application***.

A six character password will be required in the password field. The password is case sensitive and can include numbers and letters. The password must contain at least one number and can consist entirely of numbers.

Your business email address will require the @ sign. Example: johndoe@internet.org.

The Agency to select is ***USDA – Rural Development***. Ensure the user selects the correct Agency, as there are multiple USDA choices.

The Lender ID must correspond to the Tax ID Number (no hyphens or spaces) reflected on *Form RD 3555-16, "Agreement for Participation in Single Family Housing Guaranteed/Insured Loan Programs of the United States Government."* This will be a 9 digit number.

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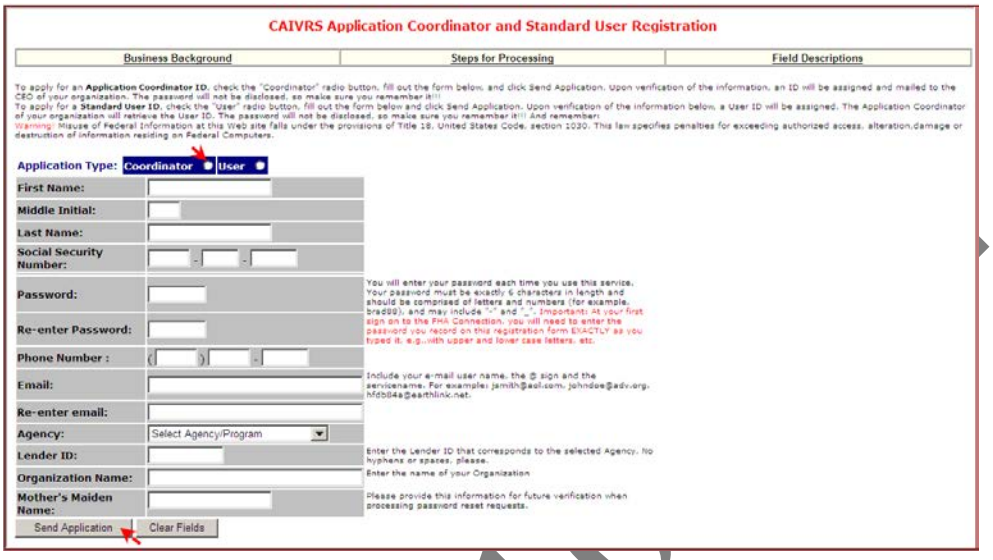
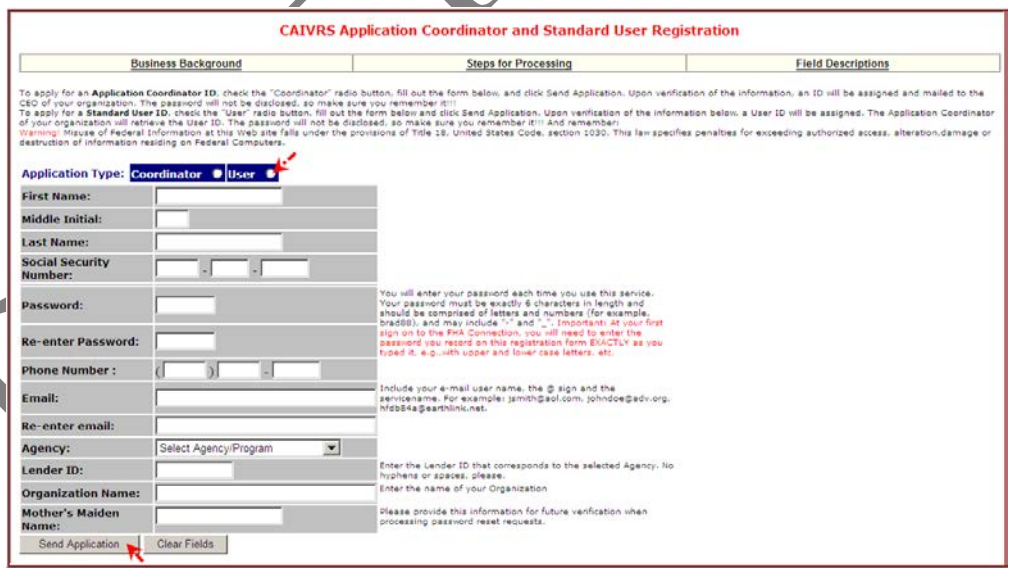
As a security question, the page will require the user to type the last name of their mother, before marriage, in the ***Mother's Maiden Name*** field.

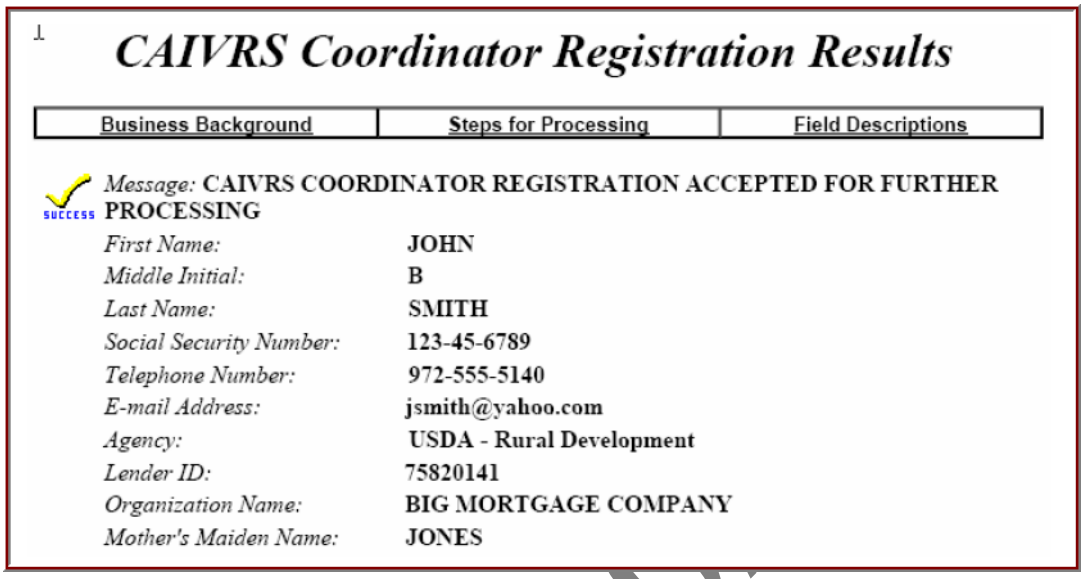


To apply for a **Standard User ID**, check the "***User***" radio button, fill out the form below and click ***Send Application***. Upon verification of the information below, a User ID will be assigned. The "**Application Coordinator**" of your organization will retrieve the **User ID**. The password will not be disclosed. The user will need to remember it.



After successful submission, the following screen will appear.

NOTE: DISPLAYERD AS AN EXAMPLE ONLY - Coordinator



CAIVRS Coordinator Registration Results

Business Background | Steps for Processing | Field Descriptions

Message: **CAIVRS COORDINATOR REGISTRATION ACCEPTED FOR FURTHER PROCESSING**

First Name:	**JOHN**
Middle Initial:	**B**
Last Name:	**SMITH**
Social Security Number:	**123-45-6789**
Telephone Number:	**972-555-5140**
E-mail Address:	**jsmith@yahoo.com**
Agency:	**USDA - Rural Development**
Lender ID:	**75820141**
Organization Name:	**BIG MORTGAGE COMPANY**
Mother's Maiden Name:	**JONES**

After clicking ***Send Application*** on the CAIVRS Application Coordinator and Standard User Registration form, the user is notified by email if processing was successfully completed or if there are errors that need to be corrected before processing can be completed. Help guides are available online at this website to assist with questions.

Upon verification of the information, an ID will be assigned and mailed to the CEO of the lender's organization. The password will not be disclosed, so ensure users remember it.

Obtaining a CAIVRS Authorization

Once the user receives access capabilities, at the same website, the user selects "***CAIVRS Authorization***" under the "Lending Institutions" menu to obtain a CAIVRS number for borrower(s).

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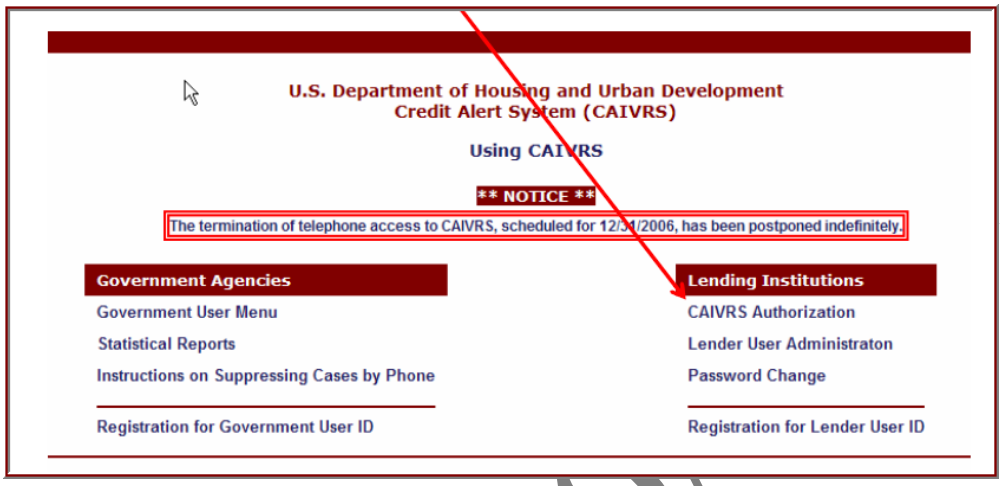

Review CAIVRS message. Check "I Agree" and then click "Continue."

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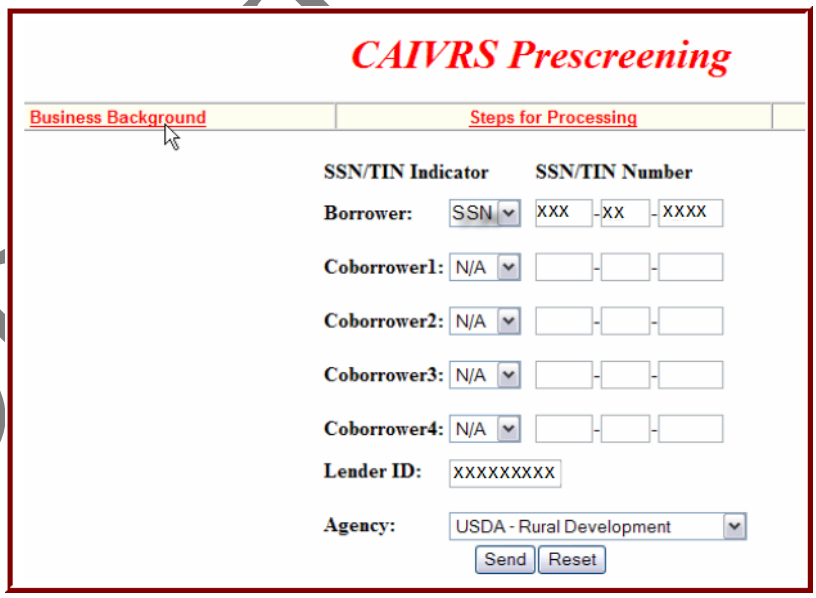
Enter your user name and password. Click “OK” to continue.

At the “*CAIVRS Prescreening*” page – 1) enter borrower’s social security number; 2) “***Lender ID***” and 3) choose “***USDA – Rural Development***” as the Agency and click “***Send***.”. TIN numbers for borrowers are not allowed.



A CAIVRS number will be issued upon successful submission.

The CAIVRS printout must be placed in the lenders permanent file, unless the lender is approved to utilize GUS. Lenders who are approved to utilize the Agency's automated underwriting system, GUS, automatically are connected to a service that retrieves the CAIVRS ID for each borrower once the lender completes the borrower information portion of the GUS pages. GUS retains the permanent electronic record.

If assistance is needed, the lender may call the CAIVRS Administrator at (301) 292-1661 or email at caivrs_admin@hud.gov.

CAIVRS ACCESS THROUGH GUS

Lenders who utilize the Agency's automated underwriting system, GUS can automatically obtain a CAIVRS number once the "Borrower" page of GUS is complete and saved. Through a business to government agreement, an interface with CAIVRS occurs once adequate information is complete. When the lender opens the "Additional Data Page" of GUS, provided the system is available, the results of the CAIVRS request will be displayed. A new CAIVRS result number will display for each CAIVRS request.

POSSIBLE RESULT CODES OF A CAIVRS REQUEST

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7.4.2. Rules for CAIVRS number formatting

The first character of the CAIVRS number is interpreted below:

1st Character of CAIVRS Number	Interpretation
A	There are no Government loan claims/defaults against a Social Security Number
B	There is more than one "hit" on a Social Security Number – mostly on Department of Education Guarantee Loans -when a FHA - insured loan is in Default and then a Claim is paid
C	A "claim" has been paid by FHA to the mortgage company to pay off the loan that has gone into foreclosure (this will remain on the CAIVRS' system for 3-years (These can be on either Title II or Title 1 - Title 1 is for mobile homes or home improvement) When a "claim" has been paid then HUD/FHA gets title back HUD/FHA sells the property as a HUD-Repo. PLEASE NOTE: There are "C" codes in CAIVRS for the Loss Mitigation Program and the Pre-foreclosure Program, these are what we call "partial claims", but since a dollar amount was paid by HUD/FHA it is input into CAIVRS as a "C" or "claim paid"
D	The loan is more than 90 days past due
F	FHA-insured loan is in the first stages of foreclosure via the mortgage company (if loan is brought current then it can be reinstated)
J	Judgments - via the Department of Justice (these can be for Department of Education Guarantee Loans, child support, and a few FHA-insured loans if the borrower was an investor)

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APPENDIX 8

EDI DOCUMENTATION

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APPENDIX 8
MORTGAGE REPORTING

Through the use of EDI, SFHGLP all servicers utilize a direct computer application-to-computer application exchange of standardized information between private industry and the Agency. Lenders will utilize the USDA Lender Interactive Network Connection (LINC) website at: https://usdalinc.sc.egov.usda.gov/RHShome.do. This website is utilized for the purpose of reporting quarterly status for all SFHGLP portfolio and monthly default status reports of delinquent SFHGLP loans. Quarterly reports are required as of March 31, June 30, September 30 and December 31. Lenders can refer to the "EDI Implementation Guide" at the noted website for successful implementation of EDI. Select the "Training and Resource" link under the Single Family Housing menu. The EDI Implementation Guide is under the Documentation and Resource menu of EDI.

With EDI, if you are lender with less than 100 loans, you can:

- Enter on-line quarterly status reports on the Web Reporting Input screens;
- Review on-line quarterly status reports;
- Enter on-line monthly default status reports on the Web Reporting Input screens; and
- Review on-line monthly default status reports.

If you are lender with 100 or more loans, you can:

- Send EDI x 12 files for transaction set (TS) 203, Secondary Mortgage Market Investor Report, and TS 264, Mortgage Loan Default Status;
- View and print the EDI x 12 File transfer Confirmation page;
- Retrieve EDI X12 transaction file receipts for TS 203 and TS 264 via EDI;
- Determine if the transferred EDI X12 file was accepted; and
- Retrieve EDI X12 transaction files that were not accepted.

STATUS OF MORTGAGE CODES – DELINQUENCY REPORTING

The following is a description of specific delinquency status codes that are utilized by reporting lenders to best describe the latest action taken to cure a delinquency or liquidate the mortgage. Only one delinquency status code can be reported for an individual mortgage in any given month, although over the course of a delinquency different codes could apply. Lenders must report on the loan through payment of the loss claim.

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GLS Code Value	Value Name	EDI Code Value	Definition
20	**Account Delinquent**	**42**	SFHGLP account is past due.
21	**Forbearance**	**9 & 12**	Status assigned during the temporary suspension of loan payments or a repayment plan that calls for periodic payments of less than the normal monthly payment, or periodic payments at different intervals, to give the borrower additional time to bring the mortgage current.
22	**Modification Pending**	**28**	Lender is working with borrower to renegotiate the terms of the mortgage.
24	**Deed-in-Lieu Pending**	**44**	The Agency has authorized the lender to accept a voluntary conveyance of the property instead of initiating foreclosure proceedings.
25	**Forced Liquidation Pending**	**43**	The lender has referred the case to an attorney to take legal action to acquire the property through a foreclosure sale.
26	Liquidation Complete	30	Foreclosure proceedings are complete.
27	**Bankruptcy Filed**	**59, 65, 66, 67**	The borrower has filed bankruptcy under Chapter 7, 11 or 13 of the Federal Bankruptcy Act.

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29	Account Reinstated and Current		
30	Brought Current (For display of history only on MA50; cannot be entered)		
31	Real Estate Owned	45 & 47	Title to the REO is vested in the lender.
32	**Account Reported Delinquent on 203 Quarterly Status Report (For display only on MA50)**		
33	Account brought current with 203 Quarterly Status Report (For display only on MA50)		
34	Account brought current with automatic Bring Loans Current process (For display only on MA50)		
35	Loss Claim Submitted	11	Status assigned when loss claim filed.

- ***Codes in Bold are considered delinquent. Codes 26, 31, & 35 are post liquidation of the account by the lender and are not counted as delinquent loans.***

STATUS REASON CODES

The lender must specify a reason for delinquency that best describes the primary reason for delinquency. Although several different reasons could apply to an individual mortgage, the lender must select the code that reflects the principal contributing factor to the delinquency as follows.

Code Value	Value Name	Definition
001	**Death of Principal Mortgagor**	The principal borrower has died.
002	**Illness of Principal Mortgagor**	A prolonged illness keeps the principal borrower form working and generating income.
003	**Illness of Mortgagor's Family Member**	The principal borrower has incurred extraordinary expenses because of the illness of a family member (or because of taking on sole responsibility for repayment of the mortgage debt as a result of the co-borrower's illness).
004	**Death of Mortgagor's Family member**	The principal borrower has incurred extraordinary expenses as a result of the death of a family member (or because of taking on sole responsibility for repayment of the mortgage as a result of the co-borrower's death).

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005	**Marital Difficulties**	Problems associated with separation or divorce – such as a dispute over ownership of the property, a decision not to make payments until divorce settlement is final, a reduction in the income available to repayment the mortgage debt, etc. – are affecting the borrower's ability to make mortgage payments.
006	**Curtailments of Income**	The borrower's income has been reduced, because of a garnishment of wages, a change to a lower payment job, reduced commissions or overtime pay, loss of part-time job, etc.
007	**Excessive Obligations**	The borrower has incurred excessive debts, (either in a single instance or built up over time) that prevent him or her from making payments on both those debts and the mortgage debt. Same income, including habitual nonpayment of debts.
008	**Abandonment of Property**	The borrower has abandoned the property for reasons that are not known (because you have been unable to locate the borrower).
009	**Distant Employment Transfer**	The principal borrower has been transferred or relocated to a distant job location. The additional expenses for moving and housing in the new location have affected his or her ability to pay those expenses and the mortgage debt.
010	**Neighborhood Problem**	The dissatisfaction with the property or the neighborhood is affecting the borrower's willingness to pay the mortgage.
011	**Property Problem**	The condition of the property (substandard construction, expensive and extensive repairs needed, subsidence or sinkholes on property, impaired rights of ingress an egress, etc.) is affecting the borrower's willingness to pay the mortgage.
012	**Inability to Sell Property**	The borrower is having difficulty selling the property.

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013	**Inability to Rent Property**	The borrower needs rental income to make the mortgage payments and is having difficulty in finding a tenant for a one-family investment property.
014	**Military Service**	The principal borrower has been called to active duet, but his or her military pay is not sufficient to continue to pay the existing mortgage debt.
015	**Other**	The delinquency is attributable to reasons that are not otherwise included in this list of codes.

QUARTERLY PORTFOLIO ACTIVITY

On a quarterly basis SFHGLP servicers update balances on all SFHGLP loans in their portfolio. This assists in maintaining contingent liability for losses in the Agency's accounting records. Servicers report electronically through the LINC website noted above. The following are investor reporting action codes. A payoff removes the loan liability from the Agency's database. Do not utilize the payoff code for loans transferred to holders that have been acquired in liquidation.

Code Value	Value Name	Definition
01	**None**	The loan remains active in the lender's portfolio.
09	**Payoff**	Code utilized to report that a loan has been paid in full at, or prior to, maturity.

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APPENDIX 9

PENALTIES

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APPENDIX 9

PENALTIES

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1. Claim for Unallowable Expenses

The lender's loss claim request should reflect only allowable expenses. If the Agency's review of the lender's claim shows that unallowable expenses have been claimed, the loss claim amount will be reduced by the amount of unallowable expenses to reflect only allowable costs. The Agency will document any costs it disallows and the reasons for its determination. The following are some of the costs the Agency will disallow:

- Additional interest accrued beyond 90 days of acquisition;
- Interest accrued after allowable foreclosure time frame;
- Late fees;
- In-house lender expenses such as employee salaries, in-house legal fees, travel, or REO management fees; and
- Liquidation or disposition costs that is not reasonable and customary for the area or fees that exceed fees as noted in Attachment 18-B of Chapter 18.

2. Failure to Adhere to Required Collection Procedures

The lender is responsible for ensuring that all required collection actions are taken within the prescribed time frames and carefully documented. The Agency will reduce or deny a lender's claim if the lender fails to document that all required collection actions were taken at the appropriate times as noted in Chapter 18. The following are the penalties for failure to fulfill required collection obligations. Penalties take into consideration grace periods offered by the Agency outlined in Paragraph 18.4C of Chapter 18 of this Handbook.

- If the lender fails to attempt to make any contact with the borrower within 65 days past due, the claim will be denied.
- If the lender fails to notify the Agency when the account is in default, the claim will be denied.

- If the lender fails to attempt to make first contact with the borrower within 25 days past due but makes contact within 65 days past due, accrued interest will be reduced by 50 percent.

- If the lender fails to inspect the property within 65 days past due, but no loss results, the accrued interest will be reduced by 10 percent.

- If the lender fails to inspect and secure an abandoned property, the loss claim will be reduced by 10 percent and the dollar value of the loss attributable to the lender's failure to secure property, as documented in an appraisal. If a loss has not been documented by an appraisal, the claim will be denied.

3. Failure to Adhere to Required Foreclosure Time Frames

The lender is responsible for foreclosing on the property within the time frames detailed in Attachment 18-A of Chapter 18. If the lender fails to do so, the Agency will reduce the claim by the amount of any interest accrued beyond the allowable foreclosure time line.

4. Failure to Ensure That All Applicable Property Standards Were Met

The originating lender is responsible for ensuring that the property meets a variety of property standards when the loan guarantee is issued. If a loss claim is filed that indicates that some or all of the loss may be attributable to problems with the property itself, the Agency will investigate the cause of the problem. If the problem is due to the failure of the property to initially meet property standards, and the lender requesting the loss payment is also the originating lender, the penalty imposed on the lender will depend upon several factors, including whether the lender made a good faith effort to ensure that the property met all required standards, but was provided incorrect information by another party, and whether the property problem actually resulted in any loss of value.

If there is a negative impact on the property's value, and the originating lender can document that it acted in good faith to ensure that standards were met, the claim must be reduced by the reduction in property value.

If the originating lender cannot document that it acted in good faith to ensure that property standards were met, the claim must be denied.

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If a servicing lender did not originate the loan in which a loss payment is requested, the loan is subject to language as outlined in Section 4.9 of Chapter 4 of this Handbook.

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5. Failure to Maintain the Property

Lenders are responsible for ensuring that properties securing guaranteed loans are adequately maintained throughout the life of the loan. In particular, lenders are responsible for making protective advances to protect the security property at any point necessary during the life of the loan and if the lender is unable to contact a past-due borrower, determining whether the property may have been abandoned and if so, securing the property. If the Agency determines that failure to maintain the property has resulted in a loss, the Agency will determine the dollar value of the loss attributable to the lender's failure to act and deduct that amount from the loss claim.

6. Failure to Dispose of the Property for an Appropriate Amount

The lender is responsible for ensuring that when property is liquidated, either voluntarily or through foreclosure, it is sold for an amount that is supported by an appraisal and is acceptable to the Agency. Chapter 19 outlines the minimum requirements for meeting the Agency's price expectations in various disposition scenarios. If the lender fails to dispose of a property at an appropriate price, the Agency will reduce the loss claim by the difference between the sale price and the price that should have been obtained.

7. Failure to Obtain Required Security

The lender is responsible for obtaining the needed security for the loan. If the borrower becomes delinquent on the loan and it is shown that the lender failed to obtain all required security, the loss claim may denied in accordance §3555.108(c).

8. Failure to Maintain the Required Security

If the lender fails to make a needed protective advance, the claim will be reduced by the cost of repairing damage caused by failure to act.

If the lender fails to contact the borrower within 65 days past due to determine whether the property has been abandoned and/or fails to secure an abandoned property by 95 days past due and no damage attributable to the lender's failure can be documented, the claim must be reduced by 10 percent.

If damage attributable to the lender's failure can be documented, the claim must be reduced by 10 percent plus the cost of repairing damage caused by the failure to act.

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9. Provision of Unauthorized Assistance

The Agency cannot make a loss claim payment in the case of unauthorized assistance. If, at the time the loan note guarantee was approved, a borrower did not qualify for the SFHGLP or evidence is present that the property did not meet all property requirements, the Agency must deny the loss claim.

In very unusual circumstances, it is possible that a borrower might use some portion of the loan funds for an unauthorized purpose without the lender's knowledge (i.e. – cash returned at closing that did not represent cash from personal funds contributed by or on behalf (gift funds) of the borrower) or purchase of furniture. In such a case, the Agency would honor the loss claim, but reduce the loss claim payment by the amount of the funds that were used for the unauthorized purpose.

10. Violation of Interest Rate Restrictions

The lender is responsible for ensuring that any interest rate negotiated with a borrower for a SFHGLP loan falls within the program's guidelines as described in Chapter 7 of this Handbook. If evidence exists the lender violates the program's interest rate restrictions, the Agency will deny the loss claim.

11. Commission of, or Failure to, Report Knowledge of Fraud

Any time a lender commits fraud, or fails to report fraud about which the lender knew, or should have known, the Agency will deny the loss claim.

12. Failure to Carry Out Established Monitoring Guidelines for Real Estate tax and Hazard Insurance Premium

If the lender fails to carry out established monitoring guidelines for real estate tax and hazard insurance premium, the Agency may revoke lender approval.

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13. Sale of Loan to Non-Approved Lender or Other Party

If the lender sells the loan to a party not approved to participate in the GRH program, the Agency will terminate the loan note guarantee.

14. Failure to Adhere to Underwriting Guidelines

Although the Agency does not underwrite loans, there are underwriting requirements that ~~lenders~~ originating lenders must follow. If the Agency determines that the loan was not underwritten in accordance with Agency requirements, the Agency may terminate the loan note guarantee, or the originating lender may be required to indemnify the Agency if a loss claim is paid.

15. Incomplete Closing Documentation

If the Agency determines that closing documentation is incomplete, or that there were minor, correctable errors in the documents, the lender may be granted up to 30 days to correct the situation. If the complete package is not resubmitted within 30 days, and the account is in default, the Conditional Commitment will not be honored.

16. Unauthorized Sale or Transfer

The Agency will withdraw the guarantee if the security property is transferred without an assumption of the debt, unless transferred under the Garn-St. Germaine rule.

17. Failure to Adhere to Agency Standards for Handling Bankruptcy

The Agency may reduce or deny any loss claim by 10 percent resulting from an account in bankruptcy that is subsequently foreclosed when accurate and timely actions were not initiated.

18. Property with Environmental Issues at Time of Liquidation

If the property's value at the time of liquidation is affected by environmental issues, the lender must document how the hazard developed and became known. If the lender failed to conduct appropriate due diligence at loan origination, the loss claim will be denied or reduced by the decrease in market value attributable to the environmental hazard.

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APPENDIX 10

STATE SUPPLEMENTS

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Appendix 10
State Supplements

In accordance with RD Instruction 2006-B, all State issuances must be submitted to the National Office for either prior approval or post approval.

Appendix 10 may serve as a placeholder for State issuances if a master manual is retained.

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GLOSSARY

TERM	DEFINITION
abandonment	A property status indicating that (1) the property is vacant and is not being maintained and (2) the property is not offered for sale or rent with a broker.
acceleration	Demand for immediate repayment of the entire balance of a debt if the covenants in the promissory note, assumption agreement, or security instruments are breached.
acquired property	A property owned by the lender as a result of a foreclosure or acceptance of a deed-in-lieu; often referred to as "real estate owned."
acquisition date	The date of foreclosure sale, the date title is lawfully transferred to lender, or deed-in-lieu recordation.
additional interest	The amount of interest accrued on the amount of the principal loss between the settlement date and the loss claim check date on a properly filed claim.
additional recovery	Any proceeds recovered by the Lender which occurred after a previously paid loss payment or report of REO sold. Examples may be a trailing insurance refund, collection of a deficiency judgment or similar type proceeds. Additional recovery is to be reported to the Agency through use of the *Additional Recovery Calculator*.
adjustable rate mortgage (ARM)	A mortgage in which the interest rate is adjusted periodically according to a specified index.
adjusted annual Income	Income from all household members who live or propose to live in the dwelling as their primary residence for all or part of the ensuing 12 months. Adjusted annual income is used to determine whether an applicant is income-eligible for a guaranteed loan, or interest assistance, if applicable. Adjusted annual income provides for deductions to account for varying household circumstances and expenses. See Chapter 9 of this Handbook.

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Administrator	The official of the Rural Housing Service within the Rural Development mission area (or official of its successor agency) delegated authority by the Secretary of the U.S. Department of Agriculture to ensure that Rural Housing Service mission objectives are fulfilled, including those involving the provision of decent, safe, and affordable housing and the development of essential community facilities in rural areas.
ad valorem taxes	Property taxes based on assessed value of property.
adverse decision	An administrative decision made by an officer, employee or committee of the Agency that has a negative impact on the applicant or borrower.
affidavit	A written statement made under oath before an officer of the court or notary public.
Agency	The Rural Housing Service of the U.S. Department of Agriculture, Rural Development, or its successor agency.
agency employee	Any employee of the Rural Housing Service or any employee of the USDA Rural Development mission area who carries out Section 502 guaranteed loan program functions.
aka	Also known as.
alien	See "qualified alien".
alienation	Alienation of real property refers to the transfer of the interest in and/or title to real property by its owner to another, whether voluntary, for example by sale, gift, mortgage or lease; or involuntary, for example, by judicial process such as a tax sale, bankruptcy, or adverse possession.
alternative dispute resolution (ADR)	Processes and techniques that act as a means for disagreeing parties to come to an agreement short of litigation.
American Indian restricted lands	Land or any interest in land, which is: (1) held by an individual American Indian or Federally recognized Indian Tribe or Tribes, including any band, Rancheria, colony, pueblo, group, community or nation of Indians or Alaska Natives, and (2) is subject to Federal restrictions against alienation or encumbrance.
amortization	A gradual reduction of the mortgage debt through equal monthly principal and interest payments sufficient to fully repay the unpaid principal balance over the mortgage term.
amortized payment	Equal monthly payments under a fully amortized mortgage loan that provides for the scheduled payment of principal and interest over the term of the loan.

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annual fee	A periodic amount that is based on the average annual scheduled unpaid principal balance of the loan and is paid by the servicing lender to Rural Development on an annual basis for issuance of a Loan Note Guarantee. The fee is included in the monthly mortgage payment of a borrower and is used when calculating payment ratios.
annual income	Used to determine an applicant's eligibility for assistance. All amounts, monetary or not, of the applicant's household not specifically excluded by regulations, and amounts derived from assets any members of the family have access to.
applicant	An adult member of the household who will be responsible for repayment of the loan and is applying to a lender for a guaranteed loan.
appraisal	An opinion or estimate of value. Also refers to the process by which a value estimate is obtained.
appraised value	An opinion of value reached by an appraiser based upon knowledge, experience and a study of pertinent data.
appraiser	A person qualified by education, training and experience to estimate the value of real and personal property.
appreciation	An increase in value of property for any reason, except inflation.
approved lender	A financial institution that meets the requirements to participate in the Single Family Guaranteed Rural Housing program. See "lender."
area median income	The median income in a specific locality; typically a county or Metropolitan Statistical Area (MSA), as determined by the Department of Housing and Urban Development.
ARM	See "adjustable rate mortgage."
arm's length transaction	A proceeding where the agents involved deal completely with each other as strangers and do not collude.
assessed valuation	Value assigned to a piece of property by the local governmental unit for taxation purposes. This is usually less than the market value of the property. The relationship between assessed and market value varies widely depending on location and jurisdiction.
assessment	A charge made against property by a State, county, city or other authorized taxing jurisdiction.

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asset management	The process of managing a property or properties from acquisition to disposition within owner-defined objectives ranging from investment & operation analysis to the positioning of the property in the market place.
assignment of mortgage	A document that evidences a transfer of ownership of a mortgage from one mortgagee to another.
assumption	A method of selling real estate wherein the property purchaser accepts the liability for payment of an existing mortgage.
attachment	The act of taking property into the custody of the law to provide security for payment of a judgment in an impending suit.
attorney costs	Actual costs incurred associated with the most recent liquidation action. Does not include attorney fees. Applicable to foreclosure and bankruptcy.
attorney fees	Actual fees incurred associated with the most recent liquidation action. Does not include costs. Maximum claimable expense varies from State to State. Applicable to foreclosure and bankruptcy.
automated underwriting (AU) system	An AU system automates a manual underwriting process. It serves as a “transaction manager" that includes communication links between transaction participants, the capability to retrieve data from a variety of sources, and a scorecard. Lenders transmit loan-level data electronically to an AU system, the data is evaluated by the scorecard and lenders receive a credit risk classification based on the risk inherent in the loan application.
automated valuation model (AVM)	Automated valuation models, also known as a comparable sale reports are basically databases online that try to match up similar properties to give an idea of the range of sales prices that has historically been recorded. This information is limited to factual data, such as house size, number of rooms and bedrooms, age, and distance surrounding the house. Some databases use historical information, taken from mostly county record data. Some databases collect information from appraisal reports.
automatic stay	A provision of the Federal Bankruptcy Code that stops any act that can be construed to be an act against the interests of the debtor or the debtor's property.
AVM	See "automated valuation model."

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balloon mortgage	A mortgage with periodic installments of principal and interest that do not fully amortize a loan. The balance of the mortgage is due in a lump sum at a specified date, usually at the end of the term.
bankrupt	A person, firm or corporation who, through a court proceeding, is relieved from the payment of all debts after the surrender of all assets to a court-appointed trustee, for the protection of creditors. Bankruptcy may be declared under one of several chapters of the Federal bankruptcy code: • **Chapter 7**, which covers individual or business bankruptcy liquidation; • **Chapter 11**, which covers reorganization of bankrupt businesses; • **Chapter 12**, which covers certain farm bankruptcies; and • **Chapter 13**, which covers workouts of debts by individuals in which a debtor retains possession of property while making payments to creditors under a court- approved plan
bankruptcy discharge	Legal petition releasing the debtor from all dischargeable debts.
bankruptcy dismissal	Legal order as a result of a motion filed by either the debtor or another interested party seeking to dismiss the bankruptcy case.
basis point	One one-hundredth of one percent. Used to describe changes in yield on debt instruments, including mortgages.
borrower	An individual obligated to repay the loan guaranteed under the Guaranteed Rural Housing loan program.
BPO	See "broker price opinion."
BOV	Broker opinion of value. See "broker price opinion."
broker price opinion (BPO) or broker opinion of value (BOV)	Used to estimate value of a property based upon a comparison to other similar properties recently sold. Also known as comparative market analysis (CMA).
business day	A business day is a day other than a Saturday or Sunday or a day on which the offices of the Federal Government are closed. For the purposes of this handbook, the word "day" without the modifier "business" refers to a calendar day.
buy-down mortgage	A mortgage with a below-market interest rate made by a lender in return for an interest rate subsidy in the form of additional discount points paid by the builder, seller or buyer.
CAIVRS	See "Credit Alert Verification Reporting System."

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calendar day	Every day of the calendar month, which includes Saturday, Sunday, and State and Federal holidays.
capital improvement	Any structure or component erected as a permanent improvement to real property, which adds to its value and useful life.
capitalization	The adding of expected payments to the remaining unpaid balance of the loan.
cash flow	Money left from gross income after all expenses, both operating and debt service, have been deducted.
case file	A file established for each application to contain all documents used for loan origination.
Centralized Servicing Center (CSC)	The Agency branch located in St. Louis, Missouri that is responsible for servicing Section 502 and 504 loans.
certificate of foreclosure	(Connecticut Only) A document found on the land records which is evidence that a foreclosure has been completed and the mortgagee now owns the property.
charge off	To treat as a loss; to designate as an expense an amount originally recorded as an asset.
closing costs	Various fees required to conclude a real estate transaction.
closing date	In real estate, the delivery of a deed, financial adjustments, the signing of notes and the disbursement of funds necessary to consummate a sale or loan transaction. See also settlement date.
cloud on title	Any outstanding claim or encumbrance that, if valid, would affect or impair the title search. It can be removed by a quitclaim deed, release, or court action.
CMA	Comparative market analysis. See "broker price opinion."
cohort	A group with similar characteristics. OMB Circular A-11 refers to a cohort as all direct loans or loan guarantees of a program for which a subsidy appropriation is provided for a given year. A cohort is usually defined by the fiscal year of the appropriation.
collateral	Property pledged as security for a debt, for example, real estate pledged as security for a mortgage.
collateral estoppel	Prior judgment from a lawsuit between parties on a different cause of action that bars re-litigation of those matters in a subsequent lawsuit.

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combination construction and permanent loan	A guaranteed loan on which the Rural Development guarantee becomes effective at the time construction of an eligible single family housing project begins.
committee of sale	(Connecticut Only) An attorney appointed by the Court to conduct the auction of the mortgaged property in a foreclosure action.
common law	As distinguished from law created by legislatures (statutory law), the common law is that law which is founded in ancient customs and practices as interpreted by the Courts.
community land trust	A private nonprofit community housing development organization that is established to acquire parcels of land, held in perpetuity, primarily for conveyance under long-term ground leases. See § 502(a)(3)(b) of the Housing Act of 1949, as amended.
comparables	Properties used for comparative purposes in the appraisal process that have similar characteristics to the subject property.
compensating factors	Information that indicates that an applicant may be able to make larger regular loan payments than a ratio analysis indicates.
compliance review	An official review, on-site or desk audit, to determine lender or Agency field office compliance with program regulations. Agency field office compliance reviews are conducted under RD Instruction 2006-M.
concessions	A concession is anything of value added to the transaction by the seller, builder, developer, salesperson or any interested party. A concession may also include any closing costs that would normally be paid by the buyer or cash given to the buyer to lower non-housing debts. See also *"seller concessions."*
condemnation	The taking of private property for public use. Under a condemnation proceeding, property is taken with or without the consent of the owner, but with just compensation. See also "eminent domain."
Conditional Commitment	Rural Development's agreement that a proposed loan will be guaranteed if all conditions and requirements established by Rural Development are met.
condominium	A form of property ownership whereby the purchaser receives title to a specified residential unit and a proportionate interest in common areas of the condominium project in which the unit is located.
condominium project	A real estate project in which each owner have title to a unit in a building, an undivided interest in the common areas of the project and sometimes the exclusive use of certain limited common areas.

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confirmation hearing (bankruptcy)	A hearing where the Debtors proposed Chapter 13 plan is reviewed and either approved or denied by the Bankruptcy Judge.
confirmation hearing (foreclosure)	A hearing where the Sheriff's Sale is confirmed and title is transferred to the successful bidder from the sale.
confirmation of bankruptcy plan	A Bankruptcy Court order which approves a debtor's plan to pay the debts owed to his/her/their creditors as of the date of the filing of the bankruptcy petition. In some jurisdictions, Confirmation may be referred to as "Ratification."
concessions	Benefits or discounts given by the seller of a property to help close a sale. Common concessions include closing costs, pre-paid costs on behalf of the buyer, down payment assistance, costs for repairs. See also “seller concessions”
conventional financing	In real estate, mortgage financing which is not insured or guaranteed by a government agency such as HUD/FHA, VA or the Rural Housing Service.
conveyance	The document, such as a deed, lease or mortgage, used to effect a transfer.
correspondent	A specialized type of mortgage banker entity whose function is limited to the origination of mortgage loans that are sold to other mortgage bankers or investment bankers. The correspondent performs some or the entire loan processing functions such as taking the application; ordering credit reports, appraisals, and title reports; and verifying the borrower's income and employment. The correspondent may or may not have delegated underwriting and typically funds the loans at settlement. The mortgage is closed in the correspondent's name and the correspondent may or may not service the mortgage. The correspondent may commission a mortgage broker to perform some of the processing functions. Also known as "mortgage loan correspondent."
co-signer	One who agrees to assume a debt obligation if the principal borrower defaults on mortgage payments. A co-signer assumes only personal liability and has no ownership interest in the property; his or her income and obligations are used in the underwriting process to reinforce the credit of the principal borrower.

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cost approach to value	A means of valuation where the worth of a property is determined by computing the replacement value of improvements, depreciation, and the value of the land.
COTS	Commercial off-the-shelf software.
counterclaim	A claim presented in a pending lawsuit by a defendant against plaintiff in opposition to, or deduction from, plaintiff's claim.
cram down	The effect of certain provisions of the Bankruptcy code which allow the debtor to avoid the unsecured portion of an under-secured claim when the under-secured claim is not secured solely by the debtor's principal residence. Also known as lien stripping.
Credit Alert Verification Reporting System (CAIVRS)	CAIVRS is a HUD-maintained online information system that enables both government and participating lenders to learn when a potential borrower has previously defaulted on a federally-assisted loan.
credit repository or credit bureau	An institution that for a fee provides historical credit records of individuals provided to them by creditors subscribing to their services.
credit score	A credit score is an overall numerical rating, developed from an individual's credit profile including information on payment history, amounts owed, length of credit history, new credit, and types of credit used, that indicates the likelihood that a borrower will repay future obligations. Scores are weighted and range from approximately 365 to 840. Low scores reflect a "high risk", while higher scores reflect a "lower risk". See also "FICO."
credit waiver	A consideration of mitigating circumstances to establish the intent for good credit. See Chapter 5, 10, and 11 of this Handbook.
cross-claim	A claim in a pending lawsuit by a defendant against another defendant.
custodial property	Borrower-owned real property that serves as security for a loan that has been taken into possession by the Agency to protect Government’s interest.
custodian	The custodian is an institution that verifies and maintains the original Notes and assignments of security instruments, which includes either a third-party custodian or a holding lender acting as its own custodian.
dba	Doing business as.
DCIA	See "Debt Collection Improvement Act."
debarment	An action taken under part 3017 of this title or title 48 of the Code of Federal Regulations to exclude a person or entity from participating in Federal programs.

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Debt Collection Improvement Act (DCIA)	The Debt Collection Improvement Act of 1996 centralized the government-wide collection of delinquent debt. The Financial Management Service (FMS) is the US Treasury agency responsible implementation of the debt collection provisions of the DCIA.
debt-to-income ratio	Total debt ratio is calculated by dividing monthly obligations (proposed PITI, assessments & long-term obligations) by gross monthly income. PITI ratio is calculated by dividing PITI by gross monthly income. See Chapter 11 of this Handbook.
debenture rate	The debenture interest rate for purposes of calculating a claim to be paid by HUD is the monthly average yield, for the month in which the default on the mortgage occurred, on United States Treasury Securities adjusted to a constant maturity of 10 years. The yields can be found in Federal Reserve Statistical Release H-15.
debt instrument	A collective term encompassing obligating documents for a loan, including any applicable promissory note, assumption agreement, or a grant agreement.
debt settlement	Actions undertaken to collect at least a portion of debt owed to the Agency in conjunction with a voluntary liquidation, forced liquidation, or after the debt is fully matured. Debt settlement, when complete, closes the account.
declaration page	A short form provided by an insurance company outlining pertinent information about an insurance policy, such as the insured party's name and address, amount of coverage, terms, and additional provisions.
deed-in-lieu	A deed-in lieu of foreclosure. A voluntary transfer of title on a defaulted mortgage by deed from the borrower to the lender as an alternative to foreclosure. By arrangement between the parties, the lender saves the expense of foreclosure and the borrower generally expects to receive credit for payment of the debt in full.
deed of trust	A type of security instrument in which the borrower conveys a trust to hold property to a third party (trustee) as security for the lender, with the condition that the trustee shall reconvey the title upon the payment of the debt and, conversely, will sell the land and pay the debt in the event of a default by the borrower.
default	A breach or nonperformance of the terms of a note or the covenants of a mortgage.
default judgment	Judgment entered in a lawsuit when a defendant has failed to enter a plea or otherwise defend himself.

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defendant	Any person or entity that is being sued.
deficient housing	A dwelling that lacks complete plumbing; lacks adequate heating; is dilapidated or structurally unsound; has an overcrowding situation that will be corrected with loan funds; or that is otherwise uninhabitable, unsafe, or poses a health or environmental threat to the occupant or others.
deficiency	The difference between the balance outstanding on a loan and proceeds from the sale of the loan collateral.
deficiency judgment	A court order to pay the balance owed on a loan if the proceeds from the sale of the security are insufficient to pay off the loan.
delinquency	Failure to make timely payments under a loan agreement. Freddie Mac glossary: **Delinquency** occurs when all or part of the borrower's monthly installment of principal, interest and, where applicable, escrow is unpaid after the due date. If the due date is the first day of the month, the mortgage is thirty days delinquent when all or part of one or more payment(s) remain unpaid as of the close of business on the last business day of the month. If the due date is not the first day of the month (from the second through the thirty-first day of the month), the mortgage is thirty days delinquent when all or part of one or more payment(s) remain unpaid 30 or more calendar days as of close of business on the last business day of the month.
density	The ratio of land area to the number of structures built upon it.
Department of Housing and Urban Development (HUD)	A department of the Executive branch of the government responsible for the implementation and administration of housing and urban development programs. HUD was established by the Housing and Urban Development Act of 1965 to supersede the Housing and Home Finance Agency.
deposit	Money given as security for the performance of a contract, which is to be forfeited if the depositor fails in the undertaking. See also "earnest money."
depreciation	A sum representing presumed loss in the value of a building or other real estate improvement, resulting from physical wear and economic obsolescence.
DIL	See "deed-in-lieu."

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discount point	Amount payable to the lending institution by the borrower or seller to increase the lender's effective yield. It may represent a payment for services rendered in issuing a loan or additional interest to the lender payable in advance. One point is equal to 1 percent of the loan.
dismissal with prejudice	In the bankruptcy court, a court order dismissing the bankruptcy case with an order prohibiting the debtor from filing another bankruptcy until the expiration of some specified time. In a non-bankruptcy matter, the dismissal of an action without the right to raise those issues again.
disposition value	See "market value."
docket	A list of cases and their status on a court's calendar.
draw schedule	A schedule of payments agreed to by the borrower, Agency and contractor under which the contractor will receive payments for work completed.
down payment	The amount of cash a borrower may need to put up in order to buy a piece of property; equal to the purchase price minus the amount of any mortgage loans used to finance the purchase.
due date of last paid installment (DDLPI)	The due date of the last fully paid monthly installment of principal, interest and escrow (if any), not the date on which such payment was credited or the date of the next scheduled installment. (Freddie Mac definition)
due diligence	Refers to a legal obligation, e.g. in connection with the public sale of securities in real estate syndicates, of the underwriting or selling group to ensure that the offering statement or prospectus does not misstate or omit material information.
due-on-sale clause	A clause in the mortgage providing that if the mortgagor sells, transfers, or in any way encumbers the property, the mortgagee has the right to implement the acceleration clause making the balance of the obligation due. Also known as encumbrance. See also Garn-St. Germain Act.
early Indicator	A risk scoring model prescribed by Freddie Mac to identify high-risk loans.
earnest money	A sum of money given to bind a sale of real estate, to assure payment or an advance of funds in the processing of a loan; a deposit.
easement	The legal right to use land, or a portion of land, owned by another for a limited purpose
ECOA	See "Equal Credit Opportunity Act."

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EDI	See "electronic data interchange."
EFT	See "electronic funds transfer."
EIS	See "environmental impact statement."
elderly family	An elderly family consists of one of the following: A. A person who is the head, spouse, or sole member of a family and who is 62 years of age or older, or who is disabled, and is an applicant or borrower; or B. Two or more persons who are living together, at least one of whom is age 62 or older, or disabled, and who is an applicant or borrower; or C. In the case of a family where the deceased borrower or spouse was at least 62 years old or disabled, surviving household members shall continue to be classified as an elderly family for the purpose of determining adjusted income, even though the surviving members may not meet the definition of elderly family on their own, provided: 1. They occupied the dwelling with the deceased family member at the time of the death; 2. If one of the surviving family members is the spouse of the deceased family member, the family shall be classified as an elderly family only until the remarriage of the surviving spouse; and 3. At the time of the death of the deceased family member, the dwelling was financed under title V of the Housing Act of 1949.
electronic data interchange (EDI)	A computer-to-computer exchange of standard business documentation in machine processing form. For a more comprehensive glossary of EDI terms and acronyms, see the EDI Implementation Guide at http://www.rdinit.usda.gov/regs/handbook/edi.pdf
electronic funds transfer (EFT)	The Debt Collection Improvement Act of 1996 (DCIA) required the use of electronic funds transfer (EFT) for most Federal payments by 1999. The law itself defines the term "electronic funds transfer" as an instruction to a "financial institution" to credit or debit an "account." These are also referred to as electronic payments.
eminent domain	The right of government bodies, public utilities, and public service corporations to take private property for public use (e.g. schools, roads, etc.) on payment of its fair market value.
encroachment	A property improvement that illegally violates another's property.

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encumbrance	Mortgage, loans, or other restrictions that alter or restrain full title of ownership.
ENR	See "estimated net recovery."
environmental hazard	A potentially harmful condition associated with the external physical conditions that surround one.
Environmental Impact Statement (EIS)	A detailed written statement in the public record of major Federal action affecting human environment. The EIS explores and objectively evaluates reasonable alternatives to the Federal action.
environmental review	An analysis of the potential for environmental impacts from a proposed action by the Agency and an examination of alternatives to avoid or minimize adverse impacts on the environment.
Equal Credit Opportunity Act (ECOA)	A Federal law that requires lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status or receipt of income from public assistance programs. Also called "Regulation B."
equitable	Just; conformable to the principals of justice and right
equity	Net ownership, the difference between fair market value of the mortgaged premises and the current indebtedness, the total dollar amount of all mortgages and other liens secured by the property, sometimes called "owner's interest."
escrow account	An account in which is deposited, the portion of the borrower's monthly payment collected to cover expenses to be paid under the mortgage, including, but not limited to, taxes, special assessments, ground rents and other charges that are or may become first liens on the mortgaged premises, as well as property (hazard) insurance premiums, and if applicable, mortgage insurance premiums, held in trust by the lender.
escrow balance	The balance of the escrow account as of the application of the last borrower payment.
estimated net recovery (ENR)	The figure used by Rural Development to settle a loss claim on an unsold REO. A lender's ENR is based on a liquidation value appraisal to which is applied the current REO cost factor to estimate REO expenses to be deducted.

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estoppel	A party prevented by his own acts from claiming a right to the detriment of a second party, when the second party did some act in reliance on the first party's acts. An estoppel arises when one is forbidden by law to speak against his own act or deed.
extended-term loan modification	A loan modification in which the Lender reduces the interest rate to a level at or below the maximum allowable interest rate and then extends the repayment term up to a maximum of 40 years from the date of loan modification, but only as long as is necessary to achieve the targeted mortgage payment to income ratio.
estoppel letter	A letter requesting the precise amount of indebtedness remaining to facilitate the conveyance of a mortgage to another.
eviction action	A court action to obtain possession of premises by the person entitled to actual possession. Also may be known as forcible entry and detainer.
execute	To perform or complete.
existing dwelling or unit	A dwelling or unit that has either been previously owner-occupied or has been completed for more than 1-year as evidenced by an occupancy permit, certificate of occupancy, or confirmation of manufacture date or similar document issued by the local authority or affixed to a unit. It does not meet the definition of "new dwelling."
eviction action	A court action to obtain possession of premises by the person entitled to actual possession. Also may be known as forcible entry and detainer (FED).
Fair Credit Reporting Act (FCRA)	The Fair Credit Reporting Act governs how credit reports may be maintained and used. Among its purposes is to ensure that credit reporting agencies respect the consumer's right to privacy.
Fair Debt Collection Practices Act (FDCPA)	A federal act that provides the ground rules for communication with a consumer debtor and prescribes the manner in which debts may be collected.
fair market value	The price at which property is transferred between a willing buyer and a willing seller - both with good information and no compulsion to buy or sell. See also "market value."
false information	Information that the recipient knew was incorrect or should have known was incorrect that was provided or omitted for the purposes of obtaining assistance for which the recipient was not eligible.

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Fannie Mae	A stock-holder-owned corporation established by Congress that supplies funds to mortgage lenders. Mortgages funded by Fannie Mae must comply with their selling and servicing requirements. Also considered a quasi-governmental secondary market organization, it offers various mortgage purchase and securitization programs**.** Mortgages funded by Fannie Mae must comply with their selling and servicing requirements. Formerly known as "Federal National Mortgage Association (FNMA)."
FAQ	Frequently asked questions.
Farm Credit Administration (FCA)	The Farm Credit Administration (FCA or Agency) is an independent agency in the executive branch of the U.S. Government. It is responsible for the regulation and examination of the banks, associations, and related entities that collectively comprise what is known as the Farm Credit System (FCS), including the Federal Agricultural Mortgage Corporation (Farmer Mac).
Farm Credit System (FCS)	Chartered in 1917, FCS is a $65 billion-plus nationwide agricultural network of lending institutions providing credit and affiliated services to farm and ranch operators across the United States. FCS associations are owned by their stockholders/customers and are governed by a board of directors elected by the customer-owners, and operate on a cooperative basis.
Farmers Home Administration (FmHA)	Formerly, an agency of the Department of Agriculture that provided farm, community facility and housing loans and grants to eligible recipients in rural areas.
FDCPA	See "Fair Debt Collection Practices Act."
Fed	A shortened term for the Federal Reserve System.
fee simple ownership	A form of ownership under which the owner has absolute title to a piece of property.
FED	See "forcible entry and detainer"
Federal Deposit Insurance Corporation (FDIC)	Originally established by the Banking Act of 1933 to protect depositors from loss. As a result of FIRREA, the FDIC administers the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). An FDIC-insured depository is a depository institution whose deposits are insured by FDIC.

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Federal Home Loan Bank Board (FHLBB)	The FHLBB was a regulatory and supervisory agency for Federally chartered savings institutions and was abolished by FIRREA. It oversaw the operations of the Federal Savings and Loan Insurance Corporation (FSLIC) and the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac).
Federal Home Loan Mortgage Corporation (FHLMC)	See "Freddie Mac."
Federal Housing Administration (FHA)	A Federal agency within the Department of Housing and Urban Development that provides mortgage insurance for residential mortgages and sets standards for construction and underwriting. The FHA does not lend money, nor does it plan or construct housing.
Federal National Mortgage Association (FNMA)	See "Fannie Mae."
Federal Reserve	The Federal Reserve, the central bank of the U.S., founded by Congress in 1913 to provide a safer, more flexible, and more stable monetary and financial system. Federal Reserve's duties fall into four areas: (1) conducting the nation's monetary policy; (2) supervising and regulating banking institutions and protecting the credit rights of consumers; (3) maintaining the stability of the financial system; and (4) providing certain financial services to the U.S. government, the public, financial institutions and foreign official institutions.
Federal Savings & Loan Insurance Corporation (FSLIC)	Originally established in 1934 by the National Housing Act to insure deposits in participant savings and loan associations, FSLIC was dissolved by FIRREA. Under FIRREA, the Savings Association Insurance Fund (SAIF) is the new thrift insurance fund, administered by the Federal Deposit Insurance Corporation (FDIC).
Federally Manufactured Home Construction and Safety Standard (FMHCSS)	See "manufactured home"
fee or fee simple	The greatest possible interest a person can have in real estate, including the right to dispose of the property or pass it on to one's heirs.
FHA	See "Federal Housing Administration."

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FHA insurance	An undertaking by FHA to insure the lender against loss arising from a default by the borrower.
FHA mortgage	A home mortgage that is fully insured by the FHA under Sections 203(b), 203(h) or 203(i) [Home Unsubsidized], 222 [Servicemen] or 234 [Individual Condominium Unit] of the National Housing Act, as amended.
FHLMC	See "Federal Home Loan Mortgage Corporation."
FICA tax	Also known as the Social Security tax. FICA stands for Federal Insurance Contributions Act.
FICO score	A credit scoring model developed by Fair Isaac and Company, Inc. See also "credit score."
fidelity bond	A business insurance policy that protects an employer in case of any loss of money or property due to employee. It covers any type of stealing: theft, forgery, larceny, and embezzlement.
FIRREA (Financial Institutions Reform, Recovery and Enforcement Act of 1989)	The law enacted to restructure the thrift industry. The Act created regulatory entities to oversee thrifts and established risk-based capital guidelines for Qualified Thrift Lenders (QTLs). The Act created the Office of Thrift Supervision (OTS), the Federal Housing Finance Board (FHFB), and the Resolution Trust Corporation (RTC); the Act dissolved the Federal Home Loan Bank Board (FHLBB)) and the Federal Savings and Loan Insurance Corporation (FSLIC).
Field Office	An Agency office that responds to guarantee loan requests.
first legal action	The date of first action required by law to initiate foreclosure. See also foreclosure initiation. Action varies by State.
first lien	A first lien is any lien that meets both of the following requirements: The lien is acceptable to private institutional first-mortgage investors in the area where the mortgaged premises are located, and, The lien grants to the lien holder a claim against the property that, under the law of the jurisdiction where the mortgaged premises are located, is prior to the rights of all others, subject only to prior liens and encumbrances expressly waived.

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first mortgage	A real estate loan that creates a primary lien against real property.
first-time homebuyers	A preference extended to households where the applicant meets one of the following criteria: A. No ownership interest in a principal residence during the three-year period ending on the date of loan closing; or B. A displaced homemaker or single parent who, except for owning with a spouse, had no ownership interest in a principal residence during the three-year period ending on the date of loan closing. Displaced homemakers include any individual who is: (i) An adult; (ii) Unemployed or underemployed; (iii) Experiencing difficulty in obtaining or upgrading employment; and (iv) In recent years has worked primarily without remuneration to care for the home and family, but has not worked full-time, full-year in the labor force. C. An individual who is a single parent and who, except for owning a home with a spouse, has had no ownership interest in a principal residence during the three-year period ending on the date of loan closing. Single parents include any individual who is: (i) Unmarried or legally separated; and (ii) Has custody or joint custody of one or more children, or is pregnant.
fiscal year	A fiscal year is a 12-month accounting period. The fiscal year for the Federal Government begins October 1 and ends September 30. The fiscal year is designated by the calendar year in which it ends; for example, fiscal year 1997 is the year beginning October 1, 1996, and ending September 30, 1997.
fixed rate mortgage (FRM)	A mortgage in which the interest rate and payments remain the same for the life of the loan.
flipping	The practice of buying property as an investment at a bargain price, making superficial repairs and re-selling it quickly at an inflated price. Elements of fraudulent "flipping" are older, decaying property, cosmetic repairs, inflated sale price and eager, unsophisticated buyers.
float	In mortgage servicing, the period of time between the receipt of the borrower's funds and remittance of those funds to investors.
FmHA	See "Farmers Home Administration."
FNMA	See "Fannie Mae."

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forbearance	The act of refraining from taking legal action despite the fact that a mortgage is in arrears. It is usually granted only when a mortgagor makes a satisfactory arrangement by which the arrears will be paid at a later date.
force-placed insurance	Required insurance coverage obtained by the lender on the borrower's behalf, which the borrower has allowed to lapse. The borrower is required to pay the premium. Also known as forced-order or lender-placed insurance.
forcible entry and detainer (FED)	A court action to obtain possession of premises by the person entitled to actual possession (also may be known as an eviction action).
foreclosure	A legal procedure in which a mortgaged property is sold to pay the outstanding debt in case of default.
foreclosure initiation	The date of the first legal action required by law to initiate foreclosure. Action varies by State.
foreclosure sale	A forced sale of mortgaged property at public auction conducted either by the court or in some other prescribed fashion, with the proceeds of the sale going to satisfy the debt. The lender is usually the successful bidder at the foreclosure sale.
fraud	A deception deliberately practiced in order to secure unfair or unlawful gain.
Freddie Mac	A stock-holder-owned corporation established by Congress that supplies funds to mortgage lenders. Also considered a quasi-governmental secondary market organization, it offers various mortgage purchase and securitization programs to facilitate residential mortgages sponsored by the Veterans Administration and the Federal Housing Administration as well as residential mortgages that are not government protected. Mortgages funded by Freddie Mac must comply with their selling and servicing requirements. Formerly known as Federal Home Loan Mortgage Corporation (FHLMC).
FSLIC	See "Federal Savings & Loan Insurance Corporation."
Full-time student	A person who carries at least the minimum number of credit hours considered to be full-time by the college or vocational school in which the person is enrolled.

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funded buydown	Using funds from the seller, lender or other interested third party to temporarily reduce the borrower's monthly payment during the initial years of the loan.
future recovery	The recovery of additional funds to be applied to the REO account subsequent to the settlement of the original loss claim payment.
GAO	See "General Accounting Office."
Garn-St. Germain Act	In 1982, Congress passed the Garn-St. Germain Depository Institutions Act that provides that due-on-sale clauses are enforceable notwithstanding contrary State law. However, the act excludes from its coverage certain loans made during certain "window" periods when there may have been State law protection, and exempts certain specified transfers. See OGC's Compilation of Laws.
General Accounting Office (GAO)	The audit, evaluation and investigative arm of the United States Congress. GAO exists to support the Congress in meeting its Constitutional responsibilities and to help improve the performance and ensure the accountability of the Federal government.
gift letter	A letter certifying to the underwriter that funds in an applicant's account are truly a gift and need not be repaid.
Ginnie Mae	See "Government National Mortgage Association."
GNMA	See "Government National Mortgage Association."
Government National Mortgage Association (GNMA)	Also known as Ginnie Mae. A Federal agency within the Department of Housing and Urban Development (HUD) that guarantees the timely payment of principal and interest for mortgage-backed securities backed by FHA-insured, RHS-guaranteed and VA-guaranteed mortgages.
government sponsored enterprises (GSE)	Privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. Examples of GSEs include: Federal Home Loan Bank, Fannie Mae, Freddie Mac, Federal Farm Credit Bank, Resolution Funding Corporation and The Student Loan Marketing Association.
guarantee	Federal credit aid in which the Federal government pledges its financial liability (full faith and credit) for loans made by private or State or local government institutions

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guaranteed loan	A loan made, held and serviced by a lender for which Rural Development has entered into a “Lender Agreement” with. See Chapter 3 of this Handbook.
guarantee fee	The fee paid by the lender to the government for its guarantee. This is sometimes referred to as an insurance fee. The fee is calculated as a percentage of the principal loan amount, and may be passed on to the borrower to be paid separately or included in the loan. See Chapter 16 of this Handbook.
Guaranteed Loan System (GLS)	The present automated loan accounting system for RHS guaranteed rural housing loans.
Guaranteed Underwriting System (GUS)	The automated system developed by Rural Development for a lender's underwriters to review the eligibility of single family guaranteed rural housing loan applications for guarantees.
GUS	See "Guaranteed Underwriting System."
hazard	A condition of the property that jeopardizes the health or safety of the occupants or members of the community, that does not necessarily make it unfit for habitation.
hazard insurance	Insurance coverage that provides compensation to the insured in case of property loss or damage.
HCC	See "Housing Counseling Clearinghouse."
highest and best use	The use of land that will bring the greatest return.
holder in due course	A term that describes a person or other legal entity (such as a financial institution) that "holds" or owns a negotiable instrument (usually a check or promissory note) but is not the original payee of the instrument. As such, the "holder" may not be subject to some claims or defenses that might be raised against the original payee by the maker of the instrument (such as the borrower).
Home Mortgage Disclosure Act (HMDA)	This act requires all mortgage companies to report selected information to the Federal government about each application received. HUD (U.S. Department of Housing and Urban Development) uses HMDA to detect discrimination and identify trends in lending patterns.
household	All persons routinely living in the dwelling as principal residence, except for live-in aides, foster children, and foster adults.

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Housing Act of 1949, as amended	The Act which provides the authority for the direct single family housing programs. It is codified at 42 U.S.C. 1471, et seq.
Housing Counseling Clearinghouse (HCC)	A HUD-established service for financially distressed mortgagors to call (1-800-569-4287) for information on HUD-approved housing counseling agencies. Required by the HUD Act of 1968, lenders must notify all eligible delinquent borrowers of the availability of housing counseling for residential mortgage loans, whether conventional, government insured or government guaranteed, including loans, direct or insured, by Federal, State and local governmental agencies.
housing finance agency (HFA)	A State agency that is responsible for the financing of housing and the administration of certain subsidized housing programs.
HUD	The Department of Housing and Urban Development.
HUD -1 Settlement Statement	The Settlement Statement is a loan closing document, listing funds paid by the Buyer and Seller, the distributions of those funds, and the remaining cash that should go to the Seller. The settlement statement refers to the Buyer as the "Borrower" because the Buyer is the one taking out a real estate mortgage.
inaccurate information	Incorrect information inadvertently provided, used, or omitted without intent to obtain benefits for which the applicant was not eligible.
income approach to value	A method of estimating property value by capitalizing net property income.
income limits	Family income limits established by law, based on family size and geographic location, for eligibility for certain government subsidized housing programs.
Indian reservation	All land located within the limits of any Indian reservation under the jurisdiction of the United States notwithstanding the issuance of any patent and including rights-of-way running through the reservation; trust or restricted land located within the boundaries of a former reservation of a Federally recognized Indian tribe in the State of Oklahoma; or all Indian allotments, the titles to which have not been extinguished if such allotments are subject to the jurisdiction of a Federally recognized Indian tribe.

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individual retirement account (IRA)	A **Traditional IRA** is an account that allows you to defer taxes on your earnings until they are withdrawn. Contributions may be tax deductible in the year they are made if certain requirements are met. A **Roth IRA** is a nondeductible account that features tax-free withdrawals for certain distribution reasons after a five-year holding period. It allows your contributions and earnings to grow tax-free. Contributions may be withdrawn tax-free at any time. An **Education IRA** is a trust or custodial account created exclusively for the purpose of paying the qualified higher education expenses of the Designated Beneficiary of the account. Use the IRA Calculator to determine how much you need to save a child's future education. See also "Keogh plan."
interest assistance	Agency assistance available to eligible borrowers that reduces the effective interest rate on the guaranteed loan. Interest assistance applied to borrowers whose loans were approved as a subsidized guaranteed loan between April 17, 1991 and September 30, 1991 and who entered into interest assistance and shared equity agreements at loan closing.
Interest credit	A payment subsidy available to certain eligible Section 502 direct borrowers that reduces the effective interest rate of the loan. Borrowers receiving interest credit will continue to receive it on all current and future loans for as long as they remain eligible for and continue to receive a subsidy. Borrowers who cease to be eligible for interest credit can never receive interest credit again, but may receive payment assistance if they again qualify for a payment subsidy.
interest rate	Percentage paid for the use of money, usually expressed as an annual percentage.
interim financing	Financing used from the beginning of a project to the closing of a permanent loan, usually a construction or development loan.
investor	Any person or institution that invests in mortgages or mortgage-backed securities. (18-3)
joint tenancy	Joint ownership by two or more persons giving each tenant equal interest and equal rights in the property, including the right of survivorship.

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judgment	Final determination by a court of the rights and claims of the parties to an action.
judicial foreclosure	Type of foreclosure proceeding used in some states that is handled as a civil lawsuit and conducted entirely under the auspices of a court.
junior lien	Lien or claim against a property that is secondary or inferior to the lien of the first mortgage, e.g. a second mortgage.
Keogh plan (HR 10)	A form of tax-qualified retirement plan established by a non-incorporated business or self-employed individual. Investment contributions and appreciation are generally tax-deferred until actually received in the form of benefits. A self-employed retirement plan.
land contract	An agreement to transfer title to a property once the conditions of the contract have been fulfilled. Also known as a contract for deed.
late charge	An additional charge that a borrower is required to pay as a penalty for failure to pay a regular installment when due.
law day	(Connecticut Only) The last day for the mortgagor or other junior lien holder to redeem the foreclosing mortgagee's debt. If all the law days assigned pass without redemption, the foreclosing mortgagee will own the property and will record a certificate of foreclosure.
leap day	February 29th or 2/29 which may be included as an additional day of loss claim interest accrual if the lender is using a 365-day interest accrual basis and includes leap day in interest accrual calculations.
leasehold estates	A kind of real estate ownership through which the property owner doesn't hold title to the property, but instead has use of the property subject to the terms of the lease.
legal alien	For the purposes of these programs, legal alien refers to any person lawfully admitted to the country who meets the criteria in Section 214 of the Housing and Community Development Act of 1980, as amended, 42 U.S.C. 1436a.

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lender	For Rural Development SFHGLP purposes there are four main categories; submitting lender, originating lender, holding lender, and servicing lender. **Submitting lender.** A submitting lender is one that has not been approved as a participating lender in the GRH program. The FHA calls these lenders "correspondents" and in the industry they are also known as mortgage brokers. Brokers or correspondents may submit GRH loan packages, but the loans must be underwritten by an approved originating or participating Lender. **Originating lender (aka participating lender).** This is a lender that has been approved as a participating lender in the GRH program. They are authorized to originate and close GRH loans. The FHA calls these "supervised lenders" (those regulated by a Federal entity like the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), the National Credit Union Administration (NCUA), the Office of Thrift Supervision (OTS) or the Federal Reserve Banks (FRB) and "un-supervised lenders" (those <u>not</u> regulated by a Federal entity but still qualified to originate loans for FHA). **Holding lender.** A holding lender or holder is an approved lender that has originated or purchased GRH loans and "holds" or owns the promissory note. The holder is entitled to the income stream from the mortgage payments. The holder may service the loans they hold or own, or elect to sell the servicing rights to a servicing lender. The servicing lender pays the holder as mortgage payments are received or when foreclosed property has been sold. **Servicing lender.** A servicing lender or servicer does not originate loans, but purchases the servicing rights to them from a holder. A servicer receives and applies payments, administers tax and insurance escrows, deploys collection efforts against a delinquent borrower, and liquidates defaulted loans and acquired collateral. Depending upon the servicing contract, a servicing lender or the holder may ultimately submit the loss claim to the Agency. A servicing lender may or may not "hold" or own the note.
leveraged loan	An affordable housing product loan or grant to a Section 502 direct Agency borrower property, closed simultaneously with an RHS loan. Affordable leveraged loans are characterized by long term (not less than 30 years), amortized payments with a note interest rate equal to or less than 3 percent.
lien	A legal hold or claim of a creditor on the property of another as security for a debt. Liens are always against property, usually real property.

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lien stripping	Used to describe the effect of certain provisions of the Bankruptcy Code which allow the debtor to avoid the unsecured portion of an under-secured claim when the under-secured claim is not secured solely by the debtor's principal residence. Also known as a "cram down."
liquidation	Liquidation of the loan occurs when the Lender acquires title to the security, a third party buys the property at the foreclosure sale, or the borrower sells the property to a third party in order to avoid or cure a default situation with the prior approval of the Lender and RHS. In States providing a redemption period, the Lender does not typically acquire title until after expiration of the redemption period.
liquidation value	The most probable price which a specified interest in real property is likely to bring under all of the following conditions: (1) Consummation of a sale will occur within a severely limited future marketing period specified by the client. (2) Actual market conditions are those currently obtaining for the property interest appraised. (3) The buyer is acting prudently and knowledgeably. (4) The seller is under extreme compulsion to sell. (5) The buyer is typically motivated. (6) The buyer is acting in what he or she considers his or her best interests. (7) A limited marketing effort and time will be allowed for the completion of a sale. (8) Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto. (9) The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. This definition can be modified to provide for valuation with specified financing terms.
Lis Pendens	A notice filed on public record for the purposes of notifying all persons that a certain property is under litigation.
litigation	A legal action or process.
live-in aide	A person who: (1) lives with an elderly person or a person with a disability and (2) is essential to that person's care and well-being, and (3) is not obligated for the person's support, and (4) would not be living in the unit except to provide the support services.

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LNG	See "loan note guarantee."
loan administration	A mortgage banking function which includes the receipt of payments, customer service, escrow administration, investor accounting, collections and foreclosures. Also called "servicing".
Loan Approval Official	An Agency employee who has the authority to approve loans. Unless otherwise indicated, each State Director may determine which approval actions may be made by the Loan Approval Official, and which must come to the State Office for approval.
loan modification	A written agreement that permanently changes an original note term, such as the interest rate, monthly payment, and/or the principal balance due to capitalization of interest or advances.
loan note guarantee (LNG)	Form RD 3555-17, "Loan Note Guarantee," is used by RHS to guarantee a loan made in accordance with applicable regulations with the full faith and credit of the United States. See Chapter 16 of this Handbook.
loan origination	The process by which a mortgage bankers or direct lender brings into being a mortgage secured by real property.
loan origination system (LOS)	A system used by lenders and mortgage brokers to originate loans and track their pipeline of loans in process. An LOS electronically captures loan data, prints forms, and transmits data to automated underwriting systems.
loan-to-value (LTV) ratio	LTV ratio is the relationship between the amount to be financed and the market value of the security property.
lockbox	The service that receives and processes borrower payments.
long arm statutes	Laws that permit courts to acquire personal jurisdiction over non-residents by virtue of activity within the state.
loss claim	The method by which the Agency provides reimbursement to a lender who has fulfilled all program requirements but who has incurred a loss on a guaranteed loan.
loss draft	A payment from an insurance company to a borrower to cover the borrower's adjusted losses due to damages covered under the insurance policy.

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loss mitigation	A lender's efforts with a borrower to work out a delinquency or resolve a defaulted loan to maximize recovery and avoid foreclosure. May include extension of loan terms, forbearance, moratorium, modification, refinancing, short sale or deed-in-lieu.
low income	An adjusted income that is greater than the HUD established very low-income limit, but that does not exceed the HUD established low-income limit (generally 80 percent of median income adjusted for household size) for the county or Metropolitan Statistical Area where the property is or will be located.
maintenance costs	Recurring fees associated with holding custodial or REO property. An example is yard maintenance and/or mowing.
major hazard	A condition so severe that it makes the property unfit for habitation. (See also the definition of hazard.)
manufactured home	A structure that is built to Federally Manufactured Home Construction and Safety Standard (FMHCSS) and Agency Thermal Performance Standards (TPS). It is transportable in one or more sections, which in the traveling mode is 10-body feet (3.048 meters) or more in width, and when erected on site is 400 or more square feet (37.16 square meters), and which is built on a permanent chassis and designed to be used as a dwelling with or without a permanent foundation when connected to the required utilities. It is designed and constructed for permanent occupancy by a single family and contains permanent eating, cooking, sleeping, and sanitary facilities. The plumbing, heating, and electrical systems are contained in the structure. A permanent foundation is required.
market approach to value	In appraisal, a market value estimate of property based on actual prices paid in similar market transactions.
mark to market	The process whereby the book value or collateral value of the security is adjusted to reflect current market value.
market value	The most probable price that a property should bring after reasonable exposure in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgably. It is the value of the property as determined by a current appraisal made in accordance with the Uniform Standards of Professional Appraisal Practices.

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marketable title	A title that is free from material defects and under which a purchaser may have quiet and peaceful enjoyment of the property subject to easements, covenants and restrictions readily acceptable to a well-informed buyer. Also known as merchantable title.
maturity	The date on which a note or other negotiable instrument becomes due and payable.
maximum allowable interest rate for extended-term loan modification	The Agency may establish the maximum allowable interest rate in an extended-term loan modification by publishing a notice in the Federal Register describing how to calculate the maximum allowable interest rate. If the maximum allowable interest rate has not been established by notice in the Federal Register, the maximum allowable interest rate shall be 50 basis points greater than the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) rate for 30-year fixed-rate mortgages (U.S. average), rounded to the nearest one-eighth of one percent (0.125%), as of the date the loan modification is executed. Weekly PMMS rates are published on the Freddie Mac website, and the Federal Reserve Board includes the average 30-year PMMS rate in the list of Selected Interest Rates that it publishes weekly in its Statistical Release H.15.
MBA	See "Mortgage Bankers Association."
MCC	See "mortgage credit certificate."
mechanic's lien	A claim created by law for the purpose of securing priority of payment for work performed and materials furnished by a mechanic or other person for the construction or repair of a building; such claim attaches to the land as well as buildings and improvements erected thereon.
MERS	See "Mortgage Electronic Registration System."
Metropolitan Statistical Area (MSA)	MSA is a county or group of counties of 50,000 people or more, or “twin cities” with a combined population of at least 50,000. In addition to the county containing such a city, contiguous counties are included in a metro area according to commuting patterns. In New England states, metro areas consist of towns and cities instead of counties, otherwise the rules are similar.
MIDEX	See "Mortgage Asset Research Institute."
minority-owned business enterprise	An enterprise that is more than 50% owned, controlled and operated by one or more members of one or more of the following groups: African-American, Hispanic American, Native American, Asian-Pacific American, or Asian-Indian American.

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MIP	See "mortgage insurance premium."
mineral lease	A granting of rights to a third party to mine, drill or otherwise access oil, gas or other valuable natural resources on a property.
mobile home	A manufactured unit often referred to as a “trailer,” designed to be used as a dwelling, but built prior to the enactment of Pub. L. 96-399 (October 8, 1980).
moderate income	The greater of: (1) 115 percent of the U.S. median family income, (2) the average of the state-wide and state non-metro median family income, (3) 115/80ths of the area low-income limit adjusted for household size for the county or MSA where the property is, or will be, located.
modest housing	For purposes of this part, “modest housing” is the housing that a low- or moderate-income borrower can afford based on their repayment ability. In addition, the property must not be designed for income producing activities.
modular or panelized home	Housing, constructed of one or more factory-built sections or panels which, when completed, meets or exceed the requirements of the recognized development standards (model building codes) for site-built housing, and which is designed to be permanently connected to a site-built foundation.
moratorium	Legal authorization to delay the enforcement of liability for debt or to suspend an activity.
mortgage	A formal document executed by an owner of property, pledging that property as security for payment of a debt or performance of some other obligation; the security instrument. See also deed of trust.
Mortgage Asset Research Institute, Inc. (MARI)	The firm that manages the Mortgage Industry Data Exchange (MIDEX), an online database of public disciplinary, enforcement and legal actions, and non-public information about incidents involving alleged fraud, material misrepresentation and serious misconduct reported by mortgage industry participants.
mortgage-backed security (MBS)	An investment instrument backed by mortgage loans as security. Ownership is evidenced by an undivided interest in a pool of mortgages or trust deeds. Income from the underlying mortgages is used to pay off the securities and provides a return on investment.
mortgage banker	A firm that conducts mortgage lending activities from its own funds. Newly formed mortgages are sold to investors in the secondary market, providing funds for subsequent lending.

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Mortgage Bankers Association (MBA)	MBA is the primary trade association representing the real estate finance industry, representing their legislative and regulatory interests before Congress and federal agencies; meeting educational needs through programs, periodicals and publications; and supporting their business interests with a variety of research initiatives and other products and services.
mortgage broker	An independent mortgage originator who is not an employee of a mortgage lender, bank, thrift, finance company or credit union.
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.
Mortgage Electronic Registration System, Inc. (MERS)	A cooperative undertaking by and for the entire mortgage industry, the system is an electronic registry specifically created for tracking the ownership of individual mortgages, servicing rights and security interests and used by MERS members.
mortgage payment to income ratio	This ratio is defined as the monthly mortgage payment (principal, interest, taxes, and insurance) divided by the borrower's gross monthly income.
mortgage recovery advance	A mortgage recovery advance is funds advanced by the Lender on behalf of a borrower to satisfy the borrower's arrearage, pay legal fees and foreclosure costs related to a cancelled foreclosure action, and reduce principal. Upon request, RHS will reimburse the Lender for eligible mortgage recovery advances. The maximum mortgage recovery advance consists of the sum of: (i) arrearages not to exceed 12 months of principal, interest, taxes, and insurance; (ii) legal fees and foreclosure costs related to a cancelled foreclosure action; and (iii) principal reduction. The maximum mortgage recovery advance is 30 percent of the unpaid principal balance as of the date of default.
mortgaged premises	The land and improvements thereon subject to the lien of a mortgage.
mortgagee	The lender in a mortgage transaction.

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mortgagee clause	A clause that may be attached to an insurance policy stipulating that the lender will receive a portion of insurance proceeds sufficient to satisfy the unpaid amount of a loan in the event of a loss.
mortgage insurance	See private mortgage insurance.
mortgage insurance premium (MIP)	The amount paid by a mortgagor for mortgage insurance either to FHA or a private mortgage insurance carrier.
MortgageServ	The mainframe-based computer application that is used by the Field Office to electronically communicate with, and transmit information to CSC, and by CSC to service and track a borrower's loan.
mortgagor	The borrower in a mortgage transaction who pledges property as a security for the debt.
motion requesting relief from stay	A pleading filed in a bankruptcy case wherein the creditor requests that its collateral be removed from the automatic stay imposed by the bankruptcy filing.
motion to dismiss	A pleading which requests that the case be dismissed prior to the trial.
motion to strike	Request by either party for the court to order stricken from any pleading any insufficient defense, or any redundant, immaterial, impertinent or scandalous matter.
MSA	See "Metropolitan Statistical Area."
NAD	See "National Appeals Division."
NAHB	See "National Association of Home Builders."
NAR	See "National Association of Realtors."
National Appeals Division (NAD)	The organization within the United States Department of Agriculture that is responsible for the Department's administrative appeals procedures which must be followed by participants who desire to appeal an adverse decision made by the Agency.
National Credit Union Share Insurance Fund (NCUSIF)	An NCUSIF-insured depository is a depository institution whose deposits are insured by the NCUSIF.
NCUA	See "National Credit Union Administration."

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National Office	The headquarters of the Agency located in Washington, DC where the Administrator's office and the national policy-making staff are located.
negligent misrepresentation	Negligent misrepresentation is a failure of consideration which prevents a valid contract from ever being formed.
negotiable instrument	A document that meets the requirements set out in the Uniform Commercial Code (see UCC) Section 3-104. Specifically, it must be a writing signed by the maker or drawer; it must contain an unconditional promise or order to pay a sum certain in money; it must be payable on demand or at a definite time; it must be payable to the bearer or to order; and, it must not contain any other promise, order, obligation, or power given by the maker or drawer except as authorized.
net family assets	The value of assets available to a household that could be used towards housing costs. Net family assets are considered in the calculation of annual income and are used to determine whether the household must make additional cash contributions to improve or purchase the property.
net recovery value	The amount available to apply to the outstanding unpaid loan balance after considering the value of the security property and other amounts recovered, and deducting the costs associated with liquidation, acquisition and sale of the property. Net recovery value is calculated differently depending on the type of disposition, as contained in Chapter 20 of this Handbook.
net worth	The value of all assets, including cash, less total liabilities. Often used as an underwriting guideline to indicate creditworthiness and financial strength.
new dwelling	A dwelling that is to be constructed, or is under construction, or an already existing dwelling that is less than one year old and has never been occupied.
NOFA	See "Notice of Fund Availability."
non-judicial foreclosure	A foreclosure which does not involve filing an action in a state court. A typical procedure involves notice to the interested parties (either by personal service or an alternate method such as publication) and sale of the property. The Court provides no overview of the process unless petitioned by the mortgagor.
note	A general term for any kind of paper or document signed by a borrower that is an acknowledgement of the debt, and is, by inference, a promise to pay. When the note is secured by a mortgage, it is called a "mortgage note" and the mortgagee is named as the payee.
note rate	See "promissory note rate."

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notice by publication	The process of serving defendants who cannot be located through publication in the newspaper. Specific legislation controls whom and how a defendant can be served by such publication.
Notice of Fund Availability (NOFA)	A Federal Register public notice to inform potential applicants of Federal funding authority.
Office of Management and Budget (OMB)	In the Executive Office of the President, OMB's mission is to assist the President in overseeing the preparation of the federal budget and to supervise its administration in Executive Branch agencies. In helping to formulate the President's spending plans, OMB evaluates the effectiveness of agency programs, policies, and procedures, assesses competing funding demands among agencies, and sets funding priorities. OMB ensures that agency reports, rules, testimony, and proposed legislation are consistent with the President's Budget and Administration policies.
Office of Thrift Supervision (OTS)	The successor thrift regulator to the Federal Home Loan Bank Board (FHLBB) and a division within the Treasury Department. The OTS is responsible for the examination and regulation of Federally chartered and State chartered savings associations.
Office of the General Counsel	The Office of the General Counsel (OGC) is an independent legal agency within the U. S. Department of Agriculture (USDA). OGC provides legal advice and services to the Secretary of Agriculture and to all other officials and agencies of the Department with respect to all USDA programs and activities. All legal services are centralized within OGC and the General Counsel reports directly to the Secretary.
Office of Inspector General	The Office of Inspector General was legislatively established in 1978 with the enactment of the Inspector General Act (Public Law 95-452). The act requires the Inspector General to independently and objectively: • Perform audits and investigations of the Department's programs and operations; • Work with the Department's management team in activities that promote economy, efficiency, and effectiveness or that prevent and detect fraud and abuse in programs and operations, both within USDA and in non-Federal entities that receive USDA assistance; • Report OIG activities to the Secretary and the U.S. Congress semiannually as of March 31 and September 30 each year.
OIG	See “Office of Inspector General.”
OGC	See “Office of the General Counsel.”

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OMB	See "Office of Management and Budget."
origination fee	The lender's fee charged a borrower to prepare documents, make credit checks, inspect and sometimes appraise a property. Usually stated as a percentage of the face value of the loan.
other recovery	The recovery (return of funds, refund, etc.) of funds not previously reported in the primary claim or report of REO sale. Examples may include a delayed payment on an insurance refund, collection of a deficiency judgment or similar proceeds recovered. See also additional recovery.
OTS	See "Office of Thrift Supervision."
partial release of security	An action by the Agency under which it releases a portion of the security property from the security instrument.
participant	For the purpose of reviews and appeals, a participant is any individual or entity who has applied for or whose right to participate in or receive a payment, loan, or other benefit is affected by an Agency decision.
payment assistance	A payment subsidy available to eligible Section 502 direct borrowers that reduces the effective interest rate of a loan.
payment shock	A term representing the applicant's projected increase in housing expenses.
payment subsidy	A general term for subsidies which reduce the borrower's scheduled payment. It refers to either payment assistance method 1 or 2, or interest credit.
person with a disability	Any person who has a physical or mental impairment that substantially limits on or more major life activities, including functions such as caring for one's self, performing manual tasks, walking, seeing, hearing, speaking, breathing, learning and working; has a record of such an impairment; or is regarded as having such an impairment.
personal liability	A situation in which an individual's personal assets can be reached to satisfy his or her debt.
petition/complaint	A formal written request filed with the court requesting that something specific be done.
PITI ratio	The amount paid by the borrower for principal, interest, taxes, and insurance, divided by repayment income.

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plaintiff	A person or entity filing a lawsuit.
planned unit development (PUD)	A single-family residence located in a community with association dues and other required monthly payments. Freddie Mac definition: A Planned Unit Development (PUD) is a development that has all of the following characteristics: (1) the individual unit owners own or have a leasehold interest in a parcel of land improved with a dwelling, not in common with other unit owners. (2) The development is administered by a homeowners association that owns or has a leasehold interest in and is obligated to maintain property and improvements within the development (e.g. greenbelts, recreation facilities, parking areas) for the common use and benefit of the unit owners. (3) The unit owners have an automatic, non-severable interest in the homeowners association and pay mandatory assessments. For the purpose of this definition, a condominium project is not a PUD.
plat or plot	A map showing subdivisions of a certain area of land giving proportions of each lot as well as other features such as roads, easements, etc.
pleadings	The formal allegations by the parties of their respective claims and defenses as presented to the court for a ruling.
PMI	See "private mortgage insurance."
points	The percentage deduction from the nominal amount of a discounted loan, often charged as a finder's fee. On a $1,000 loan discounted 2 points, the borrower receives $980. (1 point = 1 percent) See also "basis point."
pooling	When funds for a particular fiscal year are redistributed to each state based on the predetermined formula.
power of attorney (POA)	A written statement identifying a person as the agent for another with powers stated in the document. Full power may be granted, or the authority may be limited to certain functions, such as making deposits and withdrawals from a checking account. The statement must be executed before a notary and the signature of the agent is then placed on file with the bank
power of sale	A provision in a mortgage which empowers a mortgagee, without resort to any judicial procedures, to sell property in event of default by the mortgagor and to apply the proceeds of the sale to satisfy the obligation, the costs of invoking the procedure, and the expenses of the sale.

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predatory lending	Abusive practices in a segment of the mortgage lending market which may include inadequate or improper disclosure of interest rates and finance charges, prepayment penalties, credit life insurance, fraud, deception, etc.
pre-foreclosure sale	A procedure in which the borrower is allowed to sell his or her property in which the investor and borrower agree to accept the proceeds of the sale to satisfy a defaulted mortgage, even though this may be less than the amount owed on the mortgage, in order to avoid foreclosing on the property. See also "short sale."
preservation costs	A onetime cost associated with securing and preserving a custodial or REO property. Examples include changing locks, debris removal, and winterization.
prime rate	The interest rate which banks charge to their preferred customers. It tends to be the yardstick for general trends in interest rates.
primary residence	See "principal residence."
principal	The amount of debt, exclusive of accrued interest, remaining on a loan. Before any principal has been repaid, the total loaned amount is the principal.
principal residence	The home domicile physically occupied by the owner for the major portion of the year and the address of record for such activities as Federal income tax reporting, voter registration, occupational licensing, etc.
prior lien	A lien against the security property, usually established by an earlier filing or recordation, but may be established by statute or agreement, that is superior to another lien.
private mortgage insurance (PMI)	Insurance written by a private company to protect the mortgage lender against a loss caused by a borrower's default on a mortgage loan.
processing	The preparation of a mortgage loan application and supporting documents.
program-eligible applicant	Any applicant meeting the eligibility requirements of the guaranteed program.
program-eligible property	A property eligible to be guaranteed under the guaranteed loan program.
promissory note rate	The mortgage rate that is stated on the promissory note. This is different from the interest assistance rate or subsidized rate.

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proof of claim	An official signed statement filed in bankruptcy court by a creditor which sets forth the amount the debtor owed the creditor as of the date the bankruptcy was filed.
Property	The land, dwelling, and related facilities the Agency will use as collateral.
property recovery firm	A firm that may act as an agent to identify damages claimable under an insurance policy, file the claim & pursue its settlement.
proration of taxes	Proportionate and equal division of taxes relative to time and use.
protective advance	An advance of funds by a lender for an emergency expense necessary to preserve or protect the physical security for the loan. Escrow advances for hazard or force-placed insurance or real estate property taxes, or attorney fees property. For the purposes of loss claim filing, advances may be claimed under liquidation or REO pending.
Public Housing Authority (PHA)	A public agency created by a State or local government to finance or operate low-income housing.
purchase agreement	A written proposal by a buyer to purchase real estate that becomes binding upon the acceptance of the seller.

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qualified alien	Under Section 401 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (8 U.S.C. 1641) a qualified alien is defined as: (1) an alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act; (2) an alien who is granted asylum under section 208 of such Act; (3) a refugee who is admitted to the United States under section 207 of such Act; (4) an alien who is paroled into the United States under section 212(d)(5) of such Act for a period of at least 1 year; (5) an alien whose deportation is being withheld under section 243(h) of such Act; (6) an alien who is granted conditional entry pursuant to section 203(a)(7) of such Act as in effect prior to April 1, 1980; (7) an alien who has been battered or subject to extreme cruelty under the conditions set forth in section 431 of such Act (8 U.S.C. 1641(c)); or (8) an alien who is a Cuban/Haitian Entrant as defined by Section 501(e) of the Refugee Education Assistance Act of 1980. (9) Native Americans born in Canada may also be eligible as lawfully admitted for permanent residence under 7 CFR 3555, Section 3555.151. They might not possess any of the documentation described above, and the Agency might not be able to verify their status through Systematic Alien Verification for Entitlements Program. To establish that they are a qualified alien, the Native American should provide **all** of the documentation listed below, as described in the Wabanaki Legal News. The Wabanaki Legal News is available on the internet at http://www.ptla.org/wabanaki/jaytreaty.htm. • A letter from their Native American tribe stating that the alien has at least 50 percent Native American or Aboriginal blood (also referred to as the blood quantum); • Their Canadian "Certificate of Indian Status Card" with a red stripe along the top; • Their birth certificate; • If an Haudenosaunee, their Red I.D. Card; • If an Inuit, an Inuit enrollment card from one of the regional Inuit lands claim agreements; • Their Social Security Card issued by the U.S. Social Security Administration; and • Their Canadian or U.S. driver license.
qualifying income	Adjusted annual income compared to established income limits to determine eligibility for participation in the program.

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quality control plan	A system of internal controls that sets standards, measures performance and determines compliance with legal, agency and investor requirements to provide management with an opportunity to examine and, if necessary adjust its policies and procedures.
quick-sale market value	See "market value"
Quitclaim deed.	A deed relinquishing all interest, title, or claim in a property by a grantor, but not representing that such title is valid, nor containing any warranty or covenants for title.
ratification of bankruptcy plan	See "confirmation of bankruptcy plan. "
real estate	Physical land and appurtenances attached to the land, e.g. structures. An identified parcel or tract of land, including improvements. See also "real property."
REO (real estate owned)	Property that formerly served as security for a guaranteed loan and for which the lender holds title.
Real Estate Settlement Procedures Act (RESPA)	A Federal statute and regulation promulgated by HUD governing real estate lending practices and disclosures. Its main features pertain to the provision of a good faith estimate of loan settlement costs and the provision of the HUD settlement cost booklet within three days of making a loan application.
real estate taxes	Taxes and the annual portion of assessments estimated to be due and payable on the property, reduced by any available tax exemption.
real property	All interests, benefits, and rights inherent in the ownership of physical real estate; the bundle of rights with which the ownership of the real estate is endowed. In some States, real property is defined by statute and is synonymous with "real estate. See also "real estate."
reamortization	The establishment of a new, revised schedule of equal monthly payments of principal and interest over the remaining term of a mortgage loan.
recapture amount	An amount of subsidy to be repaid by the borrower upon disposition or non-occupancy of the property.
redeem	The act of paying off a mortgage debt during a foreclosure suit so as to rid the property of that encumbrance.
redemption right	See right of redemption.

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redlining	The practice by lending institutions of restricting or denying mortgage loans for certain areas.
referral fees	A portion of the commission paid to some servicers in return for referring properties to a certain broker. Referral fees from the broker, returning a portion of the commission to the servicer are to be treated as "other recovery."
refinancing	The repayment of a debt from the proceeds of a new loan using the same property as security.
Regional Attorney	See "Office of General Counsel."
reinstatement	The curing of all defaults by a borrower; the restoration of a loan to current status through payment of all amounts past due including reasonable fees and costs incurred as a result of a default on a loan.
release of liability	Agreement in which a lender terminates the personal obligation of a mortgagor for the payment of a debt.
relief from automatic stay	A legal action permitting a lender to resume action to collect on the debt. See "automatic stay".
REO	See "real estate owned."
REO cost factor	A percentage which, when applied to a property appraised value, is intended to result in an estimate of the total cost of gaining possession, managing and disposing of an acquired property. It is published in the Federal Register by VA and it represents the 3-year average VA operating expenses incurred for acquired properties, including property taxes, assessments, liens, property maintenance, property improvement, administration and resale. For the purposes of this estimate, property improvement is defined as any repair that must be completed to satisfy minimum property requirements for existing construction. Selling expenses include sale commissions plus any other costs incurred in connection with the sale of the property. See Chapter 20 of this Handbook.
repayment income	Used to determine whether an applicant has the ability to make monthly loan payments. Repayment income is based only on the income attributable to parties to the note and includes some income sources excluded for the purpose of adjusted income.
repayment period	The term of the loan, which must be 30 years, and fully amortized in that period.

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Resolution Trust Corporation (RTC)	An arm of the FDIC responsible for managing and resolving the affairs of insolvent savings and loan associations placed into receivership by the FDIC. This includes the liquidation, operation and sale of thrift institutions.
RESPA	See "Real Estate Settlement Procedures Act."
right of redemption	In some states, a right permitting the mortgagor to reclaim foreclosed property by making full payment of the foreclosure sales price. The right of redemption exists for a specified period of time, called the "redemption period." State statutes may provide for a waiver of redemption rights or an REO sale subject to redemption rights.
right of way	See "easement."
rural area	A rural area is any one of the following: (1) Open country that is not part of or associated with an urban area. (2) Any town, village, city, or place, including the immediately adjacent densely settled area, which is not part of or associated with an urban area and which: (i) Has a population under 10,000 if it is rural in character; or (ii) Has a population above 10,000, but below 20,000, is not contained within of a MSA and has a serious lack of mortgage credit for low- and moderate-income households as determined by the Secretary of Agriculture and the Secretary of HUD. (3) An area classified as a rural area prior to October 1, 1990 (even if within a MSA), with a population exceeding 10,000, but not in excess of 25,000, which is rural in character, and has a serious lack of mortgage credit for low- and moderate-income families. This is effective through receipt of the census data for the year 2010.
SAIF	See "Savings Association Insurance Fund."
sales expenses	Various fees paid by the seller at the time of real estate closing. See “closing costs.” Sales expense represents the total reduction due seller from the HUD-1.
sales price	Amount REO property sold to third party. See contract price from HUD-1.
satisfaction of mortgage	The recorded instrument the lender provides to evidence payment in full of the mortgage debt.
savings and loan association	Associations founded to promote thrift and home ownership. Their deposits have been traditionally invested in residential mortgage loans although they now have broader lending powers.

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Savings Association Insurance Fund (SAIF)	The successor to the Federal Savings and Loan Insurance Corporation (FSLIC) insurance fund.
scheduled payment	The monthly or annual installment on a promissory note plus escrow (if required), as modified by any payment subsidy agreement, delinquency workout agreement, other documented agreements between the Agency and the borrower, or protective advances.
scorecard	A scorecard is an analytical tool used to predict the likelihood of borrower default. A scorecard is a mathematical algorithm that incorporates variables that predict borrower behavior. A scorecard is the central analytic element in an automated underwriting system.
scorecard data	The financial data and history of applicant/borrowers which enables the scorecard to run its algorithms against the applicant/borrower information and give the applicant/borrower a score predicting the applicant/borrower loan performance should credit be granted. The scorecard algorithm is based on statistic, actual and historic loan performance by thousands of borrower profiles on record with the scorecard vendor.
scorecard vendor	A scorecard vendor applies statistical models to historical records to develop algorithms which, when applied against individual applicant/borrower information, predicts future loan performance by generating a score. The pioneer of scorecards and recognized industry leader is Fair Isaac and Company. See FICO.
second mortgage	A mortgage that has rights subordinate to a first mortgage.
secondary mortgage marketing	A process whereby lenders and investors buy and sell existing mortgages or mortgage-backed securities, thereby providing greater availability of funds for additional mortgage lending by banks, mortgage bankers and savings institutions.
secured loan	A loan that is collateralized by property so that in the event of a default on the loan, the property may be sold to satisfy the debt (see also “unsecured loan”).
securitization	The process of pooling loans into mortgage-backed securities for sale into the secondary mortgage market.
security instrument	The mortgage or deed of trust evidencing the pledge of real estate security - as distinguished from the note or other credit instrument.
security property	The property that serves as collateral for a loan.

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seller concessions	Sales concessions influence the price paid for real estate. Sales concessions may be in the form of loan discount points, loan origination fees, interest rate buy downs, closing cost assistance, payment of condominium fees, builder incentives, down payment assistance, repairs or repair credits given by the seller or any other party involved in the transaction.
service of process	The delivery of writs, summonses, etc. to the party to whom or with whom they ought to be delivered or left.
servicing	Collection of payments and operational procedures related to a mortgage. Same as loan administration.
settlement date	The settlement date is the later of the following: (1) actual foreclosure date; (2) the closing date, if sold to a third party at the foreclosure sale; (3) the date the borrower sells the property to a third party in order to avoid or cure a default situation, with prior approval of the lender; and (4) when title is acquired to the security following the expiration of any state-required redemption or confirmation period.
Settlement Statement	Form HUD-1. See also "RESPA."
sheriff's sale	The public auction at which the property being foreclosed is offered for sale.
short sale	A type of voluntary liquidation (also referred to as a pre-foreclosure sale or short payoff) where a borrower and the lender who holds the mortgage on the property agree to sell the property at fair market value, but for less than the current outstanding debt (including any missing payments, late fees, penalties, and advances for taxes and the like).
Soldiers and Sailors Civil Relief Act of 1940	With certain exceptions, this act prohibits foreclosure of property owned by those in military service. See OGC Compilation of Laws.
special defense	Facts which are consistent with the allegations of the plaintiff's complaint but show, not withstanding, that the plaintiff has no cause of action. Some examples of special defenses in collection and foreclosure cases are payment, improper acceleration of the loan, statute of limitations and anything that would attack the making, validity or enforcement of the note and mortgage.
Special Flood Hazard Area (SFHA)	An area having special flood, mudslide and/or flood related erosion hazards as shown on Federal Emergency Management Agency (FEMA) floodplain maps.
State Director	The highest Agency decision making official at the State level.

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State Supplement	Additional guidance provided by the State Director when State, local or tribal laws affect how Agency requirements are implemented in a particular State.
statutory law	Law created by legislative enactment.
statute of limitations	State law identifying the time limit within which a lawsuit can be brought under law.
stay	An order of the court whereby some action is forbidden until some event occurs or until the court lifts its order.
straw buyer	An individual who buys property in another's behalf to conceal the identity of the real buyer.
strict foreclosure	A type of foreclosure proceeding used in some States in which title to the foreclosed property is invested directly in the mortgagee by court decree, without holding a foreclosure sale.
subdivision	A tract of land that is split into lots.
subordination	Moving a lien position to a lower priority.
subordination clause	A clause in a junior lien acknowledging the prior claim of a higher loan, as in a second-mortgage loan contract legally acknowledging the prior claim of the first mortgage; also describes an agreement contained in purchase-money mortgage for land by which the purchase-money mortgage can be subordinated to a first mortgage to finance bona fide improvements.
subsequent loans	Additional Agency credit that is extended to an existing program borrower.
subsidy	Interest credit, payment assistance, or deferred mortgage assistance received by a borrower under the Section 502 direct program.
subsidy cost (rate)	The estimated long-term cost to the Government of a loan, calculated on a net present value basis, excluding administrative costs. A rate would be based on the portion of cost per $100 of loan.
subsidy repayment agreement	An agreement under which a borrower agrees to repay to the Agency any subsidy received under the Section 502 direct program upon disposition or non-occupancy of the security property.

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summary judgment	A judgment obtained upon motion by any party on a claim, counterclaim or cross claim when there is no genuine issue of material fact that would prevail as a matter of law. The motion may be directed toward all or part of the claim or defense and may be made on the basis of the pleadings or other portions of the record in the case or it may be supported by affidavit and a variety of outside material.
summons	A notice to a party in a law suit requiring said party to appear in court or have a judgment rendered against him for failing to do so.
survey	Measurement of a specific parcel of land to ascertain area, corners, boundaries, and divisions with distances and directions of such parcel.
sweat equity	Equity created through the performance of service or labor on a property by its intended owner.
tenants in common	Joint ownership by two or more persons holding individual but not necessarily equal interest in a property, but without the right of survivorship.
tenancy by entirety	A form of title vesting the entire estate in husband and wife with right of survivorship.
term	The period of time between the commencement date and the termination date of a note, mortgage, legal document or other contract.
third party originator (TPO)	Mortgage broker or correspondent.
Three Repository Merged Credit Report (TRMCR)	Reports from three selected repositories, for example, Equifax, Experian and Trans Union, are pulled to form a merged report. There is no duplication on the merged report. Every inquiry and public record contained in any of the selected repositories will appear only once on the merged report.
title insurance	Insurance through a title company to protect a property owner or lender from loss if title proves imperfect.
total debt ratio (TD) to income ratio	Total debt to income ratio is defined as the borrower's monthly mortgage payment plus all recurring monthly debt divided by the borrower's gross monthly income.
TPO	See "third party originator."

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trading partner	A trading partner is any company, government department, or commercial or noncommercial entity with which an organization regularly exchanges documents of formatted data (not just letters or memos). For a more comprehensive glossary of EDI terms and acronyms, see the EDI Implementation Guide at http://www.rdinit.usda.gov/regs/handbook/edi.pdf
transfer and assumption	Transfer of a property securing a guaranteed loan with an assumption of the outstanding debt. See "assumption."
tribal allotted land	Tribal land allotted to individual tribal members which is held in trust.
tribe	Any Federally-recognized tribe, band, pueblo, group, community, or nation of Indians or Alaska natives.
trust deed	See "deed of trust."
trust land	Land held in trust by the United States on behalf of an Indian tribe.
Truth in Lending Act (TILA)	A federal law which requires that a person applying for credit be given understandable information with regard to interest rates.
unauthorized assistance	Any guaranteed loan or interest assistance for which there was no regulatory authorization or for which the borrower was not eligible.
underwriting	In mortgage banking, the analysis of the risk involved in making a mortgage loan to determine whether the risk is acceptable to the lender. Underwriting involves the evaluation of the property as outlined in the appraisal report and of the borrower's ability and willingness to repay the loan.
underwriting engine (UE)	An underwriting engine is the communication link between transaction participants. It is the knowledge-based component of an automated underwriting system. A UE retrieves data from a variety of sources, routes data through the scorecard, analyses the loan data and applies it against loan program rules and requirements. The UE works in conjunction with the scorecard to determine program eligibility and to predict loan performance.
Uniform Commercial Code (UCC)	The laws that govern various commercial transactions.
Uniform Consumer Credit (U-CCC)	A guide that States may or may not use to further simplify the understanding of all aspects of credit and credit transactions.
Uniform Residential Appraisal Report (URAR)	The most common appraisal form in use. The URAR is used to document the methods used to determine the market value of single-family residences and planned unit developments.

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Uniform Standards of Professional Appraisal Practice (USPAP)	Minimum standards for real estate appraisal that financial institutions must follow.
United States (U.S.) citizen	An individual who resides as a U.S. citizen in any of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Marinas, the Federated States of Micronesia, the Republic of Palau, or the Republic of the Marshall Islands.
U.S. non-citizen national	A person born in American Samoa or Swains Island on or after the date the U.S. acquired American Samoa or Swains Island, or a person whose parents are U.S. non-citizen nationals.
usury	Taking or contracting for a rate of interest greater than permitted by law for a loan.
VA	See "Veterans Benefits Administration."
valuation	The process of estimating the market value, insurable value, investment value, or some other properly defined value of an identified interest in a specified parcel of real estate as of a given date. *Valuation* is a term used interchangeably with appraisal.
venue	The particular county or geographical area, in which a court with jurisdiction may hear and determine a case.
verification of deposit (VOD)	A form that requests and secures verifications of amounts on deposit at financial institutions. When a depository institution is also the applicant's creditor, the VOD verifies the obligation.
verification of employment (VOE)	A form that requests and secures documentation of a mortgage applicant's work history and/or occupation, to assist in the lender's credit investigation.
very low income	An adjusted income that does not exceed the HUD-established very low income-limit (generally 50 percent of the median income adjusted for household size) for the county or Metropolitan Statistical Area where the property will be located.

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Veterans Benefits Administration	Within the Department of Veterans Affairs (VA), the Veterans Benefits Administration through the VA Loan Guaranty Service administers the VA Loan Guaranty Program.
veterans preference	A preference extended to any person applying for a loan or grant under the Section 502 or Section 504 programs who was honorably discharged or released on conditions other than dishonorable conduct from the active forces of the United States Army, Navy, Air Force, Marine Corps, or Coast Guard and who served in active duty during one of the following periods: A. April 6, 1917 through March 31, 1921; B. December 7, 1941 through December 31, 1946; C. June 27, 1950 through January 31, 1955; D. A period of more than 180 days, any part of which occurred after January 31, 1955, but on or before May 7, 1975; or E. During the period beginning August 2, 1990, and ending the date prescribed by Presidential Proclamation or law. F. During any other period as described by Presidential proclamation or law.
warranty deed	Deed in which a grantor warrants the status of the title.
writ of assistance	A court order directed to the sheriff (or other local official) ordering him to "assist" a party to a pending lawsuit (such as a bank in an eviction action) in obtaining the relief previously granted to the party by the court. An example would be a sheriff assisting a foreclosure sale purchaser in taking possession of the property after foreclosure.
writ of execution	An order of the court in which a party is granted authority to seize assets of the defendant to satisfy its judgment
workout agreement	A plan to correct a delinquent or defaulted mortgage. See also "forbearance", "loss mitigation."
ZIP code	Zone Improvement Program.

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zoning	Prescription by governmental entity of the purpose to which land or buildings may be put in specific areas, and of the architectural, structural, and/or spatial elements of such land or buildings.

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