UNITED STATES DEPARTMENT OF
AGRICULTURE RURAL HOUSING SERVICE

HB-1-3555

SUBJECT: Single Family Housing Guaranteed Loan Program Handbook

TO: Rural Development, Rural Housing Service

EFFECTIVE DATE: Date of approval

EXPIRATION DATE: 40 years from Date of Approval.

OFFICE OF PRIMARY INTEREST: Single Family Housing**,** Guaranteed Loan Program, under the Rural Housing Service (RHS), a part of Rural Development (RD), an Agency within the United States Department of Agriculture (USDA)

AVAILABILITY: This Handbook, as well as any instructions, regulations, or forms referenced in this Handbook are available at USDA Rural Development State Offices (State Office). The State Office staff are familiar with the use of the documents in their states and can answer specific questions on Agency requirements.

This Handbook is available on the website:
www.rd.usda.gov/resources/directives/handbooks

PURPOSE: Consult the Procedure Notice (PN) regarding the intent of these modifications.

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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 THE 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 and the text of that regulation is provided in Appendix 1. To assist readers in locating the regulatory authority for procedures described here, references to

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this regulation often appear in 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.

- **Form references.** Agency form names are shown in italics. A list of all forms referenced in this Handbook can be found in Appendix 2.

B. Attachments and 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 include forms and other reference materials that relate to multiple chapters.

- **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 after the appendices.

C. Terminology

The SFHGLP has a centralized delivery platform under the Origination and Processing Division (OPD). Servicing operations are located at the Servicing Office. This Handbook uses certain standard terminology to provide consistency.

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

- **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.

- **Servicing Office**. The servicing center in St. Louis, Missouri where specific servicing functions, such as loss mitigation and loss claims, are processed.

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

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- **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. Program requirements are outlined along with examples and case studies to assist lenders in complying with program requirements. However, no Handbook can provide guidance adequate for every circumstance, therefore Agency staff is available to answer specific questions.

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 obtain 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 difficult to fulfill properly.

The Agency is committed to providing timely responses to lender inquiries. Lenders should submit general inquiries to SFHGLD.PROGRAM@usda.gov.

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 approved lenders 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-focused, streamlined service.

- **Partnerships.** The Agency is committed to working with participating lenders in order to expand housing opportunities in rural areas.

- **Effective Use of Resources.** The Agency is committed to using tax dollars efficiently.

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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 loans. 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 reviews each loan proposal to ensure the applicant and property appear to meet program eligibility requirements and 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;
- Have acceptable citizenship or immigration status, as defined in Chapter 8;
- 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.

In the event that a lender incurs a loss on a guaranteed loan, the Agency will compensate the lender under the terms of the Loan Note Guarantee and all program requirements.

SECTION 3: GENERAL PROGRAM REQUIREMENTS

1.6 CIVIL RIGHTS

The Agency, participating lenders, and agents of participating lenders, including appraisers, 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 carefully review applicable legislation and orders, especially if new to Federally-

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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 SFHGLP

- **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, or because an applicant has in good faith exercised any right under the Consumer Protection Act. An applicant or borrower who believes he or she has been discriminated by Rural Development for any of these reasons may write to the Secretary of Agriculture, Washington, D.C. 20250.

- **Title VIII of the Civil Rights Act of 1968** (also known as the Fair Housing Act of 1988, as amended) is enforced by the U.S. 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.

- **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 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, 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). This applies to the Agency, participating lenders, and agents of participating lenders, including appraisers. Discrimination in employment practices is also prohibited.

The Agency is responsible for providing guidance and oversight to participating lenders and their agents, including appraisers, to ensure procedures are consistently met. Important key areas are listed below.

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

C. Reasonable Accommodations for Persons with Disabilities

Participating 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 7 CFR Part 3555 found in Appendix 1 of this Handbook.

Adverse decisions include the administrative actions taken by Agency staff; and the

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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 decisions 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.

1.9 EXCEPTION AUTHORITY

Exceptions to any requirement of this Handbook, or 7 CFR Part 3555, can be approved in individual cases by the Administrator, or designee, 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 Agency consider submission of a formal request for exception. When asking the Agency to 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.

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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 Executive Director, Single Family Housing Guaranteed Loan Program; or
- The Deputy Administrator, Single Family Housing.

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

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.

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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 request in question, to ensure no prohibited relationships or associations exist between the Rural Development employees responsible for the loan guarantee transaction, and the lender(s), borrower(s), or applicant(s).

Applicants are required to disclose any known relationship or association with a Rural Development employee. When a relationship or association is identified in the application, the lender is required to notify the Agency prior to submission of the application. Attachment 1-A, *Notice of Relationship/Association Between SFHGLP Applicant and Rural Development Employee*, may be used to notify the Agency. After review by the Agency, the lender will be notified of any special handling procedures.

When a Rural Development employee is aware of a relationship or association with an applicant, the employee is required to notify the Agency in writing. Attachment 1-A may be used to notify the Agency of the relationship or association. Special handling of the application will be provided to avoid a potential conflict of interest.

The Agency official, as determined by a Director of the OPD, may use Attachment 1-B, *Requirements for Handling SFHGLP Application of Employee, Relative or Associate*, to determine the processing and servicing procedures. A copy of the notice will be provided to the lender and Agency employee.

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 or made for an ineligible purpose are considered unauthorized assistance. The form of unauthorized assistance can differ based upon false information or inaccurate information.

Unauthorized assistance may be identified through audits, reviews by the Agency or its agents, or as reported by lenders. Chapter 16, Attachment 16-B provides guidance for submitting lender self-reports. The significance of the unauthorized assistance will determine the Agency's response in accordance with Section 3555.257 of 7 CFR Part 3555.

When the Agency becomes aware of unauthorized assistance due to false information provided by the applicant, the lender may be required to accelerate the loan request.

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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 actions.

The Agency will document the findings surrounding the unauthorized assistance in detail and provide a solution on disposition of the case.

1.12 AGENCY LOAN APPROVAL AUTHORITY GUIDELINES FOR THE SFHGLP

All new loan specialists working in the SFHGLP are expected to receive loan approval authority prior to officially issuing decisions on program applications. The process consists of initial training, proficiency-based tests, mentoring support, file reviews, and a formal recommendation by the new specialist's supervisor. The guidelines detail the expectations to be followed by Agency employees delivering the SFHGLP.

A. Training

- New specialists will complete all approved Single Family Housing (SFH) University guaranteed training modules in the order required by the SFH University curriculum.

- The SFH University curriculum will be supplemented with on-the-job training, provided by an experienced loan specialist/mentor.

B. Proficiency Testing

- The proficiency-based tests are a key component of the loan approval authority process. All new specialists are required to pass the test after each training module is completed. This will indicate to the supervisor and mentor that the new specialist has an acceptable level of knowledge in that program area and can proceed to the next training module. The proficiency-based tests and scoring system are administered in accordance with the SFH University curriculum requirements.

- After the final module is completed, the supervisor shall schedule a time for the specialist to take the final exam, which consists of questions generated from information presented in all the completed modules and will be used to assess the overall level of knowledge of the specialist.

- The minimum passing score for the proficiency test is 70. If a new specialist fails the first attempt, the first line supervisor will review the results of the test with the

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specialist, address weaknesses, advise the new specialist on the area(s) they need to focus, provide a solution to rectify the deficiencies, and allow the specialist to retake the test when the supervisor determines the specialist's readiness.

C. Mentoring

- At the time of enrollment in SFH University, the supervisor will assign a mentor to assist the new specialist in learning the requirements associated with the underwriting and review of SFHGLP applications.

- The assigned mentor shall prepare written quarterly reports to the new specialist's supervisor, outlining the progress and recommendations on areas needed for continued development.

- Mentoring is expected to last at least 12 months, but may be extended (in six-month increments) in the event the progress the specialist is making is not up to par with his/her SFH University curriculum and the proficiency-based tests.

- The assigned mentor shall not be the new specialist's supervisor. The mentor's role is to help facilitate continued learning and to serve as a resource for technical questions and procedural guidance.

D. File Review

- After a new specialist attains a passing score on the final test, the supervisor or mentor will assign SFHGLP files to the new specialist to review independently. Prior to obligation, the supervisor or mentor will complete a file review of each application to evaluate and attest that the new specialist is working at a standard worthy of independent loan approval authority.

- Once an acceptable level of review has been attained, the first line supervisor will submit a minimum of four (4) GUS ACCEPT and six (6) GUS REFER or REFER WITH CAUTION loan files for review by a Director of the OPD, or assignee, in order to determine the loan approval authority recommendation.

E. Supervisor Recommendation for Approval

- Upon successful completion of the SFH University curriculum, proficiency tests, final exam, mentoring period, and file reviews, a letter will be prepared by the new specialist's supervisor to a Director of the OPD recommending the delegation of loan approval authority.

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- A Director of the OPD, or assignee, will review the recommendation and any supporting documentation to grant or deny the delegation of loan approval authority to the new specialist. The designation will be documented in writing. If approval is granted, a certificate will be awarded to the specialist noting his/her approval status with USDA Rural Development. Attachment 1-C, *Delegation of Loan Approval Authority*, may be used.

- The expected amount of time to complete this process may vary between 12 and 18 months. If more than 24 months have elapsed, a Director of the OPD, or assignee, will examine the reason(s) for the delay and will develop a plan of action.

- In the event the supervisor is unable to recommend loan approval authority within 24 months due to recurring deficiencies in the specialist's file reviews, a revised training plan will be developed by the supervisor to assist the new specialist in overcoming and resolving the identified deficiencies.

F. Continued Training Process

Supervisors should continue to evaluate the quality of loan reviews by new specialists after loan approval authority has been granted. Close monitoring by an established quality assurance process is recommended to determine if specific training might be required based on unusual application submissions.

G. Reinstatement of Approval Authority

If a specialist's loan approval authority is revoked, RD Instruction 1901-A authorizes the Administrator to provide written restrictions or revocations of the authority given to any loan approval official. The Administrator may take action upon the recommendation of a Director of the OPD, or assignee. Supervisors are granted the authority to determine what actions, training, and conditions are required to reinstate loan approval authority to a specialist.

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ATTACHMENT 1-A
NOTICE OF RELATIONSHIP/ASSOCIATION
BETWEEN SFHGLP APPLICANT AND RURAL DEVELOPMENT EMPLOYEE

TO: Origination And Processing Division

SUBJECT: Notice of relationship or association between applicant and Rural Development employee

This is to notify you that the following applicant is requesting a Single Family Housing Guaranteed loan and is related or is associated with a Rural Development employee:

Applicant Name: _____

Borrower Id Number: _____

Property Address: _____

_____

County Name: _____

Status Of Application:

_____Pre-Eligibility _____Ready To Submit _____In Process

Rural Development Employee Name: _____

Duty Station: _____

Details of relationship/association: _____

_____

_____

Submitted By: _____ Date: _____

Employee Or Lender
Title/Organization

Email: _____

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ATTACHMENT 1-B

REQUIREMENTS FOR HANDLING SFHGLP APPLICATION

OF EMPLOYEE, RELATIVE OR ASSOCIATE

TO: (Lender Name)

SUBJECT: Requirements for handling SFHGLP applications of employee, relative or associate for (Applicant Name, Borrower ID Number)

The following application processing procedures have been established by a Director of the Origination and Processing Division:

Review Of Application,
Approval And Issuance Of Conditional Commitment: _____

Review Of Closing Documents,
Issuance Of Loan Note Guarantee: _____

Post Closing Review: _____

Access to the applicant's electronic case file in the Agency's automated systems will be restricted to the aforementioned employees. All servicing actions will be in accordance with 7 CFR 3555.

[Date]

_____
[Name]
Director, Origination And Processing Branch

cc: [Employee First-Line Supervisor]
Employee
eOPF

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ATTACHMENT 1-C
DELEGATION OF LOAN APPROVAL AUTHORITY

TO: [Name]
[Title]
USDA Rural Development
[Location]

By my authority as Director of Origination and Processing Division for USDA Rural Development, in accordance with Rural Development Instruction 1901-A, I hereby make a delegation to the aforementioned employee:

- Loan approval authority for Single Family Housing Section 502 Guaranteed Loans described in 7 CFR Part 3555.

This delegation is effective immediately and will continue until the delegate leaves his/her position or until revocation or other change is made in writing.

[Date]

_____
[Name]
Director, Origination and Processing Division

cc: [first-line supervisor]
eOPF

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CHAPTER 2: RECORD RETENTION
7 CFR 3555.51

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 Single Family Housing Guaranteed Loan Program (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 Electronic Customer File (ECF). 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 in accordance with the most recent Agency file record retention requirements.

B. Mortgage Files

The Agency may dispose of all documents except those listed below, which will be

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retained in accordance with RD Instruction 2033-A, once the Agency receives notification from the lender that the mortgage has been satisfied. The Director of the Origination and Processing Division will designate or delegate authority to the supervisory staff of the unit or other qualified personnel to ensure that appropriate files are established and maintained.

All core documents will be retained for long-term preservation in ECF, except for the Credit Reports on GUS loans, which will be stored in GUS. A quality control review will be performed to confirm the imaged documents have been uploaded and indexed to quality expectations of accuracy and consistency. The following records will be retained:

1. Form RD 3555-18 or Form RD 3555-18E, *Conditional Commitment for Single Family Housing Guarantee*, with conditions, requirements, and Lender Certification;

2. Promissory Note;

3. Loan Application(s);

4. Employment/Income Verifications and Income Determinations;

5. Credit Report(s);

6. Form RD 3555-21, *Request for Single Family Housing Loan Guarantee*;

7. All forms related to the Agency's environmental review (Forms RD Instruction 1970-B, Exhibit D, *Environmental Checklist for Categorical Exclusions*; current FEMA Form, *Standard Flood Hazard Determination Form*; etc.);

8. Documentation providing annual and repayment income calculations on Attachment 9-B, Income Calculation Worksheet, Uniform Underwriting and Transmittal Summary 1008, and/or an equivalent form provided by the lender. This requirement excludes Guaranteed Underwriting System (GUS) "Accept" recommendations;

9. Final GUS Underwriting and Findings Report;

10. Form RD 3555-17 or Form RD 3555-17E, *Loan Note Guarantee* and the final Amortization Schedule attached to the Loan Note Guarantee*;*

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

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12. Appraisal Report(s);

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

14. National Office waivers, if applicable;

15. Final Closing Disclosure;

16. Internal Agency Processing Checklist;

17. Internal Agency Loan Closing Checklist, if applicable;

18. Any other forms deemed necessary for record retention by the Agency.

When a loss claim is paid on an account, the mortgage file and documentation supporting the claim will be retained in accordance with RD Instruction 2033-A. Loss claim documents may also be digitally imaged and stored in ECF.

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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 Single Family Housing Guaranteed Loan Program (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 approved lenders to verify that continued program participation is warranted.

3.2 LENDER APPROVAL CRITERIA [7 CFR 3555.51]

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.

In all cases, lenders are required to provide evidence that all principal officers have a minimum of two years of experience in originating or servicing guaranteed mortgage loans. In addition, all guaranteed lenders must be registered in the System for Award Management (SAM) system, which is validated by the Agency in the lender approval process.

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.

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The lender must also provide the additional documentation listed in Attachment 3-A, *Lender Approval Checklist*. The Agency reviews and confirms the information submitted by the lender.

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

- A State Housing Finance Agency (SHFA). Evidence that a private sector lender is approved by a SHFA to participate in SHFA programs does not represent an automatic approval to participate in the guaranteed program.

- The 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 3.2A may seek approval by demonstrating its ability to originate and/or service sound loans. In such a case, the lender must meet the following criteria:

- Be overseen by a Federal regulator, be a Farm Credit System (FCS) institution, be an active participant with an approved lender agreement in another USDA guaranteed loan program, or meet the requirements for demonstrated ability, as outlined in this section;

- Have a minimum adjusted net worth of $250,000, or $50,000 in working capital plus one percent of the total volume in excess of $25 million in guaranteed loans

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originated, serviced, or purchased during the lender's prior fiscal year, up to a maximum required adjusted net worth of $2.5 million; and

- Have one or more lines of credit with a minimum aggregate of one million dollars.

1. Federal Oversight

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

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

2. Experience with a USDA Program or Farm Credit System

A Farm Credit System 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 Service, Rural Utilities Service, or Farm Service Agency guaranteed loan programs that has an active lender agreement.

3. 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

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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 credit 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.

- **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 Equal Credit Opportunity Act (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.

4. 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. Originating lenders should be prepared to escrow funds for taxes and insurance when required to repurchase loans.

5. 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

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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.

- **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 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.

C. Participation as an Agent of an Approved Lender

A lender that does not meet the requirements for Agency approval 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 the Loan Note Guarantee will be issued to the approved lender.

3.3 APPLICATION

Lenders will submit 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 as outlined in Attachment 3-A, *Lender Approval Checklist*, to the Loan Servicing Branch at sfhglpservicing@usda.gov.

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A. Quality Control Plan

Reliable and effective quality control (QC) programs are essential to a lender's success in the mortgage industry. Quality control 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 processes and is 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 in Section 3.2A of this chapter. At a minimum, the lender's plan should include all of the following:

- Mission Statement or stated objective.
- Describe the lender's participation with other Federal agencies, such as the Department of Treasury and any other investors or partners. Include a statement that the lender plans to operate within USDA Rural Housing Service guidelines.
- Written procedures for documenting a re-verification process. This includes implementing a sampling methodology that consists of a representative sample of Rural Development loans, has a consistent and timely review process, and addresses document retention.
- A post-closing review process describing how a sampling of loans are independently reviewed for adherence to lending guidelines.
- A quality control team that operates independently from loan origination, underwriting, and servicing functions; or contracts out this function. If contracted out, the lender must adequately monitor the performance of the contractor.
- Describe the separation of duties between the loan production staff and quality control staff. Under no circumstances should the quality control review staff be involved in the day-to day loan production.
- Describe the standard operating procedures for all employees who will be involved with, or affected by, the quality control process.
- Describe the timelines of internal quality control reviews, including the percentage of loans reviewed and the frequency of the quality control reviews. For example, 10% of closed loans are independently reviewed each quarter by a quality assurance specialist who was not involved in underwriting and closing those loans.
- Quality control reviews should include a description of how appraisals or property evaluation reports are reviewed.

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- 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 must be reported to the Loan Servicing Branch at sfhglpservicing@usda.gov.

- Ensure adequate quality control and data integrity checks are included for loans processed through automated underwriting systems on a regular and timely basis.

- Ensure adequate monitoring of all vendors, contractors, and third-party providers involved in the origination process (e.g. mortgage brokers, correspondents, appraisers, and credit agencies).

- Identify training opportunities for lender staff.

B. Additional Requirements for Quality Control Plans for Servicing Lenders

Quality control plans for servicing lenders must contain the required information identified in Section 3.3A, as well as address the following:

- How escrows are handled for taxes, hazard, and flood insurance (if applicable).

- How funds are applied when payments are received for principal and interest, hazard and flood insurance, and taxes.

- What happens if excess funds are collected in escrow.

3.4 AGENCY REVIEW

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

- Ensuring that all required documents have been submitted and are completed correctly. Incomplete applications cannot be approved, and the lender will be advised of the omission(s) in writing.

- Form RD 3555-16 has been properly executed by a person authorized to bind the lender to the terms stated on the form.

- 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.

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- 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.

- Verification the lender is registered in SAM.

A. Approval of Application [7 CFR 3555.52]

1. Pre-Approval

If the lender meets the criteria for an approved lender and provides the supporting documentation as outlined in Attachment 3-A, the Agency will issue an approval notice to the lender. Final approval is dependent upon the lender and all origination, and underwriting staff involved with the SFHGLP completing mandatory training. The Agency will provide additional information on access to mandatory trainings as part of the lender approval process. The purpose of the training is to provide an overview of the SFHGLP objectives, lender responsibilities, required loan documentation, and the process to obtain a Loan Note Guarantee. Any additional staff hired after the initial lender approval should also complete all mandatory trainings.

2. Final Approval

Upon completion of all mandatory trainings by the lender, the Agency will update the lender pages of GLS and 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 an oversight review, as outlined in Paragraph 3.8 of this chapter.

B. Denial of Application

If the lender does not qualify for participation in the program, the Agency will provide written justification along with 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 3.2C.

C. Record Retention

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

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3.5 LENDER SALE OF GUARANTEED LOANS [7 CFR 3555.54]

SFHGLP loans can only be sold to lenders meeting the requirements of Paragraph 3.2. 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 sale of the guarantee on Form RD 3555-11, *Guaranteed Rural Housing Lender Record Change,* within 30 days of the sale in accordance with Chapter 4, Paragraph 4.6.

3.6 LENDER RESPONSIBILITY

The lender will be responsible for the processing and servicing of the loan and 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 Chapter 4, Paragraph 4.8.

- **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 underwrite the loan and submit the necessary items as outlined in Chapter 15 in order to receive a 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 regular and default servicing and maintaining security interest for all guaranteed loans. Regular and default servicing requirements are outlined in Chapters 17 through 19 of this Handbook. When servicing is subserviced to a third party, the lender will inform Rural Development of the name and address of the servicer by utilizing Form RD 3555-11.

3.7 EDUCATION AND OUTREACH

A. Lenders

Rural Development has developed a series of educational modules for the SFHGLP which are available on the USDA Linc Training and Resource Library, located at https://www.rd.usda.gov/resources/usda-linc-training-resource-library. These educational modules are available in addition to the mandatory lender trainings utilized for lender approval and recertification. Additional resources can be accessed on the Agency's SFHGLP web page located at https://www.rd.usda.gov/programs-services/single-family-housing-guaranteed-loan-program.

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B. Agency

The Agency will conduct outreach and lender education activities to encourage eligible lending institutions to apply for approved lender status, as eligible rural homebuyers benefit when their choice of lending institutions includes mortgage bankers, mortgage brokers, credit unions, Federal Home Loan Banks, etc.

The Agency has Guaranteed training programs available. Lenders should contact the Lender and Partner Activities Branch at sfhgld.lenderpartner@usda.gov to request individual trainings.

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

Rural Development will conduct oversight reviews of the lender's operations as provided in this section. Form RD 3555-16 outlines the responsibilities and terms to maintain approval for the SFHGLP. 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 receive written notice of any deficiencies. If the lender is unwilling or unable to correct the deficiencies, Rural Development will proceed with termination as provided in Paragraph 3.9.

Form RD 3555-16 requires the lender to provide records pertaining to the SFHGLP for review by the Agency. The Agency will conduct an oversight review on a periodic basis as defined in Paragraph B of this section. Oversight reviews assist in Agency risk management and validate that lenders are complying with SFHGLP regulations. Oversight reviews include the examination of lender policies and procedures, cash management practices, and individual borrower case files (loan origination and servicing records, liquidation, and claim files).

A. Review Circumstances and Factors

- **New Lender Oversight Review.** Rural Development may review loans originated by a newly eligible lender to ensure understanding of Agency regulations. Thereafter, the lender will be subject to a review provided in Paragraph 3.8B.

- **Other reviews.** Rural Development may elect to conduct more frequent oversight 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.

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B. Conducting Oversight Reviews

Oversight reviews will be performed on each lender as noted in this section. Oversight reviews may be conducted as an on-site review at the lender 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 functions to be reviewed. Rural Development will determine the amount of time that is needed to conduct the review. The review team members will utilize the Oversight Review Guide when planning, conducting, and reporting reviews.
Three standards 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.

Oversight 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 any findings identified. The clearance and follow-up process commences upon issuance of the findings report by the Agency or their representative. 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 oversight review reports will be maintained in the Electronic Customer File (ECF) system.

3.9 LENDER RECERTIFICATION AND REVOKING LENDER ELIGIBILITY

The lender remains eligible as long as the lender meets the criteria in Paragraph 3.2 of this chapter unless the lender's status is revoked by Rural Development or another Federal Agency. The Agency is required to review each approved lender's eligibility at least every two years, which includes verifying the lender has registered in SAM and completed the mandatory recertification training. All approved lenders are required to recertify their status by responding to the renewal notification email, sent to the lender, within the timeframe provided.

Rural Development may terminate the lender's approval due to noncompliance with any of the eligibility requirements described in 7 CFR 3555.51. Status may also be

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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 will be sent electronically to the email point of contact on file, marked with a read receipt. If the email is returned as "undeliverable," the Agency will contact the lender by phone to obtain a current point of contact. The email notice will then be sent to this individual with a read receipt. Read receipt notifications will be saved in the Agency's records 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 retained in accordance with RD Instruction 2033-A.

3.10 VOLUNTARY WITHDRAWAL

The lender may voluntarily withdraw from participation in the SFHGLP. Lenders must notify the Agency of their intent to withdraw participation, along with a plan to transfer their Agency book of business where pending, unclosed Conditional Commitments, and loans serviced or held are transferred to another approved lender participating in the SFHGLP.

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ATTACHMENT 3-A
LENDER APPROVAL CHECKLIST

Section 3555.51 of 7 CFR Part 3555 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. Lenders may utilize the following checklist to ensure a complete application is submitted. Requests must contain all of the following information, in the order listed, and be submitted to Loan Servicing Branch at sfhglpservicing@usda.gov.

Lender Approval 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.

Legal Full Name, including M.I.	Title/Physical Location

Lender Functions	**Lender Type (Select Applicable):**				
☐ Originate	☐ Commercial Bank	☐ Credit Union	☐ CDFI	☐ Others	
☐ Underwrite	☐ Mortgage Loan Co	☐ Savings Bank	☐ Non-traditional		
☐ Service	☐ Insurance Co	☐ Banks for Co-Ops	☐ USDA Agency		
☐ Own	☐ Farm Credit System	☐ State Housing Finance Agency	☐ Specialty Servicer		

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Current eligibility designations [Section 3.2 of HB-3555 Chapter 3]:			
☐	**Agency Certifications (*Select applicable*)**	**Preferred Method 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)	Letter showing lender 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."	
☐	U.S. Department of Veterans Affairs (VA)	Letter showing lender approved as a supervised or non-supervised "automatic" mortgagee with direct lending authority for VA	
☐	State Housing Finance Agency (SFHA)	N/A	
☐	Farm Credit Service (FCS)	☐ Lender must have direct lending authority. Provide Membership letter. ☐ Financial statements that demonstrate the lender meets the financial requirements described in Section 3.2B.	
☐	Lenders participating in USDA guaranteed loan programs.	☐ Copy of executed agreement showing approval by Rural Housing Service, Rural Business and Cooperative Service, Rural Utilities Programs and/or the Farm Service Agency. ☐ Financial statements that demonstrate the lender meets the financial requirements described in Section 3.2B.	
☐	Evidence of Federal oversight (if applicable)	☐ Evidence and supporting documentation per Section 3.2 of Chapter 3 of Federal oversight by any of the following: ☐ The Federal Reserve System; ☐ The Office of the Comptroller of the Currency (OCC); ☐ The Federal Deposit Insurance Corporation (FDIC); ☐ The National Credit Union Administration (NCUA); or ☐ The Federal Housing Finance Board regulating lenders within the Federal Home Loan Bank (FHLB) system. ☐ Financial statements that demonstrate the lender meets the financial requirements described in Section 3.2B.	
☐	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. ☐ Financial statements that demonstrate the lender meets the financial requirements described in Section 3.2B.	

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). https://formsadmin.sc.egov.usda.gov/eFormsAdmin/welcomeAction.do?Home	☐
2.	Resume	Evidence of Underwriter's qualifications and experience in the industry and evidence that all principal officers have a minimum of two years of experience in originating or servicing guaranteed mortgage loans.	☐
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, and e-mail addresses) for your various departments, including regional account executives.	☐
5.	Underwriting Outline	A brief outline of underwriting criteria from the lender's internal loan policy manual. Include a statement to use forms approved by the Federal Housing Administration (FHA), Fannie Mae, or Freddie Mac.	☐

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6. 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. • Lender's Mission Statement or stated objective. • 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. • Identify how escrows are handled for taxes, hazard, and flood insurance (if applicable). • Identify what happens if excess funds are collected in escrow. • Have procedures to report non-compliance to the highest levels of management. May be monthly or, at the least, 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.	☐
7. Training Certification	New Mandatory Lender Training	☐

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 sfhglpservicing@usda.gov**.**

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CHAPTER 4: LENDER RESPONSIBILITIES [7 CFR 3555.51]

4.1 INTRODUCTION

Lenders must operate responsibly and comply with all Single Family Housing Guaranteed Loan Program (SFHGLP) requirements. The Agency will provide notice of all program changes; however, lenders are responsible for remaining informed of all program policies and procedures and ensuring that lender 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, the Lender and Partner Activities Branch can arrange training for lenders and their staff members. New lenders who request participation in the SFHGLP by submitting Form RD 3555-16, *Agreement for Participation in Single Family Housing Guaranteed/Insured Loan Programs of the United States Government,* are required to take training prior to approval by the Agency. Lenders are encouraged to register for automatic email notification regarding loan origination and servicing updates. Lenders may register at: https://public.govdelivery.com/accounts/USDARD/subscriber/new.

4.2 OPERATE RESPONSIBLY

The lender must:

- Operate in a prudent and businesslike manner. A lender that maintains approval from Fannie Mae, Freddie Mac, VA, or HUD (as outlined in Chapter 3 of this Handbook) is presumed to act responsibly if all elements of the Lender Agreement are maintained.

- Establish and maintain adequate written policies for loan origination, underwriting, servicing, and quality control. Refer to Chapter 3 for additional guidance on quality control plans. 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.

- Avoid Conflicts of Interest. Individuals that have a direct impact on the mortgage transaction (i.e. underwriters, appraisers, inspectors, engineers, etc.) are prohibited from having multiple roles or multiple sources of income, either directly or indirectly, in a single Rural Development transaction. Examples of indirect compensation include, but are not limited to, compensation resulting from

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an ownership interest in another business that is party to the same Rural Development transaction or compensation earned by a spouse, domestic partner, or other family member that has a role in the same Rural Development transaction. Individuals that do not have a direct impact on the mortgage approval decision may have multiple roles or sources of compensation from the same Rural Development transaction. Individuals with a role in the mortgage transaction who are also the applicant may not participate in any part of the loan origination, approval, or closing process on behalf of the lender. Lenders remain responsible for complying with all applicable Federal lending laws.

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 and document this training was provided before originating SFHGLP loans.

- **Maintain knowledgeable staff.** The lender must ensure that new staff members are trained on relevant SFHGLP areas. Lenders will ensure that all staff utilizing the Guaranteed Underwriting System (GUS) and Lender Loan Closing (LLC) system are up to date on mandatory trainings. 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 performance, the Agency will require training for the lender's staff.

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 Consumer Financial Protection Bureau (CFPB) regulations. 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.

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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 3555.54]

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*. The notification of transfer of the loan(s) should be emailed to the Rural Development Servicing Office at RD.SO.HSB@usda.gov. If the loan is sold to a party not approved to participate in the SFHGLP, the Loan Note Guarantee will be considered invalid. Should a lender be unable to complete the sale of a loan due to the loss of the original Loan Note Guarantee, the lender may request a copy from the Agency. The Agency will provide a copy marked "Reissued Loan Note Guarantee." If the loan was closed in the Agency's Lender Loan Closing System, the lender can access a duplicate copy within the system.

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 must ensure that it properly fulfills all servicing obligations and must provide the Agency any requested assistance for its program monitoring. Negligent servicing actions from the lender may invalidate the Loan Note Guarantee.

Negligent servicing is defined as servicing that is inconsistent with §3555.252 and includes the failure to perform those services which a reasonably prudent lender would perform in servicing its own loan portfolio of loans that are not guaranteed. Examples include, but are not limited to, violation of usury laws, civil rights laws, servicing requirements, failure to obtain the required security, and use of loan funds for unauthorized purposes. The Agency maintains the authority to enforce this policy regardless of the timeframe in which Rural Development is made aware of such

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action. Negligent servicing includes not only the concept of a failure to act, but also not acting in a timely manner or acting contrary to the way a reasonably prudent lender would act up to the time of loan maturity or until a final loss is paid.

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
- Voluntarily withdraws from participation in the SFHGLP.

4.8 ADHERE TO SFHGLP GUIDELINES

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

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Mae, Freddie Mac, or Farm Credit System (FCS) lenders when forms are not provided by the Agency.

- **Eligibility Requirements**. The lender is responsible for ensuring that the loan applicant and property meet all SFHGLP eligibility requirements.

- **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.

- **Counterparty Management and Third-party Providers.** Lenders are responsible for managing all counterparty and third-party providers that may assist to the processing, underwriting, and servicing of SFHGLP loans.

- **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 the originating lender did not originate a loan in accordance with the requirements of 7 CFR 3555 and this Handbook, the Loan Note Guarantee will remain in effect for any holder of the loan who acquired it from an originating lender. The Agency may use available legal remedies against the originating lender, which may include revoking the originating lender's eligibility status in accordance with §3555.52 and Chapter 3 of this Handbook. The Agency may also require the originating lender to:

1. Indemnify the Agency for the loss if the loan default under the guarantee occurred within 60 months of loan closing when one or more of the following conditions is present:

    - The originating lender utilized unsupported data or omitted material information when submitting the request for a Conditional Commitment to the Agency.

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- The Agency determined that the originating lender did not originate a loan in accordance with the applicable statutory requirements or the regulatory requirements of 7 CFR Part 3555.

- The originating lender failed to properly verify and analyze the applicant's income, assets, and employment history in accordance with Agency guidelines.

- The originating lender failed to properly verify and analyze debt and obligations in accordance with Agency guidelines.

- The originating lender failed to address appraisal discrepancies or deficiencies impacting the value of the property.

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

- The originating lender used an appraiser that was not properly licensed or certified to make residential real estate appraisals in accordance with §3555.107(d).

2. Indemnify the Agency for the loss regardless of how long ago the loan closed or the default occurred if the Agency determines that fraud or misrepresentation was involved in the origination of the loan.

If it is determined the loan is subject to indemnification, the payout of a loss claim shall be determined based on the following scenarios:

- If the originating lender sold the loan and transferred the Loan Note Guarantee to a servicing lender, the loss claim may be paid to the lender that acquired the loan and indemnification will be pursued against the originating lender.

- If the originating lender assigned servicing rights to a servicing lender but continues to hold the Loan Note Guarantee, the loss claim will not be paid.

- If the originating lender is also the servicing lender and no transfers have occurred, the loss claim will not be paid.

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Adverse decisions involving loss claims shall be resolved in accordance with guidance provided in Appendix 3 of this Handbook.

4.10 PREVENT MORTGAGE FRAUD

Lenders are accountable for the contents of a loan file, including:

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

Lenders must ensure they have adequate quality control procedures in place to help detect and effectively prevent mortgage fraud. Sound pre-funding quality control practices and rigorous post-funding quality control programs 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 mortgage fraud, they must report the findings surrounding the discovery to the Quality Assurance and Lender Oversight Division at SFHGLD.Compliance@usda.gov. The following information should be included:

- 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 of the loan;
- Indicate the originating lender (underwriting lender) and/or servicing lender, as applicable. Include the lender's federal tax identification number and the lender loan number;
- Agency borrower identification;
- Property street, city, state, and zip code;
- A detailed description of findings; and

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- Identify the mortgage broker, loan officer, appraiser, closing agent, real estate agents, etc., as applicable.

Refer to Chapter 1 of this Handbook for more 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 if the lender is an active program participant who is complying with Agency guidelines, continues to meet the criteria of Form RD 3555-16, *Agreement for Participation in Single Family Housing Guaranteed/Insured Loan Programs of the United States Government*, and remains an eligible lender with Fannie Mae, Freddie Mac, HUD, VA, or other lender approval criteria explained in Section 3.2 of Chapter 3 of this Handbook. The Agency will perform a review on a two year basis to recertify the lender's on-going eligibility. When the Agency withdraws approval, 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 originated a small number of 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 Handbook. 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 can result in the Agency withdrawing its 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

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servicing activities and give proper notifications to the Agency.

4.12 ADDITIONAL LENDER RESPONSIBILITIES UPON APPROVAL

- **Guaranteed Underwriting System (GUS).** An automated underwriting system is available to approved participating lenders. Lenders will utilize GUS and must enter into a User Agreement. Information on obtaining access to GUS is provided in Chapter 5 of this Handbook and at http://www.rd.usda.gov/resources/usda-linc-training-resource-library/guaranteed-underwriting-system.

- **Electronic Lender Loan Closing System.** Lenders must submit closed loans electronically upon execution of a User Agreement. Access to the system provides the benefit of paying guarantee and technology fees electronically in lieu of paper checks. Additionally, the lender will have access to the Loan Note Guarantee electronically. Additional information is provided in Chapter 16 of this Handbook. An online user guide is available at http://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-closing.

- **Payment of Annual Fees.** Lenders will pay annual fees electronically. Lender/servicers will enter into a User Agreement to receive automatic notification and electronically pay annual fees due. Additional information is provided Chapter 16 of this Handbook.

- **Electronic Status Reporting.** Servicers must submit monthly default reports and portfolio reports indicating the status of loans they are servicing via Electronic Status Reporting (ESR) to the Servicing Office. The link https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library provides information on completing a *Trading Partner Agreement* and utilizing the Electronic Status Reporting (ESR) system. Questions or requests for assistance may be emailed to RD.SO.HSB@usda.gov. Refer to Chapter 17 and Appendix 8 of this Handbook for additional information regarding electronic reporting.

- **Loss Mitigation and Loss Claim Administration.** An automated method of processing loss mitigation requests pre-liquidation and loss claim administration post-liquidation is available to participating lender/servicers. Lenders will enter into a User Agreement. Servicers will utilize USDA LINC (Lender Interactive

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Network Connection) to submit loss mitigation plans and loss claims, which can be accessed at http://usdalinc.sc.egov.usda.gov/RHShome.do.

- **Post-Closing Lender Self Report.** Once a loan closes and the Loan Note Guarantee has been issued, the Agency will not release the loan in GUS/GLS for corrections. If the lender determines that information was not accurately reported during the underwriting process or changes occurred between issuance of the Conditional Commitment and the Loan Note Guarantee, the lender will submit a self-report to the Agency with a detailed description of the issue along with supporting documentation. The Loan Note Guarantee will not be revoked. The Agency will review the lender's documentation and provide the lender with a written response. The Agency's correspondence should be sufficient to satisfy most investor's concerns regarding lender oversights. Additional information on submitting a self-report can be found in Attachment 16-B of Chapter 16 of this Handbook.

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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 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)]

Single Family Housing Guaranteed Loan Program (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.

5.2 REQUESTING A GUARANTEE [7 CFR 3555.151]

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 answer the preliminary eligibility questions below to assist in making this determination. The lender should also ensure that the applicants are 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 applicants' eligibility.

- **Applicant Characteristics (Chapter 8)** Are the applicants able to secure conventional credit? Do the applicants own a dwelling? Are the applicants U.S. citizens or eligible non-U.S. citizens as detailed in Chapter 8? If the applicants are not U.S. citizens, they must produce evidence per Agency guidelines to qualify as a non-U.S. citizen.

- **Income (Chapter 9)** At the time of loan approval, is the household's adjusted income below the applicable moderate-income limit? To determine eligibility for the SFHGLP, the lender is responsible for documenting the income of all adult members of the applicants' household (not just those who will be signatories to the note). Current income limits are referenced in Appendix 5, and can be located on the USDA Income and Property Eligibility website at

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http://eligibility.sc.egov.usda.gov/eligibility/, or by using the Agency's automated underwriting system, GUS.

In addition to meeting adjusted annual income requirements, the applicants must also have sufficient repayment income and meet additional program requirements. Chapter 9 provides more detailed information about annual, adjusted, and repayment income.

- **Credit (Chapter 10)** Is the credit history consistent with program guidelines? The applicants must have a credit history that demonstrates the ability and willingness to repay the loan. GUS is unable to render an underwriting recommendation on supplemental credit reports. These should be uploaded with the application package.

- **Ratios (Chapter 11)** Do the applicants' PITI (Principal, Interest, Taxes and Insurance) and total debt (TD) ratios fall at or below the limits established by the Agency? Ratios are calculated using repayment income from applicants who will be a party to the Promissory Note.

- **Appraised Value/Loan amount (Chapter 12)** 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?

- **Site and Property (Chapter 12)** 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 may be checked online at http://eligibility.sc.egov.usda.gov/eligibility/, or by using the Agency's automated underwriting system, GUS.

B. Informing the Applicant

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

- **Concept of a loan guarantee**. Describe to the applicants 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 (Chapter 16)** Inform the applicants of the upfront guarantee fee to be paid at loan closing.

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- **Annual fee (Chapter 16)** Inform the applicants of the annual guarantee fee, if applicable.

- **Occupancy (Chapter 8)** Inform the applicants that they must occupy the property as their principal residence.

- **SFHGLP requirements**. Inform the applicants of program requirements such as income limits, property location eligibility, debt ratio thresholds, and other requirements such as the certifications outlined on Form RD 3555-21, *Request for Single Family Housing Loan Guarantee*.

5.3 UTILIZING THE GUARANTEED UNDERWRITING SYSTEM [7 CFR 3555.107(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 applicants' 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 data, and income and property information to evaluate the potential applicants' 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 the applicants' 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 in GUS must coincide with that of the lender's permanent loan file.

A. Functionality of GUS

Incorporated within the functionality of GUS are the following components:

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Property and Income Eligibility

- The dwelling offered as collateral for the proposed mortgage loan is located in an eligible rural area; and the applicants' adjusted annual household income meets the adjusted income limits in accordance with size of household, county, and state in which the applicants 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.

- Examples of factors considered under the scorecard include but are not limited to 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 a number of credit providers nationwide. Users may link to a full list of credit providers at https://singlefamily.fanniemae.com/credit-information-providers.

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- 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, 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 with active Lender Agreements must utilize GUS as part of their credit risk evaluation for all loan types supported by GUS. Lenders are required to enter into a User Agreement and obtain authorized access through the use of a Login.gov account and password. The GUS Lender User Guides may be obtained at: https://www.rd.usda.gov/resources/usda-linc-training-resource-library/guaranteed-underwriting-system.

C. Underwriting Guidance for Lenders

GUS evaluates the overall creditworthiness of the applicants 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 the lender's 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. Applicants should not be approved or 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 file import feature is available to create or update an application in GUS. GUS allows XML files meeting requirements of the Desktop Underwriter® Specification to be

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imported into the system. For additional guidance on file import requirements and the most recent version of the Desktop Underwriter® Specification permitted, the lender may refer to the GUS Lender User Guide, which can be found at: https://www.rd.usda.gov/resources/usda-linc-training-resource-library/guaranteed-underwriting-system.

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 applicants 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. Gift funds from any source will not be included in the cash reserves calculation in GUS. Cash reserves are used for the purpose of qualifying applicants for a loan. Cash to close remains the lender's responsibility to verify and document that applicants have sufficient funds to facilitate loan closing. Documentation will be retained in the lender's permanent loan 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. Guidance on the calculation of reserves is explained in Chapter 9. Although assets must always be verified, in lieu of entering assets in GUS, the lender may underwrite to a more conservative approach, entering a lesser amount (the amount to demonstrate the applicant has the required funds for closing costs) or alternatively, with no consideration of assets on the "Assets and Liabilities" page and underwriting recommendation.

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. Omitting Liabilities

If a lender omits an adverse trade line when utilizing GUS and receives an Accept underwriting recommendation, the applicants' explanation letter and supportive documentation of adverse trade lines will be retained by the lender. The lender will indicate the justification for the omission in the "If Omit, please specify" section of the "Asset and Liabilities" page.

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G. Established Data Tolerances

Loan application data 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.

A tolerance threshold has been established when an increase in obligations do not exceed a cumulative total of $50. Examples of these obligations include, but are not limited to, installment loans, revolving credit lines, real estate taxes, final homeowner's insurance premiums, etc. Loan files that have received a Conditional Commitment for Loan Note Guarantee do not require updated underwriting or resubmission of GUS when the cumulative total of obligations increase, but do not exceed the established thresholds. This tolerance threshold applies to situations where an increase in monthly debt provided on the loan application at time of Conditional Commitment differs from the amount recorded at loan closing.

Tax and Insurance Escrows: Approved lenders must ensure that an accurate estimate for the property tax/insurance component of the applicants' monthly mortgage payment is utilized when submitting loan applications to the Agency. The threshold policy should not be construed to allow lender manipulation of escrow variables to obtain approvals. Care must be taken to assume a realistic estimate is used for computing the monthly escrowed amount. For existing properties, the escrowed amount for real estate taxes is based on the actual taxes assessed. For new construction, tax estimates must be based on the land and completed improvements, not just on the land value (i.e. value of both the property and the completed dwelling). 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. 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 must be obtained prior to final submission. Therefore, data entered in GUS must be supported with verifying documentation of income in the lender's permanent loan file. Income must 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 in Attachment 9-A.

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H. GUS Findings and Underwriting Report

The responsibilities associated with producing loans of acceptable quality for loans guaranteed by the Agency remains the same for a GUS evaluated loan or a manually underwritten loan. 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, Accept with Full Documentation, Refer, Refer with Caution, or Ineligible. 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 the applicants' eligibility.

The GUS Findings and Underwriting Report provides important feedback messages and conditions for the loan. The lender must review the final findings, comply with the conditions, and provide the Agency with any additional documents, as applicable.

The final GUS Findings and Underwriting Report must be retained in the lender's permanent loan file. Non-GUS submissions, Accept with Full Documentation, Refer, and Refer with Caution files will be accompanied by Attachment 9-B, the Uniform Transmittal Summary *(FNMA Form 1008/Freddie Mac Form 1077*), or equivalent. The documentation provided must include calculations for annual, adjusted, and repayment income. Further clarification regarding income can be found in Chapter 9.

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

I. Lender Steps When Requesting a Commitment

1. Ensure the data entered in GUS is true, complete, accurate, and supported by the documents retained in the lender's permanent loan file.

2. The approved lender's underwriter must review and confirm the entire loan package meets SFHGLP requirements.

3. The lender should verify all required documents have been successfully uploaded per Attachment 15-A, Loan Origination Checklist. Underwriting documents should be combined into a single black and white file. The appraisal report must be uploaded as a separate color file.

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

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5. If the loan is a "Refer" or "Refer with Caution," the lender's underwriter must manually underwrite the loan to determine if the applicants are creditworthy, in accordance with SFHGLP credit policies and guidelines. If approved, the lender's underwriter will submit the file in GUS as a "Final Submission" to electronically transmit the loan application to the Agency. Additional documents are required for loans receiving a "Refer," "Refer with Caution" or "Full Documentation" recommendation.

6. Loans that are unsupported by GUS must be manually submitted and underwritten; however, the associated documents must be uploaded via GUS. Follow the instructions on the "Manual Submission Job Aid" for this type of submission in the USDA LINC Training and Resource Library located at https://www.rd.usda.gov/resources/usda-linc-training-resource-library in the "Loan Origination" tab "Documents and Resources," "Manual Submission Job Aid."

J. 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, accurate, and verified. 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, unless a quality control message on the GUS Underwriting Findings Report indicates an Accept with 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. Lenders should submit full additional documentation files as noted in Attachment 15-A, Loan Origination Checklist, for files for that receive GUS underwriting recommendations of Accept with Full Documentation.

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 Underwriting Findings Report 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.

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

Mortgage loan documents will be delivered electronically through GUS. In cases when the system may be unavailable, or a transition to the system is occurring, documents may be delivered by encrypted email to the appropriate production team at https://www.rd.usda.gov/resources/usda-linc-training-library/loan-processing. It is anticipated that all lenders will utilize the automated method when available.

ACCEPT/INELIGIBLE 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 is not located in a rural area
- Income exceeds Agency guidelines
- Non-owner occupied transaction

Loans that receive a recommendation of Accept/Ineligible may still be eligible for a SFHGLP 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 Agency guidelines. Issues that caused the loan to be ineligible may be resubmitted to obtain an updated underwriting recommendation.

REFER or REFER WITH CAUTION Underwriting Recommendation

GUS loans receiving an underwriting recommendation of Refer or Refer with Caution will require the lender's underwriter to perform a manual underwriting evaluation of the mortgage loan application to determine if applicants are creditworthy in accordance with SFHGLP credit policies and guidelines. Risk factors have been identified based upon the data entered in GUS. The credit risk evaluation represented by a Refer with Caution is

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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. Lenders must submit additional documentation as noted in Attachment 15-A of this Handbook for files that receive 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 loan 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 approved or denied solely on the basis of a risk evaluation generated by GUS. Mitigating circumstances according to Agency standard guidelines may be considered.

K. Lender's Reliance on the GUS System

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

L. Lender's Permanent Loan File - Documentation Requirements

The lender's permanent loan files must be supported with the following verified documentation, regardless of the GUS recommendation:

- Credit history;
- Adjusted Annual Income – determined for program eligibility;
- Stable and Dependable Income – determined for repayment and qualifying purposes;
- Assets – for income calculation, conventional credit test, 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

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predict the stability of the applicants' continuance of income. This determination is performed by the lender prior to final submission of an application.

M. 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 the Conditional Commitment guidance outlined in 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:

- Applicants were either added or deleted from the loan application or critical information has changed.
- A **decrease** in the applicants' 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 applicants' ability to repay the mortgage.

The lender should submit a request via e-mail to the appropriate production team at https://www.rd.usda.gov/resources/usda-linc-training-library/loan-processing, requesting 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

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- An **increase** of assets

- The bureau update of a credit report due to the expiration of the credit report (expires at 120 days prior to loan closing) after a final submit has occurred by the lender and a Conditional Commitment has been issued; yet prior to loan closing as long as no adverse impact has occurred that would affect the outcome of the underwriting recommendation. The lender must retain the updated credit report in their permanent loan file.

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

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

- All terms, conditions and requirements of the SFHGLP are fully satisfied.

- All representations submitted by the lender are true, correct, and verified.

- The lender is in compliance with the criteria outlined in Chapter 3 and eligible 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, including state laws, terms of the note, and security instruments have been correctly and timely disclosed to all applicants.

- The lender represents that all persons executing documents on behalf of the lender are duly authorized to do so.

O. Termination

The Agency reserves the right to terminate the lender's approved lender status in the event of any default under the terms of the lender agreement.

A lender's suspension, withdrawal, or termination of approval to participate in the SFHGLP may be pursued 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.

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- 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.

- 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.

Agency Actions

- Initially, contact the lender to ensure a firm understanding of the lender's terms and conditions of the lender agreement. 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, their approved lender status may be revoked.

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CHAPTER 6: LOAN PURPOSES

7 CFR 3555.101

6.1 INTRODUCTION

Single Family Housing Guaranteed Loan Program (SFHGLP) loan funds can be used to acquire new or existing housing that will be the applicant's principal residence. This section describes loan purposes, restrictions, and refinance opportunities. The lender is responsible to ensure 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. 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

The lender may request the loan note guarantee prior to work completion if all

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requirements as outlined in Chapter 12 of this Handbook are met.

C. Reasonable and Customary Expenses Associated with the Purchase of an Existing Dwelling or New Construction

Loan funds may be used for expenses associated with purchase of a dwelling if 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 up-front guarantee fee and fees for appraisal, environmental inspections, surveying, tax monitoring, expenses for homeownership education counseling, and other technical services associated with obtaining the loan.

- **Reasonable Lender Fees**. Reasonable lender fees, when financed, may include an origination fee and other fees and charges. Lender fees and charges must meet the points and fees limits published by the Consumer Financial Protection Bureau (CFPB) in the Federal Register at 12 CFR 1026.43(e)(3) and cannot exceed those charged other applicants by the lender for similar transactions such as FHA-insured or VA-guaranteed first mortgage loans. It is the lender's responsibility to ensure CFPB requirements are met. Payment of finder's fees or placement fees for the referral of an applicant to the lender may not be included in the loan amount. Discount points to "buydown" or permanently reduce the effective interest rate may be financed. Loan discount points and the loan origination fee must be itemized separately on the Closing Disclosure. The SFHGLP up-front guarantee and annual fee are not included in the lender fees and charges calculation.

- **Closing Costs**. Closing costs that are reasonable and customary for the area can be financed with loan funds. Closing costs cannot exceed those charged to 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.

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- **Interested Party Concessions**. Seller contributions (or other interested parties) are limited to six percent of the sales price and must represent an eligible loan purpose in accordance with this paragraph. Closing costs and/or prepaid items paid by the lender through premium pricing and funds provided by the seller for repairs or to pay the buyer's real estate commission fees are not included in the interested party contribution limitation. However, seller concessions for repairs must be held in an escrow account. Refer to Chapter 12 for repair escrow guidance. The approved lender is responsible to ensure applicable limitations and eligible loan purposes are met. Seller contributions cannot be used to pay an applicant's personal debt or as an inducement to purchase by including movable articles of personal property such as furniture, cars, boats, electronic equipment, etc. This does not include household appliances that are typically part of the purchase transaction.

- **Single Close to Permanent Construction.** Lenders have the option to escrow a borrower's regularly scheduled principal, interest, taxes, and insurance (PITI) payment established at loan closing to make the loan payments during the construction period. The inclusion of all reserve accounts (e.g. contingency and payment) are considered an eligible loan purpose. Seller contribution limits do not apply to single close construction to permanent loans.

- **Contract for Deed.** Loan funds can be used for the conversion of a seller-financed mortgage with an existing dwelling. These contracts are also known as a conversion of contract for deed or land contract. The Agency considers this a "purchase" transaction. The dwelling must meet the requirements for existing dwelling outlined in Chapter 12 of this Handbook.

- **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.

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- **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 if 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 if 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)]

SFHGLP provides opportunities to refinance an existing loan. Borrowers must meet all eligibility requirements outlined in this Handbook, except where noted.

1. Construction Financing and Sites without a Dwelling

A refinance of a debt for a site without a dwelling, interim construction financing to build a new dwelling, or associated with the purchase and improvement of an existing dwelling prior to the issuance of a loan note guarantee is allowed. The Agency considers this a “purchase” transaction.

- These types of transactions typically utilize 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.

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- The first transaction/closing obtains the interim construction financing. The second closing obtains the permanent financing when construction or improvements are completed.

- The lender is responsible to ensure all costs involved in both transactions represent an eligible loan purpose in accordance with Section 6.2 of this Chapter.

- The construction period is limited to no greater than 12-months. The 12-month period must have occurred directly prior to permanent financing.

- New construction documentation (certified plans and specifications, inspections, and warranty) must be obtained. Refer to Chapter 12 for documentation requirements.

- In the case of a site without a dwelling, the debt to be refinanced was incurred for the sole purpose of purchasing the site with the intent to build.

For combination construction to permanent financing, also known as single-close loan transactions, refer to Section 6 of Chapter 12.

2. Existing Section 502 Direct and Guaranteed Loans

Existing mortgage loans for existing guaranteed and direct borrowers may be refinanced. SFHGLP cannot refinance mortgage debt that is not financed or guaranteed by USDA. Three refinance options are available:

a. Non-streamlined refinance.

- A new appraisal is required.

- The maximum loan may include the principal and interest balance of the existing loan and reasonable and customary closing costs up to the new appraised value. The appraised value may only be exceeded by the amount of the financed up-front guarantee fee.

- Direct loan borrowers can refinance or defer the amount of subsidy recapture due. Borrowers choosing to refinance subsidy recapture may be eligible for a discount on the amount that is due. Borrowers that do not

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refinance subsidy recapture will be required to enter into a second lien securing that amount and are not eligible for a discount.

- Additional borrowers may be added to the new guaranteed loan. Existing borrowers on the current mortgage note may be removed when one of the original borrowers remains on the refinanced loan.

- The existing loan must have closed at least 180 days prior to submission to the Agency and have a mortgage payment history which must not reflect a delinquency greater than 30 days within the previous 180-day period.

- The borrower must meet credit requirements as outlined in Chapter 10 of this Handbook.

- Lenders may request a debt ratio waiver when strong compensating factors in accordance with Chapter 11 are documented.

- The Guaranteed Underwriting System (GUS) may be utilized to underwrite the non-streamlined refinance.

b. Streamlined refinance.

- A new appraisal is not required to refinance an existing guaranteed loan. A direct loan borrower will be required to obtain a new appraisal if they have received payment subsidy to determine the amount of subsidy recapture due. If subsidy recapture is due, the amount cannot be included in the new refinance loan. Subsidy recapture must be paid with other funds or subordinated to the new guaranteed loan. If an applicant elects to finance the subsidy recapture into the new refinance loan, refer to the non-streamlined refinance guidance.

- The maximum loan amount may include the principal and interest balance of the existing loan and reasonable and customary closing costs, including any financed portion of the up-front guarantee fee.

- Additional borrowers may be added to the new guaranteed loan. Existing borrowers on the current mortgage note may be removed, when one of the original borrowers remains on the refinance loan.

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- The existing loan must have closed at least 180 days prior to submission to the Agency and have a mortgage payment history which must not reflect a delinquency greater than 30 days within the previous 180-day period.

- Lenders may request a debt ratio waiver when strong compensating factors are documented in accordance with Chapter 11 of this Handbook.

- GUS may be utilized to underwrite the streamlined refinance loan.

c. Streamlined-assist refinance

- A new appraisal is not required for existing guaranteed loan borrowers. A direct loan borrower will be required to obtain a new appraisal if they have received payment subsidy to determine the amount of subsidy recapture due. If subsidy recapture is due, the amount cannot be included in the newly refinanced loan. Subsidy recapture must be paid with other funds or subordinated to the new guaranteed loan. If an applicant elects to finance the subsidy recapture into the new refinance loan, refer to the non-streamlined refinance guidance.

- The maximum loan amount may include the principal and interest balance of the existing loan and reasonable and customary closing costs, including any financed portion of the up-front guarantee fee.

- The borrower must receive a tangible benefit to refinance under this option. A tangible benefit is defined as a $50 or greater reduction in their principal, interest, and annual fee monthly payment compared to the existing principal, interest, and annual fee monthly payment.

- The borrower is not required to meet the repayment ratio provisions as outlined in Chapter 11 of this Handbook.

- The existing loan must have closed at least 180 days prior to submission to the Agency.

- The borrower is not required to meet all the credit requirements as outlined in Chapter 10 of this Handbook. Prior to submission to the Agency, the existing mortgage payment history must not reflect a

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delinquency greater than 30 days within the previous 180 days. Lenders may verify mortgage payment history through a verification of mortgage obtained directly from the servicing lender or a credit report. When a credit report is ordered to determine timely mortgage payments, other credit accounts are not to be considered.

- Additional borrowers may be added to the new guaranteed loan. Existing borrowers on the current mortgage note must remain on the refinanced loan; however, deceased borrowers may be removed from the loan.

- Lenders are required to document their annual income calculations on the FNMA 1008/FHLMC 1077, Attachment 9-B, or similar form in order to support the household income does not exceed the allowable maximum income limits.

- GUS is unavailable for this loan type, so it must be manually submitted and underwritten. Follow the instructions on the manual file submission process job aid for this type of submission, located at https://www.rd.usda.gov/resources/usda-linc-training-resource-library in the "Loan Origination" tab "Documents and Resources", "Manual Submission Job Aid".

The following terms and conditions are applicable to non-streamlined, streamlined, and streamlined-assist refinance transactions:

- Loan terms must be fixed for 30 years.

- The interest rate of the new loan must be fixed and not exceed the interest rate of the loan being refinanced.

- The loan security must include the same property as the original loan and owned and occupied by the applicants as their principal residence.

- Properties located in areas since determined by the Agency to be non-rural (ineligible) remain eligible for a refinance. Lenders may continue to submit loan requests in the Guaranteed Underwriting System (GUS) with an ineligible property determination. USDA will correct the property determination during loan review and processing.

- Property inspections, as outlined in Chapter 12 of this Handbook, are not

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required. If the lender requires repairs as a condition of loan approval, the expenses related to property inspections and repairs may not be financed into the new loan amount.

- Secondary financing such as leveraged loans, down payment assistance loans, or home equity lines of credit cannot be included in a new guarantee refinance loan. These types of financing must be subordinated to the new guaranteed loan or be paid in full.

- Cash out is not permitted. Borrowers may receive reimbursement from loan funds at settlement for eligible closing costs paid from the borrower's personal funds for the refinance transaction. Borrowers may also receive a refund at settlement that represents prepaid interest or overage from the borrower's escrow account.

- Unpaid fees, past-due interest, and late fees/penalties due to the servicer cannot be included in the new loan amount. Borrowers who are facing repayment hardships should be considered for loss mitigation under Chapter 18 of this Handbook.

- The lender may establish charges and fees for the refinance loan, provided they are the same as those as charged to other applicants for similar transactions. Lenders and the Agency should make every effort to ensure that applicants are not charged excessive fees.

- The entire up-front guarantee fee may be financed into the new refinance loan. 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 by selecting "Part 1800: General" on the Rural Development Instructions website located at: https://www.rd.usda.gov/resources/directives/instructions.

- An annual fee will be charged by the Agency for refinance transactions. The amount of annual fee will be published in Exhibit K of RD Instruction 440.1, available in any Rural Development Office or by selecting "Part 1800: General" on the Rural Development Instructions website located at: https://www.rd.usda.gov/resources/directives/instructions.

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- Lenders should submit the complete application package in accordance with Chapter 15 and Attachment 15-A, *Loan Origination Checklist*, of this Handbook.

The lender will follow the same procedures as provided in Chapter 16 of this Handbook for closing the loan. The Agency will review loan closings for SFHGLP refinance loans using the same procedures for SFHGLP purchase loans prior to issuance of the Loan Note Guarantee.

E. Supplemental Loans

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

6.3 PROHIBITED LOAN PURPOSES

SFHGLP loan funds cannot be used for any of the following purposes:

- **Cash Back to Borrower.** Borrowers may be reimbursed out of loan funds for eligible loan costs incurred prior to closing. Excess loan funds that cannot be applied towards eligible closings as outlined in paragraph 6.2, or that do not represent a reimbursement to the borrower for eligible pre-paid fees from their out-of-pocket expenses, must be applied as a principal reduction.

- **Select Loan Discount Points.** Loan discount points such as to compensate for a low credit score or low loan amount are ineligible.

- **Income Producing Property.** Purchase or improvement of income-producing land or buildings that will be used principally/specifically for income producing purposes is not allowed. 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.

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

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- **Closing Costs in Excess of Three Percent.** Closing costs, including lender fees, that exceed three percent of the total loan amount are prohibited, unless flexibility is provided through guidance published by the CFPB's Ability to Repay and Qualified Mortgage (ATR/QM) standards.

6.4 AGENCY REVIEW OF LOAN PURPOSES

The Agency will determine if the purposes for the loan guarantee are acceptable before issuing a Conditional Commitment for loan guarantee. If the Agency determines loan funds will be used for an ineligible purpose, the Agency will contact the lender and attempt to resolve the situation prior to issuance of the Loan Note Guarantee. Loan purposes will also be reviewed during the Agency's Quality Assurance (QA) internal monitoring process and Lender Oversight (LO) compliance reviews to ensure that the lender has an accurate understanding of eligible and prohibited loan purposes. Refer to chapter 19 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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REFINANCE OPTIONS FOR SECTION 502 DIRECT AND GUARANTEED LOANS (Attachment 6-A)			
REQUIREMENT	**NON-STREAMLINED**	**STREAMLINED**	**STREAMLINED-ASSIST**
New Appraisal	Yes	Only for Direct 502 with recapture subsidy due	Only for Direct 502 with recapture subsidy due
Maximum Loan Amount	Up to the new appraised value plus the amount of the financed up-front guarantee fee and include: • Principal & interest balance • Eligible closing costs • Subsidy recapture	May include: • Principal & interest balance • Eligible closing costs • Up-front guarantee fee	May include: • Principal & interest balance • Eligible closing costs • Up-front guarantee fee
Net Tangible Benefit	No	No	Yes $50 or greater reduction of the total principal, interest and monthly annual fee payment
Include Subsidy Recapture	Yes Up to the new appraised value	No	No
Add/Remove Borrowers **(one original borrower must remain)**	Yes	Yes	• Add borrowers • Remove only deceased borrowers
Credit	• No defaults in the previous 180 days prior to Agency request • Meet Chapter 10 requirements	• No defaults in the previous 180 days prior to Agency request • Meet Chapter 10 requirements	• No defaults in the previous 180 days prior to Agency request
Ratio waivers	• GUS Refers only • Must meet Chapter 11 requirements	• GUS Refers only • Must meet Chapter 11 requirements	No ratio calculations required
Final Submission in GUS	Yes	Yes	No
Soft seconds and/or subsidy recapture may be subordinated	Yes	Yes	Yes

REQUIREMENTS FOR ALL REFINANCE OPTIONS

- Only loans financed or guaranteed by USDA are eligible.
- Existing loan must have closed at least 180 days prior to submission to the Agency.
- Fixed interest rate at or below the current interest rate of the loan being refinanced.
- Borrower must meet applicable adjusted annual household income.
- No cash out from collateral equity. Only reimbursement of borrower prepaid eligible closing costs and/or refund from escrow overage.
- Borrowers must occupy the property.
- Properties located in areas now deemed ineligible remain eligible for refinance.
- Existing leveraged loans or subordinate liens must be paid in full or be subordinated.

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Attachment 6-A
Guidance for Refinancing Section 502 Direct Loans

The Section 502 Direct Loan Program provides loans to low and very-low income borrowers that may include payment assistance, or payment subsidy that reduces the mortgage payments determined by the borrower's adjusted household income.

Subsidy Recapture

Arrangements must be made to either pay off or defer repayment of any subsidy recapture due when a Section 502 loan is refinanced. Any recapture amount owed as part of the 502 direct loan pay off may be included into the amount being financed with the SFHGLP non-streamline refinance loan subject to the maximum loan amount. A discount on recapture may be offered if the customer does not defer recapture (pays amount due in full) or includes the recapture amount due into a non-streamlined refinance loan. Alternatively, any 502 direct recapture amount that is owed at the time of refinance may be deferred if the recapture amount takes a subordinate lien position to the new SFHGLP loan.

Obtaining a "Statement of Loan Balance" Letter for Direct Loan Borrowers

Lenders may determine an applicant has a direct loan when the credit report reflects "USDA" or "Farmers Home Administration" as the mortgage creditor or the applicant informs the lender they applied and received their mortgage loan through a USDA Service Center. Direct loans are serviced by the Servicing and Asset Management Office (Servicing Office). Obtaining a "Statement of Loan Balances" letter will assist lenders to determine if subsidy recapture is due. The "Statement of Loan Balances" will also include instructions for the lender to follow regardless of information submitted at the time of payoff request.

To obtain a "Statement of Loan Balance", submit a request on lender letterhead which includes the borrower's name, account number and address along with a signed authorization from the customer to release the information. The "Statement of Loan Balance" will reflect the maximum amount of subsidy recapture that may be due. It is not a payoff statement. Requests can be faxed to (314) 457-4433.

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

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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, if 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.

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

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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. 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 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.
- Underwriting analysis reflecting the updated interest rate and confirming the applicant(s) remain eligible for the SFHGLP.
- 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).

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;

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- 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 Single Family Housing Guaranteed Loan Program (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 applicants' income, credit, and ratio qualifications.

8.2 APPLICANT ELIGIBILITY REQUIREMENTS

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

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

Applicants who own an additional dwelling to which they will retain ownership may be eligible for a guaranteed loan. It is not the intent of the SFHGLP to assist applicants in building an investment portfolio. The loan applicants are limited to owning one single family housing unit, other than the house associated with the loan request.

Applicants may purchase another home if **all** the criteria below are met:

- The applicants are not financially responsible for another Agency guaranteed or direct home loan by the time the guaranteed home loan is closed;
- The applicants are financially qualified to own more than one house;
- The applicants will occupy the home financed with the guaranteed loan as their primary residence throughout the term of the loan; and
- The current home owned, whether adequate or inadequate, no longer meets the applicants' needs. Examples include, but are not limited to:
    - Relocation due to a new job opportunity.
    - Requires a larger home to provide for a growing family.
    - Obtaining a divorce and the ex-spouse will retain the dwelling.

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- Is a non-occupying co-owner or co-borrower on another mortgage loan and wants to purchase their own dwelling.

All documentation will be retained in the lender's permanent loan file and may be requested by the Agency upon review.

Repayment Income for rents received less than 24 months. Applicants retaining their existing dwelling must qualify for all mortgage liability payments. Rents received less than 24 months do not represent a stable continued source of income for repayment income and cannot be used when qualifying the loan request. The corresponding mortgage liability associated with the retained dwelling must be included in the debt ratio calculation. Refer to Chapter 9 for additional guidance on rental income.

Repayment Income for rents received 24 months or more. 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 Form 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. Negative rental income must be treated as a recurring liability and included in the debt ratio calculation. Refer to Chapter 9 for additional guidance on rental income.

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; canceled checks, money order receipts, 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 for additional guidance on documentation requirements of rental income. Guidance on the process of entering rental income into the Guaranteed Underwriting System (GUS) is available at: https://www.rd.usda.gov/resources/usda-linc-training-resource-library, select GUS, Training, Real Estate Page.

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B. Obtaining Credit [7 CFR 3555.151 (j)]

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

- The applicants have available personal non-retirement liquid verifiable asset funds of at least 20% of the purchase price that can be used as a down payment;

- The applicants can, in addition to the 20% down payment, pay all their closing costs associated with the loan;

- The applicants can meet qualifying ratios of no more than 28% PITI and 36% TD when applying the 20% down payment; and

- The applicants can demonstrate qualifying credit for such a loan. 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 applicants meet the cumulative criteria of traditional conventional credit, as defined by the Agency above; the applicants are ineligible for the SFHGLP.

It remains the underwriter's responsibility to support the criteria of this Section. However, when the criteria identified in the first three bullet points above are met, documentation to support ineligibility for conventional credit should be submitted to the Agency as part of the complete loan application. In all cases, the lender will retain the documentation to support the applicants' ineligibility for conventional credit in their permanent loan file.

Liquid assets for conventional credit down payment purposes typically consist of cash or cash equivalents. Cash or cash equivalents include funds in the applicants' checking or savings accounts, sale proceeds from a real estate owned property, or investments in stocks, bonds, mutual funds, certificates of deposit, and money market funds, unless they are encumbered (pledged as collateral) or otherwise inaccessible without substantial penalty. Cash equivalents do not include funds in Individual Retirement Accounts, 401(k) accounts, Keogh accounts, or other retirement accounts that are restricted and may not be accessed without incurring substantial monetary penalties. Educational college savings

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plans, such as a 529 plan, which incur a penalty to withdraw, are not considered a cash equivalent. Owning land is not considered a liquid asset.

If the applicants have ownership in a business, or are self-employed, the lender should closely review the asset accounts to verify assets are not transferred between a personal account and a business account and vice versa. These accounts should function as two separate financial tools, one for personal transactions and one for business transactions. In the event the assets from the business account and personal account are co-mingled, the co-mingled assets would need to be included in the test for obtaining credit.

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. Bona fide occupancy in the home as the applicants' 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. The military applicants must express intent to meet occupancy requirements upon his/her discharge from the service. A military service member who cannot physically reside in a property because they are on active duty will be considered to meet occupancy requirements defined in §3555.10 of 7 CFR 3555 if:

  - The service member's family will continue to occupy the property as their principal residence. Refer to Attachment 9-A, for additional guidance on calculating military income for repayment of the loan request.

- **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)]

Applicants must be considered an adult under State law and must have the legal capacity to incur the loan obligation. Applicants with a court-appointed guardian or conservator, empowered to obligate the applicant in real estate matters, are eligible for a loan. Applicants must be an individual, not a trust, corporation, or partnership.

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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. Applicants that have been excluded from a non-housing federal program continue to be eligible to participate in the SFHGLP, unless the individual becomes suspended or debarred pursuant to 2 CFR Part 180 and 417. Applicants that are excluded from federal housing programs or excluded from all federal programs are ineligible to participate in SFHGLP.

The approved lender, or their agent, is responsible for screening the applicants and all others who are parties to the transaction such as:

- Loan Officer
- Loan Processor
- Underwriter
- Appraiser
- Surveyor
- Builder
- Title Company
- Closing Agent

on the U.S. General Services Administration's (GSA) System for Award Management at https://sam.gov/content/exclusions as part of their eligibility determination of applicants. The lender must use due diligence in determining if the applicants are suspended or debarred and eligible for the program. Lenders must retain documentation in their permanent loan file to support their decision. The above list is not all inclusive as the lender is responsible for determining all parties involved in the transaction.

Lenders who utilize an automated method that creates a report, similar to a watch list, which performs a check of the SAM website, will meet the criteria of this check. The results of the SAM check including date and screen print will be retained in the lender's permanent loan file. The SAM check should occur prior to the request for Conditional Commitment and 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 applicants upon request of a loan guarantee. During submission of the application, the lender will verify a SAM check was performed by documenting the date in GUS. For loan types not supported by GUS (manually submitted) the lender will provide the date the SAM check was completed and identify if the party to the transaction is debarred when submitting the file to Rural Development for issuance of a Conditional Commitment. Additional guidance on this process can be located following Step 3, "E-mail the Appropriate Production Team" of the Manual Submission Job Aid, located at https://www.rd.usda.gov/resources/usda-linc-training-resource-library, in the "Loan Origination" tab, "Documents and Resources", "Manual Submission Job Aid".

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

The applicants must be a U.S. citizen, a U.S. non-citizen national, or a qualified alien as identified in Section 401 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (8 U.S.C. Section 1611). Lenders must secure and retain acceptable documentation to determine whether the applicants for a guaranteed loan are U.S. citizens, U.S. non- citizen nationals, or "qualified aliens." In all cases, non-U.S. citizens legally admitted into the United States will have a United States Citizenship and Immigration Services (USCIS) number. In the rare occasion where a number is not available or known, the applicants should contact the USCIS.

For all file submissions, the lender is responsible for documenting the applicants' legal residency. The lender is responsible to collect any necessary documents needed to validate eligibility. By submitting the request for a Conditional Commitment to the Agency, the lender represents and warrants that the non-U.S. citizen applicant is legally present in the United States and meets the eligibility requirements of the SFHGLP.

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

1. 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,
2. A non-citizen national 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 the Immigration and Naturalization Service (INS).

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. Persons who are non-citizen nationals are eligible for consideration.

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

- An alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act (INA); or
- An alien who is granted asylum under section 208 of such Act; or

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- A refugee who is admitted to the United States under section 207 of such Act; or
- 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
- An alien whose deportation is being withheld under sections 243(h) or 241(b)(3) of such Act, as amended; or
- 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
- An alien who is a Cuban/Haitian Entrant as defined by section 501(e) of the Refugee Education Assistance Act of 1980; or
- 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. The documentation described above may be unavailable.

To establish the applicants are qualified aliens, the Native American should provide **all** of the following documentation:

- 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 a 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 United States driver’s license.

8.3 TRUTHFUL APPLICATION

The integrity of the information presented in the mortgage application process is 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

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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 issuance of a 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 loan applicants 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.

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CHAPTER 9: INCOME ANALYSIS
7 CFR 3555.152

9.1 INTRODUCTION

The lender is responsible to confirm applicants and households meet the eligibility criteria for the Single Family Housing Guaranteed Loan Program (SFHGLP). Lenders must calculate and document annual, adjusted annual, and repayment income. The guidance provided applies to all loans, including manually underwritten loans and loans that utilize the Agency's automated underwriting system, Guaranteed Underwriting System (GUS).

SECTION 1: ELIGIBILITY INCOME

9.2 OVERVIEW

The SFHGLP assists very-low, low, and moderate-income households. Therefore, the lender must certify that any household that requests a loan guarantee does not exceed the adjusted annual income threshold for the applicable state and county where the dwelling is located. Additional information on income limits can be found in Appendix 5 of this Handbook.

This section assists lenders in analyzing income types, completing income calculations (annual, adjusted annual, and repayment), and documenting the income with acceptable verifications. Documentation of income calculations are recorded on Attachment 9-B, *Worksheet for Documenting Eligible Household and Repayment Income*, FNMA Form 1008 or Freddie Mac Form 1077, *Uniform Underwriting and Transmittal Summary*, or an equivalent lender income worksheet. Attachment 9-C provides a case study to illustrate how to properly complete the income worksheet. A public website is available to assist in the calculation of annual and adjusted annual income at: https://eligibility.sc.egov.usda.gov/eligibility/incomeEligibilityAction.do?pageAction=state.

9.3 ANNUAL INCOME [7 CFR 3555.152(b)]

Annual income includes all eligible income sources from all adult household

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members, not just parties to the loan note. The annual income for the household will be used to calculate the adjusted annual household income. The adjusted annual income determines if the household is eligible for a guaranteed loan.

A. Income that is Never Counted

7 CFR 3555.152(b)(5) lists income sources that are never included in the annual income calculation. Refer to Attachment 9-A to review income and asset types, guidance for annual and repayment purposes, and documentation options acceptable to verify the income or asset source.

B. Calculation of Annual Income

Annual income is calculated for the ensuing 12 months, based on income verifications, documentation, and household composition. Lenders must examine all evidence to ensure the calculation is supported.

In addition to 7 CFR 3555.152(b) and Attachment 9-A, lenders must consider the following to calculate annual income:

- Use the gross amount, before any payroll deductions, of base wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowance, and other compensations for personal services of all adult members of the household, unless they meet the exclusion criteria of 7 CFR 3555.152(b)(5) and Attachment 9-A. Documented cost of living allowances or wage increases that will be effective on or before loan closing must be included in the annual income calculation.

- Include the first $480 of earned income from adult full-time students who are not an applicant, or a spouse of an applicant.

- Include the income of an applicant’s spouse, unless the spouse has been living apart from the applicant for at least three months (for reasons other than military or work assignment), or court proceedings for divorce or legal separation have been commenced. Evidence to support living apart for three months may include, but is not limited to, an apartment lease, bills, or bank statements in their name alone delivered to a different address, etc. This guidance applies to domestic partners, significant others, and fiancée’s that are currently living with the applicant as a household/family unit. This guidance does not apply to adult

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dependents age 18 and up.

- An adult household member that is currently unemployed but is seeking new employment must have their previous earnings included in annual income. The previous earnings are not required to be included when there is documented evidence to support they are not seeking to be reemployed, such as a tendered resignation, official termination from previous employer, or a signed statement from the adult household member that they do not plan to pursue new employment.

- Income verifications provided by applicants that do not currently support historical earnings with the same employer (e.g. less hours worked, less overtime, less bonus, declining self-employment income, etc.) must be carefully reviewed to determine appropriate calculations.

- Verified changes of income amounts or sources in the ensuing 12 months must be documented. Examples include, but are not limited to, pending retirement, resignation tendered, documented raise that will occur prior to loan closing, etc.

- When an income source will not be received for the entire year, the amount anticipated to be received within the ensuing 12 months must continue to be included in annual income unless excluded under 7 CFR 3555.152(b)(5). Examples include, but are not limited to, child support, alimony, maintenance, Social Security, etc. Annual income is the total of all income sources for a 12-month timeframe. Income calculations must state the income source, the number of months receipt remaining for the ensuing 12- month timeframe, and the total amount to be received.

Lenders are responsible for accurately calculating annual household income. The calculation should be logical based on the history of income and documentation provided. Training is available on the USDA LINC Training and Resource Library website, located at https://www.rd.usda.gov/resources/usda-linc-training-resource-library/lender-training.

Annual income calculations will typically vary from adjusted annual and repayment income.

C. Income of Temporarily Absent Household Members

A household member is defined as all persons routinely living in the dwelling as a

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principal residence, except for live in aides, foster children, and foster adults (7 CFR 3555.10). If a member of the household that will make the dwelling their principal residence is temporarily absent, their income must be included.

D. Applicant Assets

Income earned from non-retirement assets may be required to be included in the annual income calculation, as applicable. Refer to paragraph 9.4 for guidance.

E. Verification Requirements

Lenders must verify income and asset documentation provided by applicants and other adult household members. Lenders will verify the income for each adult household member for the previous 2 years. The following guidance will assist:

- Written, oral, or electronic verifications, and documents provided or prepared by a third-party verification (TPV) vendor are acceptable, unless otherwise specified. These verifications must be provided directly to the lender.

- Lenders may not accept verifications or documents transmitted by, or passed through, an interested third party such as builders, real estate professionals, or sellers.

- Facsimiles, photocopies, digital images, and computer-generated documents may be accepted in lieu of original forms, unless otherwise specified.

- 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 alterations, erasures, “white-outs,” or similar indications that changes have been made.

- Verification documentation of household annual, adjusted annual, and repayment income will be retained in the lender’s permanent case file.

- Paystubs/earning statements must include adequate information to calculate income and include year-to-date earnings. The lender must utilize paystub(s)/earning statement(s) that are dated no earlier than 30 days prior to the

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initial loan application date.

- W-2 forms must include the most recent one or two years, as applicable. W-2s must clearly identify the applicant and employer.

- Lenders must obtain one of the following documents to verify previous employment: W-2, written VOE, electronic VOE, third-party verification, or evidence of applicable education or military service. Lenders may require additional documentation for previous employment when they determine it is needed to support their income calculations.

- Tax returns for self-employed borrowers must be copies of the original returns filed with the IRS and include all supporting schedules. Lenders may substitute IRS transcripts obtained directly from the IRS with all supporting schedules. The most recent tax return refers to the last return filed as determined by IRS schedule/deadlines. Lenders must continue to obtain the most recent two years of returns, as applicable. Applicants must not be delinquent on federal taxes as determined by the IRS.

- Applicants with an approved IRS extension for the current tax year may continue to be eligible if they are not delinquent on taxes owed, as determined by the IRS. Evidence of tax payments made, if applicable, must be retained in the lender's permanent loan file in accordance with Chapter 10 of this Handbook.

- Income and asset documents and verifications cannot be greater than 120 days old at time of loan closing. Divorce decrees, income tax returns, and other documents that do not expire will continue to have the most recent or filed copy accepted.

- Applicable income and asset documents greater than 120 days old at the time of loan closing must be updated or re-verified to support applicant/household eligibility.

For all loan types, lenders must verify the income for all applicants and adult household members (excluding eligible full- time students ages 18 and above) through one of the following documentation methods. Refer to Attachment 9-A for documentation and verification options that are acceptable to support income types.

1. ***Full Income Documentation – Non-Self-Employed***

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- W-2 forms for the most recent two tax years, which may be electronically generated or provided in paper format, or IRS Wage and Income transcripts;

- Paycheck stubs or payroll earning statements that report the most recent four weeks of earnings; and

- Prior to loan closing, a Verbal Verification of Employment (VVOE) must be obtained for all applicants within 10 business days of loan closing. A written verification or email confirmation (other than a paystub), that confirms the applicant's current employment status within this time frame is also acceptable. The documentation must include the name and title of the person who completed the verification for the employer. This verification will be retained in the lender's permanent loan file. Adverse changes to the applicant's employment may render the loan ineligible.

2. ***Alternative Income Documentation – Non-Self-Employed***

- Written Verification of Employment (VOE): Electronically generated verifications from the employer or a verification service utilized by the employer, Form RD 1910-5, *Request for Verification of Employment*, or an equivalent HUD, VA, Fannie Mae, or Freddie Mac form may be utilized to verify the current year-to-date (YTD) and previous year's employment earnings. This verification must confirm base income/wages, bonus, overtime, commissions, and other income sources earned, as applicable;

- Recent paycheck/earnings statement: Lenders must compare a recent paystub that includes YTD earnings and employment information to the VOE to confirm these two documents reasonably agree; and

- Prior to loan closing, a Verbal Verification of Employment (VVOE) must be obtained for all applicants within 10 business days of loan closing. A written verification or email confirmation (other than a paystub), that confirms the applicant's current employment status within this time frame is also acceptable. The documentation must include the name and title of the person who completed the verification for the employer. This verification will be retained in the lender's permanent loan file. Adverse changes to the applicant's employment may render the loan ineligible.

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3. *Self-Employed Income Documentation*

Applicants or household members are considered self-employed when they have a 25 percent or greater ownership interest in a business. If the ownership interest is less than 25 percent, neither the "Business Owner" or "Self-Employed" options should be selected in GUS.

Federal Income Tax Returns for the business will be required when ownership is 25 percent or greater. The lender must analyze the most recent two-year history of the business earnings. Sharp increases or decreases in self-employment income may require the lender to review additional documentation to support their calculation of annual, adjusted annual, and repayment income. Sharp increases or decreases are defined as a 20 percent or greater variance for income earnings from the previous 12 months. The lender's permanent file must contain the following, as applicable:

- Federal Income Tax Returns (filed and signed) for the most recent two consecutive years with all schedules, or IRS transcripts that include all applicable schedules;
- Federal Income Tax Returns for the business (filed and signed) for the most recent two consecutive years with all schedules, or IRS transcripts that include all applicable schedules, if required for the ownership interest/business type;
- Recent profit and loss statement (not required to be audited); and
- Confirmation the business is operational, obtained within 30 days of the loan closing. Documentation may include evidence of a website, additional internet documentation, licensing bureau certification, etc. Adverse changes to the business may render the applicants ineligible.

Lenders may utilize Fannie Mae Form 1084, *Cash Flow Analysis*, Fannie Mae Form 1088, *Comparative Income Analysis*, or a comparable self-employment evaluation form(s), and Attachment 9-E to assist in the calculation of self-employment income.

A business (full time or part-time) that is closed may be removed from consideration for annual income when the applicants provide a letter of explanation

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and documentation to the lender which details: 1. When the business was closed; 2. Why the business was closed; 3. How the business was closed; and 4. Evidence, satisfactory to the lender, to support the closure of the business.

REMINDER: Refer to Attachment 9-A for documentation options and verification requirements of additional income and asset types that may apply to the household. If a specific income or asset type is not listed, refer to 7 CFR 3555.152. All income and asset types must be documented and verified. The lender must retain all documentation and calculations in their permanent loan file.

4. IRS Transcripts: Verification of Income

IRS transcripts are required for all required household members in addition to the documentation option selected by the lender. Lenders must require each adult household member, as applicable, to complete and sign IRS Form 4506-T, *Request for Transcript of Tax Return,* IRS Form 4506-C, *IVES Request for Transcript of Tax Return,* or IRS Form 8821, *Tax Information Authorization,* for the previous two tax years at the time of submission to the Agency. The 4506-T/4506-C/8821 must be used to request full transcripts with all schedules.

Full time students ages 18 and up that are not the applicant, co-applicant, or spouse of an applicant are not required to sign the 4506-T/4506-C/8821 or have transcripts provided.

Guaranteed loans cannot be made to a household that exceeds the applicable adjusted annual income limit. The transcripts provide a quality control measure to ensure all income and asset earnings reported to the IRS have been disclosed to the lender.

Lenders must obtain and review available transcripts prior to loan closing and retain them in their permanent loan file.

Previously unknown/undisclosed income or asset sources that are identified by the transcripts will require additional review by the lender and may render a loan file ineligible.

The lender is responsible for requesting tax transcripts in the early stages of the application process. When the lender is unable to obtain transcripts from the IRS for the applicants or required household members, they may document their

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correspondence to and from the IRS in the permanent loan file to support the omission. The loan file will be considered complete when the explanation is documented. Loan closings will not be delayed due to obstacles in obtaining the tax transcripts.

9.4 CALCULATING INCOME FROM ASSETS [7 CFR 3555.152(d)]

Household members with cumulative net family assets (non-retirement) of $50,000 or greater, must have those assets reviewed for annual income purposes, as indicated in 7 CFR 3555.152(d). Lenders must review the most recent asset information provided by applicants and household members at the time of loan application. Net family assets with actual earnings will use the stated rate of interest to calculate annual income. Net family assets that do not earn interest will use a current passbook savings rate (verified through the lender's personal banking rates, online website, etc.) to calculate annual income.

If the applicants have ownership in a business, or are self-employed, the lender should closely review the asset accounts to verify assets are not transferred between a personal account and a business account and vice versa. These accounts should function as two separate financial tools, one for personal transactions and one for business transactions. In the event the assets from the business account and personal account are co-mingled, the co-mingled assets would need to be included in the calculation of net family assets.

Refer to the Asset section in Attachment 9-A for individual asset types and options for documentation/verification.

9.5 ADJUSTED ANNUAL INCOME [7 CFR 3555.152(c)]

The adjusted annual income calculation will determine if the household is eligible for the guaranteed loan program. Adjusted annual income is calculated by using the annual income calculation and subtracting any of the eligible deductions in 7 CFR 3555.152(c) for which the household may qualify. Attachment 9-C provides an example of using deductions.

Refer to Attachment 9-A for information and documentation options to support these eligible deductions:

- Dependents

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- Child Care Expenses
- Elderly Household
- Care of Household Members with Disabilities
- Medical Expenses

9.6 AGENCY REVIEW OF HOUSEHOLD INCOME

The Agency will recalculate the lender's determination of adjusted annual income, as a quality control step, when the lender's calculation is within 10 percent of the applicable published income limit. The Agency review is only required for manually underwritten loans, defined as application types that are not supported by GUS and applications submitted to GUS that have received an underwriting recommendation of Refer or Refer with Caution.

If the Agency's calculation exceeds the adjusted annual income threshold, the Agency will contact the approved lender to review the results and determine the appropriate calculation. This review will ensure adjusted annual household income calculations are correctly computed and include all applicable income. The Agency will complete Attachment 9-F, *Worksheet for Documenting Eligible Household and Repayment Income*, to record their calculation, which will then be uploaded to the Electronic Customer File (ECF).**SECTION 2: REPAYMENT INCOME [7 CFR 3555.152(a)]**

9.7 OVERVIEW

Repayment income will determine if applicants have sufficient income to repay the mortgage in addition to recurring debts. Repayment income calculations often differ from the calculation of annual and adjusted annual income.

Repayment income is the stable and dependable income of the applicants who will be parties to the note. Co-signers and non-occupant co-borrowers are not permitted for a guaranteed loan transaction.

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9.8 STABLE AND DEPENDABLE INCOME [7 CFR 3555.152(a)]

7 CFR 3555.152(a) and Attachment 9-A assist lenders in reviewing income types. The following guidance also assists lenders to consider repayment income sources:

- The income source must be documented.
- There must be evidence to support the historical receipt of earnings.
- Establish the likelihood of its continuance for at least 3 years into the mortgage.
- Analyze any gaps in employment to make a final determination of stable and dependable income. The Agency does not impose specific criteria regarding when a gap in employment is acceptable. It is the approved lender's responsibility to analyze the complete employment history to determine stable and dependable income.
- Caution should be utilized for applicants that have documented declining wages or earnings. Lenders must ensure repayment income is not inflated/overstated.
- Caution should be utilized for applicants that have a documented sharp increase in earnings. A sharp increase in earnings is defined as a 20 percent or greater variance in income from the previous 12 months. Lenders must determine if an increase is supported and logical. Examples include, but are not limited to, a promotion with the current employer, documented pay raise, income trend analysis for overtime, bonus, commission, seasonal employees, etc.
- Caution should be utilized for applicants that have a documented decrease in earnings. A documented decrease in earnings is defined as a 20 percent or greater variance in income from the previous 12 months. Lenders must determine if the decrease has/will continue or if there is evidence to support the earnings have stabilized. Examples include, but are not limited to, loss of job but new employment secured with lower wages, new profession/line of work, loss of contract/clients, economic cycle impact such as real estate, finance/lending, manufacturing, construction, etc.

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- Lenders may gross up income that is not subject to Federal taxes 25 percent.

- Any loss incurred by a self-employed business (full time or part-time) that is closed may be removed from consideration when the applicants provide a letter of explanation and documentation to the lender which details: 1. When the business was closed; 2. Why the business was closed; 3. How the business was closed; and 4. Evidence, satisfactory to the lender, to support the closure of the business.

REMINDER: Approved lenders are responsible for their underwriting decisions, which includes the determination of stable and dependable income. Loans that default within 60 months of the date the Loan Note Guarantee is issued may result in indemnification from the approved lender to USDA due to unauthorized underwriting per 7 CFR 3555, HB-1-3555, and additional published USDA guidance.

9.9 AGENCY REVIEW OF REPAYMENT INCOME

The Agency will recalculate the lender's determination of repayment income, as a quality control step, when the repayment ratios are within 10 percent of the published debt ratio threshold of 7 CFR 3555.151(h). The Agency review is only required for manually underwritten loans, defined as application types that are not supported by GUS and applications submitted to GUS that have received an underwriting recommendation of Refer or Refer with Caution.

If the Agency's calculation does not agree with the repayment income calculation of the lender, the Agency will contact the approved lender to review the results and determine the appropriate calculation. This action will strengthen the oversight procedures to verify compliance with regulatory requirements. The Agency will complete Attachment 9-F, *Worksheet for Documenting Eligible Household and Repayment Income*, to record their calculation, which will then be uploaded to the Electronic Customer File (ECF).

9.10 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 adjusted annual income deductions as follows:

- Verification of Pensions and Annuities

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- 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

9.11 EDUCATION

The Agency will allow time spent in school towards the required employment history for repayment income This includes college, technical school, and career-based certificates in high school (e.g. health and public safety career tracks). A standard high school diploma without an accompanying certificate does not meet the time requirements.

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ATTACHMENT 9-A

Income and Documentation Matrix

Income guidance: 7 CFR 3555, Sections 3555.152(a) and (b)

This matrix cannot cover every income/asset type, employment scenario, etc. USDA requires approved lenders to use sound judgment to make an accurate and dependable analysis of income per 7 CFR 3555.152. Exclusions may apply under 7 CFR 3555.152(b)(5) and Attachment 9-D.

Considerations for Income Calculations

- Lenders must verify the income for each adult household member for the previous 2 years.
- Annual and adjusted annual income calculations must include all eligible income sources from all adult household members, not just parties to the loan note.
- Annual income is calculated for the ensuing 12 months, based on income verifications, documentation, and household composition.
- Include only the first $480 of earned income from adult full-time students who are not the applicants, or a spouse of an applicants in annual and adjusted annual income.
- Income from assets that meet the criteria of Section 9.4 must be included in annual and adjusted annual income.
- Repayment income calculations include the income sources of the applicants who will be parties to the note that meet the minimum required history identified in this matrix and have been determined to be stable and dependable income by the approved lender.
- Income used in repayment income calculations must be confirmed to continue a minimum of three years into the mortgage.
- If the income is tax exempt, it may be grossed up 25 percent for repayment income.
- "Documentation Source Options" lists eligible documentation. Every item listed is not required unless otherwise stated. Lenders must obtain and maintain documentation in the loan file supporting the lender's income calculations.

Income Type	Annual Income	Repayment Income
Adoption Assistance or Subsidy	If the income will be received in the ensuing 12 months, include the first $480 of adoption income or subsidy assistance for each grantee.	**Required History:** None, the income must be received at the time of submission to the Agency. Lenders must document: o The applicants are currently receiving the income; and o The amount of the income received each month. Benefits that do not include expiration dates on the documentation will be presumed to continue.

Documentation Source Options:

- Benefit/Award letter to document the amount and duration of payments.
- Online payment schedule from the Agency, bank statements, etc.
- Federal income tax returns or IRS tax transcripts with all schedules.

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Income Type	Annual Income	Repayment Income
Automobile Allowance	Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months.	**Required History:** Two years **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease. The full amount of the expense allowance may be included. Refer to Chapter 11 for additional guidance when there is a monthly debt associated with the income (such as a car payment).
Documentation Source Options: • Paystub(s)/Earning statement(s). • Contract/agreement from employer to state terms and duration of payments. • Federal income tax returns or IRS tax transcripts with all schedules.		
Base Wages (Hourly or Salary) Full or Part Time	Include amounts received before deductions for payroll taxes, insurance, etc. Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5). Full time students age 18 and above that are not applicants, co-applicants, or a spouse of an applicant will only have $480 of their earnings included in the annual income calculation. These household members are not required to present income documentation.	**Required History:** One year Income must be received at the time of submission to the Agency. The one year of required history may be met through a combination of employers, education, or military service. This history is not required to be with the same or current employer. Applicants that were on leave with their employer due to maternity/paternity leave, medical leave, relocation, etc. remain employed. Underwriters may use discretion for applicants returning to the workforce after leaving a previous job to care for a child/family member, complete education, etc. for an extended time of one year or greater.
Documentation Source Options: • Paystub(s)/Earning statement(s). • W-2s. • Written Verification of Employment (VOE) or electronic verifications. • Federal income tax returns or IRS tax transcripts with all schedules. • Section 9.3E provides additional information on employment verification options.		

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Income Type	Annual Income	Repayment Income
Boarder Income Guaranteed loans are for the purchase of a primary residence. Boarder income refers to rental income received from an individual renting space inside the dwelling, thus making the property income producing. The financing of income producing property is an ineligible loan purpose for the SFHGLP.	Ineligible	Ineligible
Bonus	Include amounts that will be received in the ensuing 12 months based on employment verifications. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** One year in the same, or similar, line of work. Underwriters must analyze bonus income for the current pay period and YTD earnings. Significant variances (increase or decrease) of 20 percent or greater in income from the previous 12 months must be analyzed and documented (e.g. paid once annually, paid monthly, etc.) before considering the income stable and dependable. **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease.
Documentation Source Options: • Paystub(s)/Earnings statement(s). • W-2s. • Written VOE or electronic verifications. • Federal income tax returns or IRS tax transcripts with all schedules. • Section 9.3E provides additional information on employment verification options.		
Capital Gains	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** Two years Lenders must analyze the previous two years of capital gains income. An average of the previous two years may be logical, or if the current year was 20 percent less than the previous year, the lesser must be utilized.
Required Documentation: • Federal income tax returns or IRS transcripts with all schedules. • Evidence of additional property or assets retained by the applicants through title, bank statements, etc.		

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Income Type	Annual Income	Repayment Income
Child Support	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5). Legally enforceable payments that have not been received may be excluded when payments are not received for an extended time and a reasonable effort has been made to collect them through the official entity responsible for enforcing such payments.	Court Ordered Payments: **Required History:** Six months Child support that meets the minimum history, but the payment amounts are not consistent, must use an average consistent with the payor's current ability/willingness to pay. Voluntary Payment Agreements: **Required History:** One year Child support that meets the minimum history, but the payment amounts are not consistent, must use an average consistent with the payor's current ability/willingness to pay.
Documentation Source Options: • Final divorce decree, legal separation agreement, or court order (front and pertinent pages) to document the amount and timeframe of the obligation. • Evidence of timely receipt/consistent amount for required history: bank statements, canceled checks, deposit slips, tax returns, etc.		
Commission	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** One year in the same, or similar, line of work. Underwriters must analyze commission for the current pay period and YTD earnings. Significant variances (increase or decrease) of 20 percent or greater in income from the previous 12 months must be analyzed and documented (e.g. variances due to seasonal/holiday, etc.) before considering the income stable and dependable. **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease.
Documentation Source Options: • Paystub(s)/Earning statement(s). • W-2s. • Written VOE or electronic verifications. • Federal income tax returns or IRS tax transcripts with all schedules. • Section 9.3E provides additional information on employment verification options.		

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Income Type	Annual Income	Repayment Income
Contract / Employment Offer	Include amounts that will be received in the ensuing 12 months based on employment verifications.	**Required History:** One year The one year of required history may be met through a combination of employers, education, or military service. This history is not required to be with the same or current employer. Applicants moving to a new employer (e.g. school district, same profession, etc.) with a contract to begin employment within 60 days of loan closing may be eligible if the underwriter determines the applicants have reserves available post loan closing to cover all monthly liability payments and the new mortgage obligation until employment begins.
Documentation Source Options: • Copy of signed employment contract/offer. • Paystub(s)/Earning statement(s) of current/former employer to confirm employment/income history. • W-2s. • Written Verification of Employment (VOE) or electronic verifications. • Federal income tax returns or IRS tax transcripts with all schedules. • Section 9.3E provides additional information on employment verification options.		
Depreciation/Depletion	The amount(s) of straight-line depreciation and/or depletion documented on acceptable IRS forms may be deducted.	**Required History:** Two years **Continuance:** These amounts will be presumed to continue unless there is documented evidence they will cease. The amount(s) of straight-line depreciation and/or depletion may be added back to repayment income.
Required Documentation: • Federal income tax returns or IRS tax transcripts with all schedules.		

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Income Type	Annual Income	Repayment Income
Disability Income – Long Term This section does not refer to disability income received from the Social Security Administration.	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** None, the income must be received at the time of submission to the Agency. Lenders must document: o The applicants are currently receiving the income; o The amount of the income received each month; and o Determine if there is a contract termination or modification date.
Documentation Source Options: • Verification from the disability policy or benefits provider to document the applicant's eligibility for benefits, amount and frequency of payments, and termination/modification date. • Federal income tax returns or IRS transcripts with all schedules.		
Dividends	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** Two years
Required Documentation: • Account statements to support amount of income utilized for repayment purposes, including the balance, rate of interest, and payment amounts/continuance. • Federal income tax returns or IRS tax transcripts with all schedules.		
Earned Income Tax Credit	Do not include	Do not include
Employee Fringe Benefits	Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** One year Employer-provided fringe benefit packages documented on earning statements as taxable income may be included.
Documentation Source Options: • Paystub(s)/Earning statement(s). • Contract/agreement from employer to state terms and duration of payments. • Written VOE or electronic verifications. • Federal income tax returns or IRS tax transcripts with all schedules. • Section 9.3E provides additional information on employment verification options.		

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Income Type	Annual Income	Repayment Income
Employment Related Account This income source may be a non-self-employed severance package. Lump sum retirement packages should refer to Retirement Income. All payments must be deposited to a verified asset account with acceptable documentation of receipt.	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** None, the income must be received at the time of submission to the Agency. Lenders must document: o The applicants are currently receiving the income; o The amount of the income received each month; and o Determine if there is a contract termination or modification date.
Required Documentation: • Contract/agreement from employer to state terms and duration of payments. • Benefit/Award verification letter, IRS 1099, evidence of current receipt, bank statements, etc. • Federal income tax returns or IRS transcripts with all schedules.		
Expense Allowance	Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** Two years **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease. The full amount of the expense allowance may be included. Refer to Chapter 11 for additional guidance when there is a monthly debt associated with the income.
Documentation Source Options: • Paystub(s)/Earning statement(s). • Contract/agreement from employer to state terms and duration of payments. • Federal income tax returns or IRS tax transcripts with all schedules.		
Foreign Income	Include all wages, salaries, and additional income types that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** One year (Refer to Base Wages) **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease.
Documentation Source Options: • Paystub(s)/Earning statement(s), translated into English if applicable. • Written VOE or electronic verifications. • Federal income tax returns or IRS tax transcripts with all schedules. • Section 9.3E provides additional information on employment verification options.		
Foster child or adult income	Do not include	Do not include

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Income Type	Annual Income	Repayment Income
GI Bill This income source is paid directly to veterans and/or their dependents attending college or university for the purpose of covering tuition and related expenses.	Do not include	Do not include
Government Benefits	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5) and Attachment 9-C.	**Required History:** None, the income must be received at the time of submission to the Agency. Lenders must document: o The applicants are currently receiving the income; and o The amount of the income received each month. **Continuance:** Benefits that do not include expiration dates on the documentation will be presumed to continue.
Required Documentation: • Benefit/Award documentation to support payment amounts and duration.		
Guardianship/Conservatorship Income This guidance does not apply to income earned from foster care.	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** None, the income must be received at the time of submission to the Agency. Lenders must document: o The applicants are currently receiving the income; and o The amount of the income received each month. **Continuance:** Benefits that do not include expiration dates on the documentation will be presumed to continue.
Documentation Source Options: • Documentation to support payment amounts and duration, such as a court order, legal documents, or other supplemental information. • Online payment schedule from the Agency, bank statements, etc. • Federal income tax returns or IRS tax transcripts with all schedules.		

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Income Type	Annual Income	Repayment Income
Housing or Parsonage Allowance	Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months.. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** One year The full amount of the allowance may be included. Do not offset the mortgage payment with the amount of the allowance. **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease.
Documentation Source Options: • Paystub(s)/Earning statement(s). • Contract/Agreement from employer to state the terms and duration of payments. • Federal income tax returns or IRS tax transcripts with all schedules.		
Individual Retirement Account (IRA) Distributions	Include amounts that will be received in the ensuing 12 months. Lump sum withdrawals or sporadic payments may be excluded under 7 CFR 3555.152(b)(5).	**Required History:** None, the income must be received at the time of submission to the Agency. Lenders must document: o The applicants are currently receiving the income; and o The amount of income received each month. **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease.
Documentation Source Options: • IRA documents, IRS 1099, evidence of current receipt, bank statements, etc. • Federal income tax returns or IRS tax transcripts with all schedules.		
Interest	Include income that will be received in the ensuing 12 months. Net family assets that do not exceed a cumulative total of $50,000 are not required to be considered in the annual income calculation.	**Required History:** Two years
Required Documentation: • Account statements to support the balance, rate of interest, and payment amounts/continuance. • Federal income tax returns or IRS tax transcripts with all schedules.		
Live in Aides	Do not include	Do not include

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Income Type	Annual Income	Repayment Income
Medical Reimbursement	Do not include	Do not include
Mileage	Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months.	**Required History:** One year **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease. Mileage documented on earning statements as taxable income may be included. When a mileage deduction is claimed on the income tax return, the calculated amount may be added to repayment income. Lenders must follow current IRS guidance to calculate this amount.
Documentation Source Options: • Paystub(s)/Earning statement(s). • Federal income tax returns or IRS tax transcripts with all schedules.		
Military	Include all wages and pay allowances that will be received in the ensuing 12 months. Hazardous duty pay and additional income sources may be excluded under 7 CFR 3555.152(b)(5).	**Required History:** One year College/Technical School attendance may be substituted. **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease. In addition to base pay, military personnel may be entitled to additional forms of pay. Income sources such as basic allowance for housing and subsistence (BAH/BAS), clothing allowances, flight or hazard pay, rations, and proficiency pay may be used for repayment income provided it is verified to continue. Additional consideration for the tax-exempt nature of these payments may be applied.

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Documentation Source Options: • Military Earnings and Leave Statement(s). • W-2s. • Written VOE or electronic verifications. • Federal income tax returns or IRS tax transcripts with all schedules. • Section 9.3E provides additional information on employment verification options.

Income Type	Annual Income	Repayment Income
Mortgage Credit Certificate	Do not include	**Required History:** None The monthly benefit amount may be included in repayment income. **Self-employed applicants are not eligible for MCC.**
Required Documentation: • Copy of the approved MCC award letter/contract with the rate of credit documented. **GUS Instructions:** • In the "Borrower Information" page under "Income from Other Sources," use the dropdown button in the "Income Source" field and select "Mortgage Credit Certificate." Tab to the "Monthly Income" field and enter the amount.		
Mortgage Differential Payment	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** One year Include the differential payment in repayment income. Do not offset the mortgage payment with the amount of the allowance. **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease.
Required Documentation: • Verification from the employer to confirm the subsidy amount and duration of payments.		
Notes Receivable	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** Two years
Required Documentation: • Copy of note to establish the amount and length of time of payment. • Federal income tax returns or IRS transcripts with all schedules, for proof of receipt of income.		

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Income Type	Annual Income	Repayment Income
Overtime	Include amounts that will be received in the ensuing 12 months based on employment verifications. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** One year in the same, or similar, line of work. **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease. Underwriters must analyze overtime for the current pay period, and YTD earnings. Significant variances (increase or decrease) of 20 percent or greater in income from the previous 12 months must be analyzed and documented (e.g. variances due to seasonal/holiday, etc.) before considering the income stable and dependable.
Documentation Source Options: • Paystub(s)/Earning statement(s). • W-2s. • Written VOE or electronic verifications. • Federal income tax returns or IRS tax transcripts with all schedules. • Section 9.3E provides additional information on employment verification options.		

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Income Type	Annual Income	Repayment Income
Pensions	Include amounts that will be received in the ensuing 12 months. Lump sum withdrawals or sporadic payments may be excluded under 7 CFR 3555.152(b)(5).	**Required History:** None, the income must be received at the time of submission to the Agency. Lenders must document: o The applicants are currently receiving the income; and o The amount of the income received each month. **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease.
Documentation Source Options: • Benefit/Award verification letter, retirement documents, IRS 1099, evidence of current receipt, bank statements, etc. • Federal income tax returns or IRS tax transcripts with all schedules.		
Per Diem	Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** One year Taxable income may be included. **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease.
Documentation Source Options: • Paystub(s)/Earning statement(s). • Contract/agreement from employer to state terms and duration of payments. • Federal income tax returns or IRS tax transcripts with all schedules.		

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Income Type	Annual Income	Repayment Income
Rental Income A retained dwelling must meet the requirements of 7 CFR 3555.151(e).	Include positive net rental income that will be received in the ensuing 12 months. Negative net rental income is counted as zero in the annual income calculation.	**Required History**: Two years <u>Rents Received 24 Months or More</u> Positive net rental income received may be included in the repayment income. Negative net rental income is treated as a recurring liability in the debt ratios. Refer to Chapter 11 for additional guidance when there is a mortgage liability associated with the rental income. <u>Rents Received Less than 24 Months</u> No rental income may be included for repayment purposes. Negative net rental income is treated as a recurring liability in the debt ratios. Refer to Chapter 11 for additional guidance when there is a mortgage liability associated with the rental income.
Required Documentation: • Federal income tax returns with all schedules, specifically Schedule E; or • IRS transcripts with all schedules, confirm Schedule E is completed. • Evidence of cash/check deposits, money order receipts, electronic payment receipt, etc. to document rents received for last 30 days. • Signed lease of current occupants. **GUS Instructions:** • Complete the applicable fields in the "Real Estate" page. Include the corresponding mortgage debt associated with the property, if applicable. • Unless manually overwritten, GUS auto-calculates net rental income by employing a 25% vacancy factor. GUS uses 75% of the lender entered amount for monthly rental income and subtracts the lender entered amounts for monthly mortgage payment(s), insurance, taxes, association dues, etc.		
Restricted Stock Units (RSU)	Include amounts listed as taxable income on the pay statements as gross earnings that will continue to be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** Two years
Required Documentation: • RSU account statements or award letters. • Paystubs, VOE's, or other documentation from the employer to support previous and future payments.		

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Income Type	Annual Income	Repayment Income
Retirement	Include amounts that will be received in the ensuing 12 months. Lump sum withdrawals or sporadic payments may be excluded under 7 CFR 3555.152(b)(5).	**Required History:** None, the income must be received at the time of submission to the Agency. Lenders must document: o The applicants are currently receiving the income; and o The amount of the income received each month. **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease.
Documentation Source Options: • Benefit/Award verification letter, retirement documents, IRS 1099, evidence of current receipt, bank statements, etc. • Federal income tax returns or IRS tax transcripts with all schedules.		
Royalty Payments	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** Two years Lenders must confirm the amount, frequency, and duration of these payments.
Required Documentation: • Royalty contract or agreement. • Federal income tax returns or IRS transcripts including all schedules.		
Schedule K-1 This may be utilized to document income for applicants with less than a 25 percent ownership of a partnership, S corporation, limited liability company (LLC), ordinary income, net rental real estate income, or other net rental income reported on IRS Form 1065, 1120S, etc.	Include monetary amounts (cash distributions) that will be received in the ensuing 12 months. Distributions of equipment, shares of real estate interest/ownership, non-monetary items, etc. are not included in the annual income.	**Required History:** Two years Schedule K-1 income may be utilized to qualify applicants if the lender can confirm the business has adequate liquidity to support the withdrawal of earnings. The Schedule K-1 may provide this confirmation through "guaranteed payments to the partner." **Continuance:** These amounts will be presumed to continue unless there is documented evidence they will cease.
Required Documentation: • Federal tax returns or IRS transcripts with all schedules. • Schedule K-1 forms.		

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Income Type	Annual Income	Repayment Income
Scholarships	Include funds that will be received in the ensuing 12 months after deducting for tuition, fees, books and equipment.	**Required History:** Two years Include remaining funds after deducting tuition, fees, books, and equipment.
Required Documentation: • Award letter to state the benefit/scholarship amount or tuition assistance and date of termination. • Evidence to support the deductions required to arrive at any repayment amount.		
Seasonal Employment	Include amounts that will be received in the ensuing 12 months. Evidence of resignation, termination, retirement, or relocation from these positions may result in the exclusion of this income.	**Required History:** Two years, in the same line of work. If the income is not earned at the time of submission to the Agency, the employer must provide verification that the applicants are still an employee along with an anticipated return to work date. **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease.
Documentation Source Options: • Paystub(s)/Earning statement(s). • W-2s. • Written VOE or electronic verifications. • Federal income tax returns or IRS tax transcripts with all schedules. • Section 9.3E provides additional information on employment verification options.		
Secondary Employment	Include amounts that will be received in the ensuing 12 months. Evidence of resignation, termination, retirement, or relocation from these positions may result in the exclusion of this income.	**Required History:** One year of working primary and secondary employment concurrently. **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease.
Documentation Source Options: • Paystub(s)/Earning statement(s). • W-2s. • Written VOE or electronic verifications. • Federal income tax returns or IRS tax transcripts with all schedules. • Section 9.3E provides additional information on employment verification options.		

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Income Type	Annual Income	Repayment Income
Section 8 Housing Vouchers	Do not include	**Required History:** None The amount of the benefit payment may be included in repayment income. When the benefit is paid directly to the servicer, the amount of the benefit may be considered as a reduction of the PITI, rather than an addition to repayment income. A manual file submission is required in this instance.
Required Documentation: • Benefit/Award letter to verify the subsidy amount. • When used as a reduction of the PITI, documentation verifying the benefit is paid directly to the servicer must be maintained in the lender's permanent loan file. **GUS Instructions:** • Enter the amount on the "Borrower Information" page under "Income from Other Sources." Use the dropdown button in the "Income Source" field and select "Housing Choice Voucher Program." Tab to the "Monthly Income" field and enter the amount.		
Self-Employment Income and Independent Contractors (1099)	Lenders must analyze Federal tax returns to determine the appropriate gross income calculations. Include zero in annual income for a business loss.	**Required History:** Two years Lenders must analyze Federal tax returns to determine the appropriate gross income. Depreciation, depletion, business use of home, and other paper deductions may be allowed to be added back to the net profit/loss. Lenders may refer to Fannie Mae Form 1084 or comparable self-employment analysis form for assistance. A business loss must be deducted from repayment income.
Required Documentation: • Most recent two years of Federal income tax returns or IRS tax transcripts with all schedules; and • YTD Profit and Loss Statement (audited or unaudited), used for income trend analysis.		

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Income Type	Annual Income	Repayment Income
Separate Maintenance/Alimony	Include amounts that will be received in the ensuing 12 months. Legally enforceable payments that have not been received may be excluded when payments are not received for an extended period of time and a reasonable effort has been made to collect them through the official entity responsible for enforcing such payments.	Court Ordered Payments: **Required History:** Six months Maintenance that meets the minimum history, but the payment amounts are not consistent must use an average that is consistent with the payor's current ability/willingness to pay. Voluntary Payment Agreements: **Required History:** One year Maintenance that meets the minimum history, but the payment amounts are not consistent must use an average that is consistent with the payor's current ability/willingness to pay.
Required Documentation: • Final divorce decree, legal separation agreement, or court order (front and pertinent pages) to document the amount and timeframe of the obligation. • Evidence of timely receipt and consistent amount for required history: bank statements, canceled checks, deposit slips, tax returns, etc.		
Social Security Income	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** None, the income must be received at the time of submission to the Agency. Benefits that do not include an expiration date and are expected to be received for at least three years into the mortgage may be considered. Benefits received by applicants on behalf of minors (funds are intended for their support) may be utilized for repayment income if they are expected to be received for at least three years into the mortgage. Benefits received by applicants on behalf of an adult household member may be used for repayment income if they are expected to be received for at least three years into the mortgage when there is evidence they are the legal guardian for the non-applicant adult household member.
Documentation Source Options: • Benefit statement from the Social Security Office or Form SSA-1099/1042S, Social Security Benefit Statement. • Legal guardianship/payee status for adult household members.		

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Income Type	Annual Income	Repayment Income
Student Loans	Do not include	Do not include
Supplemental Nutrition Assistance Program (SNAP)	Do not include	Do not include
Temporary Leave Income/Temporary Reduction to Income with current employer This guidance is for applicants that are currently employed. This guidance does not apply to applicants that are currently unemployed.	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(a)(5).	**Required History:** None, the income must be received at the time of loan closing. The lender must obtain all the following from the employer: o Verification the applicants have the right to return to work following the leave; o Documentation of the applicant's return date; o Verification of the duration and amount of temporary leave income; and o Documentation of regular employment prior to temporary leave. Applicants that will return to work prior to the first mortgage payment may use their pre-leave income. Applicants that will not return to work prior to the first mortgage payment must use their current income received (which may be zero) plus non-retirement liquid reserves. Reserves must meet the required history and calculations in the Asset and Reserves section of this matrix. The total of income and assets must meet the mortgage obligation and additional monthly liability payments until the applicant's date of return to work. Lenders must document their calculation of income plus reserves divided by applicable months on Attachment 9-B, the Uniform Underwriting and Transmittal Summary, or on an alternate underwriting form.
Documentation Source Options: • All employer verifications required by this section. • Benefit statement/Contract. • Paystub(s)/Earning statement(s). • Written VOE or electronic verification. • Section 9.3E provides additional information on employment verification options.		

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Income Type	Annual Income	Repayment Income
Tips	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** One year Underwriters must analyze tip income for the current pay period, and YTD earnings. Significant variances (increase or decrease) of 20 percent or greater in income from the previous 12 months must be analyzed and documented (e.g. variances due to seasonal/holiday/etc.) before considering the income stable and dependable. **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease.
Documentation Source Options: • Paystub(s)/Earning statement(s). • W-2s. • Written VOE or electronic verifications. • Federal income tax returns or IRS tax transcripts with all schedules. • Section 9.3E provides additional information on employment verification options.		
Trust Income	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** Six months
Required Documentation: • Trust documents: legally filed or recognized to document the balance, monthly payments, term of payments, mode of payment delivery (revocable or irrevocable), etc. • Documentation to support payments received: bank statements, deposit slips, trust account statements, etc.		
Unemployment	Include amounts that will be received in the ensuing 12 months. Benefits received while seeking new full/part time employment that have ended are excluded under 7 CFR 3555.152(b)(5)(v).	**Required History:** Two years **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease. Applicants with a sole source of unemployment income are ineligible for a guaranteed loan.
Documentation Source Options: • Evidence of compensation: IRS Form 1099 or equivalent. • Federal income tax returns or IRS tax transcripts with all schedules.		

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Income Type	Annual Income	Repayment Income
Unreimbursed Employee or Business Expenses	The total amount of unreimbursed expenses may be deducted from annual and adjusted annual income.	**Required History:** None The amount(s) of unreimbursed employee or business expenses deducted from the annual income must also be deducted from repayment income.
Documentation Source Options: • IRS Form 2106, Schedule A, Schedule C, or equivalent IRS filed form. • Federal income tax returns or IRS tax transcripts with all schedules.		
VA Benefits	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** None, the income must be received at the time of submission to the Agency. Lenders must document: o Applicants are currently receiving the income; and o The amount of the income received each month Benefits with no expiration date stated will be presumed to continue. Benefits received by applicants on behalf of minors (funds are intended for their support) may be utilized for repayment income. Benefits received by applicants on behalf of an adult household member may be used for repayment income when there is evidence they are the legal guardian for the non-applicant adult household member.
Documentation Source Options: • Benefit statement from the Office of Veteran's Affairs. • Legal guardianship/payee status for adult household members.		

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Income Type	Annual Income	Repayment Income
Variable Income (e.g. piece rate, union work, and other similar types of pay structures)	Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 7 CFR 3555.152(b)(5).	**Required History:** One year, in the same or similar line of work. Underwriters must analyze variable income earnings for the current pay period and YTD earnings. Significant variances (increase or decrease) of 20 percent or greater in income from the previous 12 months must be analyzed and documented (e.g. variances due to seasonal/holiday, etc.) before considering the income stable and dependable. **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease.
Required Documentation: • Paystub(s)/Earning statement(s). • W-2s. • Written VOE or electronic verifications. • Federal income tax returns or IRS tax transcripts with all schedules. • Section 9.3E provides additional information on employment verification options.		
Worker's Compensation	Include amounts that will be received in the ensuing 12 months. Lump sums or sporadic payments may be excluded under 7 CFR 3555.152(b)(5).	**Required History:** Six months .
Required Documentation: • Award letter or settlement to state amount and duration of payments. • Earnings statements/Paystubs. • Written VOE from employer.		

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Adjusted Annual Income Deductions
7 CFR 3555.152(c)
Dependent Deduction [7 CFR 3555.152(c)(1)]: • $480 deduction per eligible dependent at the time of submission to the Agency. • Applicants with shared custody may include their child(ren).
Documentation Source Options: • Certify to the number of household members in GUS. • List all household members in GUS and Attachment 9-B, the lender's Uniform Underwriting Transmittal Summary (FNMA Form 1008/Freddie Mac Form 1077), or equivalent.
Child Care Expenses [7 CFR 3555.152(c)(2)]: • Care for children age 12 and under. • Care is necessary to enable a family member to work, seek employment, or attend school. • Calculate anticipated child care expenses for the ensuing 12 months. • Applicants that have not placed their child into care or have no evidence to support payments, deposits, or registration fees are ineligible for this deduction. • Child care expenses that exceed the earnings of the family member enabled to work are not permissible for deduction.
Documentation Source Options: • Utilize income tax returns, receipts, or third- party verifications provided by a licensed child care facility or provider on letterhead that 1. Identifies the child enrolled; 2. Date of enrollment; 3. Payment due; and 4. Payment history. • Relatives or non-licensed private individuals who provide care must also provide evidence of payments made (e.g. canceled checks, money order receipts, bank statements, etc.). • Child support payments and school tuition are not eligible deductions. • Attachment 9-G is an available option to document child care expenses but may not be used alone when additional documentation is required per this section to verify payment (i.e. relatives and private individuals). • Calculations must be recorded on Attachment 9-B, the lender's Uniform Underwriting Transmittal Summary (FNMA Form 1008/Freddie Mac Form 1077), or equivalent.
Disability Expenses [7 CFR 3555.152(c)(3)]: • Deduction for eligible expenses that exceed three percent of the annual income. • Eligible expenses: 1. Allow the disabled individual or another household member to work; 2. Are non-reimbursable by insurance or other sources; and 3. Do not exceed the income earned by the person who is working due to the care provided. • Examples include but are not limited to daily living assistance, wheelchairs, ramps, adaption needs, workplace equipment, etc. • Utilize documentation to estimate anticipated annual expenses.
Documentation Source Options: • Third party verifications for caregivers/agencies for the dates, costs, and fees. • Receipts, itemized income tax returns, and other evidence to support the deductions. • Calculations must be recorded on Attachment 9-B, the lender's Uniform Underwriting Transmittal Summary (FNMA Form 1008/Freddie Mac Form 1077), or equivalent.

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Adjusted Annual Income Deductions
7 CFR 3555.152(c)
Elderly Household Deduction [7 CFR 3555.152(c)(4)]: • Applicants age 62 or older. • One $400 deduction allowed per household.
Documentation Source Options: • Certify to date of birth on the loan application.
Medical Expenses [7 CFR 3555.152(c)(5)] (Elderly and Disabled Households Only): • Deduction for eligible expenses that exceed 3 percent of the annual income for entire family. • Definition of elderly family is in 7 CFR 3555.10. • Utilize documentation to estimate anticipated annual expenses.
Documentation Source Options: • Itemized tax return documents. • Receipts for insurance premiums, prescriptions, dental and eye exams, eyeglasses, medical/health products or apparatus, hearing aids, visiting or live in care providers, etc. • Calculations must be recorded on Attachment 9-B, or lender's Uniform Underwriting Transmittal Summary (FNMA Form 1008/Freddie Mac Form 1077), or equivalent.

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Assets and Reserves

7 CFR 3555.152(d)

Cash Reserves calculated by the system represent the amount of liquid assets that remain available to the applicants/borrowers after loan closing (includes amounts received at closing). Lenders must use caution and not overstate assets utilized for reserves.

Although all household assets must be verified and documented in the permanent loan file, the lender may underwrite to the most conservative approach with no consideration of assets entered into GUS.

When assets are entered into GUS and used as reserves, lenders must ensure that the funds will be available to the applicants post-closing.

Unverified funds are not an acceptable source of funds for down payment, closing costs, etc.

USDA does not require evidence from all parties to access joint or business accounts unless access to the funds are restricted without it.

Bridge Loan

Documentation:

- Evidence of loan proceeds, where they are held (depository account, etc.), and balance remaining.
- Confirm corresponding liability for this debt is included in the total debt ratio if applicable.

Reserves: Eligible
Funds to Close: Eligible

Business Accounts

Documentation:

- Two months of recent bank statements; or
- Verification of Deposit (VOD) and a recent bank statement (official monthly bank statement provided by the banking institution); or
- Direct verification by a third-party verification (TPV) vendor of the borrower's account covering activity for a minimum of the most recent available 60 days. The date of the data contained in the completed verification must be current, within 30 days of the date of the verification.

Reserves: Eligible

- Lenders must not exceed the balance from the most recent official monthly bank statement provided by the banking institution, TPV, or the verification of deposit if dated after the bank statement. Lenders may choose to use a lower balance at their discretion. Online screen print outs of transactions are not permitted.

Funds to Close: Eligible
GUS Instructions:

- Enter as Asset Type "Other" in the "Other Assets You Have" section and select either "Other Liquid Asset" or "Other Non-Liquid Asset."

Cash on Hand

Documentation:

- Applicants must supply a letter of explanation to state how the funds were accumulated (how much weekly/monthly/etc.).
- Lender must determine reasonableness of accumulation based on income stream, spending habits, etc.

Reserves: Ineligible
Funds to Close: Eligible

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Assets and Reserves

Certificate of Deposit (CD)

Documentation:

- Recent account statement (monthly, quarterly, etc.) to evidence the account balance and early withdrawal penalty, if applicable.

Reserves: Eligible

- Lenders may use the current vested balance, minus applicable fees/penalties.

Funds to Close: Eligible

Depository Accounts: Checking, Money Market Accounts, and Savings

Documentation:

- Two months of recent bank statements; or
- Verification of Deposit (VOD) and a recent bank statement (official monthly bank statement provided by the banking institution); or
- Direct verification by a third-party verification (TPV) vendor of the borrower's account covering activity for a minimum of the most recent available 60 days. The date of the data contained in the completed verification must be current, within 30 days of the date of the verification.
- Investigate all recurring deposits on the account statements that are not attributed to wages or earnings to confirm the deposits are not from undisclosed income sources. There is no tolerance or percentage of the amount of a recurring deposit that is not required to be investigated.
- Investigate individual (non-recurring) deposits greater than $1,000 on the account statements that are not attributed to wages or earnings to confirm the deposits are not from undisclosed income sources.
- If the source of a deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer, the Social Security Administration, an IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, the lender does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the lender still has questions as to the source of the deposit, the lender should obtain additional documentation.

Reserves: Eligible

- Lenders must not exceed the balance from the most recent official monthly bank statement provided by the banking institution, TPV, or the verification of deposit if dated after the bank statement. Lenders may choose to use a lower balance at their discretion. Online screen print outs of transactions are not permitted. Deposited gift funds require further documentation and calculation. Refer to the "Gift Funds" section of this Attachment for further guidance.

Funds to Close: Eligible

- In addition to the documentation requirements above, printed transaction histories are permitted to verify cash to close.

Earnest Money

Documentation:

- Retain a copy of the check, money order receipt, etc. that was remitted for the earnest money.

Reserves: Eligible

Funds to Close: Eligible

GUS Instructions:

- Earnest money that has cleared an applicant's depository account may be entered under the "Other Credits" section of the "Lender Loan Information" GUS application page. The amount of earnest money should not be reflected in the balance of any asset entered on the "Assets and Liabilities" application page.
- Refer to the "Gift Funds" section of this Attachment for additional guidance when gift funds are used for the Earnest Money deposit.

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Assets and Reserves

Foreign Assets (Assets located outside of the United States and its territories)

Documentation:

- Documentation verifying assets have been exchanged to U.S. dollars and held in a Federal or State regulated financial institution prior to closing.
- Lender must verify funds availability and accompanying documentation that has been converted to English, or provide a translation attached to each document, and ensure the translation is complete and accurate.

Reserves: Eligible
Funds to Close: Eligible

Gift of Equity, Sweat Equity, or Rent Credits

Documentation:

- These gifts or credits must be applied as a reduction to the purchase price of the dwelling.
- Ensure the appraiser is aware of the gift and/or credit. This will allow them to properly complete the appraisal report, note the reduction, and support the appraised value compared to purchase price, if applicable.
- The borrower may not receive cash back at loan closing for these gifts and/or credits.

Reserves: Ineligible
Funds to Close: Ineligible

Gift Funds

Documentation:

- Gift funds are considered the applicant's own funds; therefore, excess gift funds are eligible to be returned to the applicant at loan closing.
- Gift funds may not be contributed from any source that has an interest in the sale of the property (seller, builder, real estate agent, etc.).
- Cash on hand is not an acceptable source of donor gift funds.
- A gift letter must be obtained to specify the donor, the dollar amount of the gift, and include a statement that the funds do not have to be repaid.
- The lender must verify that sufficient funds to cover the gift have been transferred to the applicant's account, or will be documented as received by the closing agent at the time of closing. Acceptable documentation includes:
    - Evidence of the applicant's deposit;
    - A copy of the donor's funds by check/electronic transfer to the closing agent; or
    - A copy of the Closing Disclosure showing receipt of the donor's funds.

Reserves: Ineligible
Funds to Close: Eligible
GUS Instructions:

- Gift funds should be entered in the "Gifts or Grants You Have Been Given or Will Receive for This Loan" section of the "Loan and Property Information" GUS application page. If the funds have already been deposited into an asset account, select "deposited" and include the amount of the gift in the applicable asset account on the "Assets and Liabilities" GUS application page. If the funds have not been deposited into an asset account, select "not deposited" and do not include the gift in an asset account on the "Assets and Liabilities" GUS application page.
- Gift funds applied as Earnest Money should not be reflected in the "Gifts or Grants You Have Been Given or Will Receive for This Loan" section of the "Loan and Property Information" GUS application page.

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Assets and Reserves
Individual Development Account (IDA)
Documentation: • Two months of account statements; or • Verification of Deposit (VOD) and a recent bank statement (official monthly bank statement provided by the banking institution); or • Direct verification by a third-party verification (TPV) vendor of the borrower's account covering activity for a minimum of the most recent available 60 days. The date of the data contained in the completed verification must be current, within 30 days of the date of the verification; or • Alternate evidence provided by the account trustee/management to support account activity and monthly balances. • Verification must document the vested/amount available for withdrawal without penalty or reimbursement. **Reserves:** Eligible • Lenders must not exceed the vested balance on the most recent statement. Lenders may choose to use a lower balance at their discretion. **Funds to Close:** Eligible
Life Insurance
Documentation: • Document the applicant's receipt of funds from the policy. • Verify where the proceeds are held and confirm they are available to the applicants. • Confirm corresponding liability for this debt in the total debt ratio, if applicable. **Reserves:** Eligible **Funds to Close:** Eligible
Lump Sum Additions: IRS Refunds, Lottery Winnings, Inheritances, Withdrawals from Retirement Accounts
Documentation: • Document the applicant's receipt of funds. • Verify where the proceeds are held and confirm they are available to the applicants. • One-time deposits may not require annual income consideration under 7 CFR 3555.152(b)(5)(vi). • Do not enter into GUS separately if it is already included in the borrower's depository account. **Reserves:** Eligible **Funds to Close:** Eligible
Personal Property Sold
Documentation: • Document the applicant's ownership of the asset. • Evidence of the transfer of ownership of the asset through a bill of sale or statement from the purchaser. • Receipt of sales proceeds through deposit slips, bank statements, or a copy of the purchasing party's canceled check, money order, or electronic funds transfer. **Reserves:** Eligible **Funds to Close:** Eligible

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Assets and Reserves

Retirement: 401(k), IRA, etc.

Documentation:

- Recent account statement (monthly, quarterly, etc.) to evidence the account balance, vested balance available for withdrawal, and early withdrawal penalty, if applicable.
- Funds borrowed against these accounts may be used for funds to close but are not considered in reserves. The borrowed funds should not be reflected in the balance of any asset entered on the "Assets and Liabilities" application page.

Reserves: Eligible

- 60 percent of the vested amount available to the applicants may be used as reserves.
- Funds borrowed against these accounts are not eligible for reserves. The borrowed funds should not be reflected in the balance of any asset entered on the "Assets and Liabilities" application page.

Funds to Close: Eligible

Sales Proceeds: Real Estate Owned

Documentation:

- Closing disclosure or acceptable alternative.
- Verify where the proceeds are held and confirm they are available to the applicants.

Reserves: Eligible

- Reserves will be calculated based on the data entered in the "Assets and Liabilities" and "Real Estate" application pages in GUS. Lenders must confirm the GUS calculation. An override of the data entry, or other asset data entry for this purpose, must have supporting documentation.
- Net equity/sales proceeds manually entered on a loan application must have supporting documentation.

Funds to Close: Eligible

Secured Loan from Personal Asset

Documentation:

- Document the amount of the secured loan proceeds and the source (e.g. Certificate of Deposit, stocks, etc.).
- Confirm corresponding liability for this debt is included in the total debt ratio, if applicable.
- This guidance does not apply to funds borrowed from an applicant's retirement account (e.g. 401(k), IRA, etc.). Please review the "Retirement" section of this matrix for guidance on these types of accounts.

Reserves: Eligible

Funds to Close: Eligible

Stocks, Stock Options, Bonds, Mutual Funds, and Investments

Documentation:

- Recent account statement (monthly, quarterly, etc.) to evidence the account balance, vested balance available for withdrawal, and early withdrawal penalty, if applicable.

Reserves: Eligible

Funds to Close: Eligible

Trust Accounts

Documentation:

- Verify applicants have access to the funds, amounts, circumstances, requirement to repay withdrawal, etc.
- Recent account/trust statement (monthly, quarterly, etc.) to evidence the account balance.

Reserves: Eligible

Funds to Close: Eligible

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Assets and Reserves

Unsecured Loan: Borrowed Funds

Documentation:

- Document the amount of the loan proceeds and the source (e.g. signature loan, line of credit, credit card advance/loan, overdraft protection, etc.).
- Confirm corresponding liability for this debt is included in the total debt ratio, if applicable.

Reserves: Ineligible

Funds to Close: Ineligible

ASSET CHANGES AFTER CONDITIONAL COMMITMENT ISSUANCE

Assets verified prior to loan closing that are less than the amounts entered into GUS or on the loan application may retain the issued Conditional Commitment (Form RD 3555-18/18E) when one the following are met:

1. The application was approved with zero months of cash reserves; or
2. The application will continue to have a minimum of four months of cash reserves.

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ATTACHMENT 9-B

Applicant: _____ Co Applicant: _____

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/types of income that is stable and dependable, utilized to repay the loan.

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

ANNUAL INCOME CALCULATION ***(Consider anticipated income for the next 12 months for all adult household members as described in 7 CFR 3555.152(b) and HB-1-3555, Chapter 9. Website for instructions: https://www.rd.usda.gov/resources/directives)***	
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, etc.).* ***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, etc.).* ***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 HB-1-3555, Chapter 9).* ***Calculate and record how the calculation of each income source/type was determined in the space below.***	
6. **Annual Household Income** (Total 1 through 5**)**	

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Applicant: _____ Co Applicant: _____

ADJUSTED ANNUAL INCOME CALCULATION ***(Consider qualifying deductions as described in 7 CFR 3555.152(c) and HB-1-3555 Chapter 9)***

7. Dependent Deduction *($480 for each child under age 18, full-time student, 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/Disabled 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 per 7 CFR 3555.152(c) and HB-1-3555 Chapter 9)* ***Calculate and record the calculation of the deduction in the space below.***	
11. Medical Expenses *(Elderly/Disabled households only. Unreimbursed medical expenses in excess of 3% of annual income* per 7 CFR 3555.152(c) and *HB-1-3555 Chapter 9)* ***Calculate and record the calculation of the deduction in the space below.***	
12. Total Household Deductions (*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: _____ Co Applicant: _____

MONTHLY REPAYMENT INCOME CALCULATION ***(Consider stable and dependable income of parties to the note as described in 7 CFR 3555.152(a) and HB-1-3555 Chapter 9. Non-occupant borrowers or co-signers are not allowed.)***

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.

	Applicant	**Co-Applicant**	**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 *(Total of 14)*	

Preparer's Signature: _____

Name (Print): _____

Title: _____

Date: _____

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ATTACHMENT 9-C EXAMPLE CASE STUDY

Household members:

Name	*Relationship*	*Comments*	*Household Income, Assets, and Expenses*
David Example	Applicant Age: 40	Employed, party to note	$1,250/week wages; Savings account balance $41,400 (APY .5) Checking account balance $3,500
Betsy Example	Applicant Age: 40	Employed, party to note	$15.50/hr. wages – working 20 hours week $100/month child support from ex-husband (Kathy's father)
Cynthia Example	David's mother Age: 67	Disabled, moved in when husband died, not a party to the note	$800/month Social Security benefits Savings account balance $3,800 (APY .045) Checking account balance $1,400
Janet Smith	Daughter Age: 19	Full-time college student, part-time employed, not a party to the note	$600/month wages
Kathy Smith	Daughter Age: 14	Full-time junior-high school student, part-time employed, not a party to the note	$9.00/hour x 8 hours per week x 4 weeks = $288 monthly earnings
Chris Doe	Foster child Age: 8	Full-time elementary student, not a party to the note	County pays household $800/month to care for foster child. The family pays $50 per week/$200 per month for after school child care.

<u>Eligible Household Income</u>: Calculate annual and adjusted annual income to determine eligibility of the household for the SFHGLP. 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 but is a full-time student)
- 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 if they total $50,000 or more.
- Do not count payments for Care of foster child
- Passbook rate is .03

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Adjusted Annual 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 foster child is not a permanent household member, and therefore is not an eligible dependent.
- Total household members that meet the Household member definition in 7 CFR 3555.10 are David, Betsey, Cynthia, Janet, and Kathy.
- A deduction of $1,440 in this example may be deducted ($480 for each eligible dependent x 3 = $1,440). Dependents are Kathy, Janet, and Cynthia.

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.
- Child care expenses are not permitted if another adult household member is available to care for the child. In this example, it is assumed there are no adult household members available to care for the child.
- Since the cost of child care does not exceed an adult household member's monthly earnings, the full amount of the child care may be deducted.

Elderly or Disabled Household Deduction

- Cynthia, a household member, is 67. But she is not an applicant on the loan, therefore no elderly family deduction is allowed.

Medical Expense Deduction

- Family medical expenses cannot be deducted since this is not an elderly or disabled household as defined in 7 CFR 3555.152(c).

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 determined to be stable and dependable per 7 CFR 3555.152(a).**

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 8 years of age. The county pays $800.00 per month, or $9,600 annually to the household to care for the foster child. Foster care is not a source of income that is eligible for repayment income.

- 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]
- Total stable and dependable income in accordance with 7 CFR 3555.152(a) = **$6,860.00/month**

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ATTACHMENT 9-C EXAMPLE CASE STUDY:

Applicant: David Example Co Applicant: Betsy Example

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.

Identify all Household Members	Age	Full-time Student Y/N?	Disabled Y/N?	Receive Income Y/N?	Source of Income
David Example	**40**	**N**	**N**	**Y**	**XYZ Employment**
Betsy Example	**40**	**N**	**N**	**Y**	**123 Employment, child support**
Cynthia Example	**67**	**N**	**Y**	**Y**	**Social Security**
Janet Smith	**19**	**Y**	**N**	**Y**	**PT Employment**
Kathy Smith	**14**	**Y**	**N**	**Y**	**PT Employment**
Chris Doe	**8**	**Y**	**N**	**Y**	**Foster care income**

ANNUAL INCOME CALCULATION ***(Consider anticipated income for the next 12 months for all adult household members as described in 7 CFR 3555.152(b) and HB-1-3555 Chapter 9. Website for instructions: https://www.rd.usda.gov/resources/directives)***

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, etc.)* **Calculate and record how the calculation of each income source/type was determined in the space below.**	$0
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 = first $480 must be counted as full-time student over 18 years of age**	$10,080.00
5. Income from Assets *(Income from household assets, if total exceeds $50,000, as described in HB-1-3555, Chapter 9).* ***Calculate and record how the calculation of each income source/type was determined in the space below.*** ***Total assets=$50,100*** ***David: Savings $41400x.005=$207, Checking: 3500x.003(passbook rate)=$10.50*** ***Cynthia: Savings $3800x.0045=$17.10, Checking: $1400x.003=$4.20***	$238.80
6. **Annual Household Income** (Total 1 through 5**)**	$92,638

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Applicant: David Example Co Applicant: Betsy Example

ADJUSTED ANNUAL INCOME CALCULATION ***(Consider qualifying deductions as described in 7 CFR 3555.152(c) and HB-1-3555 Chapter 9)***

7. Dependent Deduction *($480 for each child under age 18, full-time student, 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/Disabled Household *(1 household deduction of $400 if 62 years of age or older, or disabled and a party to the note)*	$0
10. Disability *(Unreimbursed expenses in excess of 3% of annual income per 7 CFR 3555.152(c) and HB-1-3555 Chapter 9)* ***Calculate and record the calculation of the deduction in the space below.***	$0
11. Medical Expenses *(Elderly/Disabled households only. Unreimbursed medical expenses in excess of 3% of annual income* per 7 CFR 3555.152(c) and *HB-1-3555 Chapter 9.)* ***Calculate and record the calculation of the deduction in the space below.***	$0
12. Total Household Deductions (*Total 7 through 11)*	$4,040.00

Applicant: David Example Co Applicant: Betsy Example

13. Adjusted Annual Income (Item 6 minus item 12)	$88,598.80
Income cannot exceed Moderate Income Limit to be eligible for SFHGLP ***Moderate Income Limit:*** $121,300 **State:** *Oklahoma* ***County:*** *Washington*	

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MONTHLY REPAYMENT INCOME CALCULATION ***(Consider stable and dependable income of parties to the note as described in 7 CFR 3555.152(a) and HB-1-3555 Chapter 9. Non-occupant borrowers or co-signers are not allowed.)***

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.

	Applicant	Co-Applicant	Total
Base Income	$5,416.67 ***Calculation of Base Income:*** David: $65,000 / 12 = **$5,416.67**	$1,343.33 ***Calculation of Base Income:*** Betsy: $16,120 /12 = **$1,343.33**	$6,760.00
Other Income	***Calculation of Other Income:***	$100.00 ***Calculation of Other Income:*** Betsy: Child Support: $1,200 / 12 = **$100.00** [3 year continuance confirmed: Kathy is 14]	$100.00
Total Income	$5,416.67	$1,443.33	$6,860.00

15. Monthly Repayment Income *(Total of 14)*	$6,860.00

Preparer's Signature: [Signature]

Name (Print): [Name]

Title: [Title]

Date: [Date]

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ATTACHMENT 9-D

ANNUAL INCOME

SOURCES OF INCOME WHICH BY FEDERAL STATUTE ARE EXCLUDED FROM ANNUAL INCOME

The following sources, subject to exemption by Federal statute, are never considered when calculating annual income.

Any 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:

1. 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 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.

2. Payments and assets, including for supportive services and reimbursement of out-of-pocket expenses, for 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. 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).

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3. Allowances, earnings, and payments to individuals participating in programs under the Workforce Investment Act of 1998 reauthorized as the Workforce Innovation and Opportunity Act of 2014.

4. Allowances, earnings, and payments to AmeriCorps participants under the National and Community Service Act of 1990.

5. Payments and assets 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.).

6. Payments and assets received under the "Alaska Native Claims Settlement Act" or the "Maine Indian Claims Settlement Act". Additionally, lump sum or periodic payments received by an individual Indian pursuant to the Class Action Settlement Agreement in the case entitled *Elouise Cobell et al.* v. *Ken Salazar et al.*, for a period of one year from the time of receipt of that payment as provided in the Claims Resolution Act of 2010. This exclusion also applies to assets.

7. Income and assets derived from certain sub-marginal land of the United States that is held in trust for certain American Indian tribes.

8. Payments and assets received by the Indian Claims Commission to the Confederated Tribes and Bands of the Yakima Indian Nation or the Apache Tribe of the Mescalero Reservation.

9. Payments, funds, or distributions authorized, established, or directed by the Seneca Nation Settlement Act of 1990. This exclusion also applies to assets.

10. Assistance payments or allowances made under the Department of Health and Human Services Low- Income Home Energy Assistance Program.

11. Assistance received under the Richard B. Russell School Lunch Act, and the Child Nutrition Act of 1966, including reduced-price lunches and food under the Special Supplemental Food Program for Women, Infants, and Children (WIC).

12. Payments received from the Job Training Partnership Act.

13. Income and assets derived from the disposition of funds of the Grand River Band of Ottawa Indians.

14. The first $2,000 of per capita shares received from judgment funds awarded by the National Indian Gaming Commission or the U.S. Claims Court, the interests of individual Indians in trust or restricted lands, and the first $2,000 per year of income received by individual Indians from funds derived from interests held in such trust or

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restricted lands. This exclusion does not include proceeds of gaming operations regulated by the Commission. This exclusion also applies to assets.

15. Payments received from programs funded under Title V of the Older Americans Act of 1965.

16. Payments from any deferred U.S. Department of Veterans Affairs disability benefits that are received in a lump sum amount or in prospective monthly amounts.

17. Amounts of student financial assistance funded under title IV of the Higher Education Act of 1965, including awards under Federal work-study programs or under the Bureau of Indian Affairs student assistance programs.

18. The amount of any refund (or advance payment with respect to a refundable credit) issued under the Internal Revenue Code is excluded from income and assets for a period of 12 months from receipt.

19. Any allowance paid to children of Vietnam veterans born with spina bifida, children of women Vietnam veterans born with certain birth defects, and children of certain Korean and Thailand service veterans born with spina bifida is excluded from income and assets.

20. Any amount of crime victim compensation and assets that provides medical or other assistance (or payment or reimbursement of the cost of such assistance) under the Victims of Crime Act of 1984 received through a crime victim assistance program, unless the total amount of assistance that the applicant receives from all such programs is sufficient to fully compensate the applicant for losses suffered as a result of the crime.

21. Any amounts in an “individual development account” are excluded from assets and any assistance, benefit, or amounts earned by or provided to the individual development account are excluded from income, as provided by the Assets for Independence Act.

22. Federal assistance for a major disaster or emergency received by individuals and families under the Robert T. Stafford Disaster Relief and Emergency Assistance Act and comparable disaster assistance provided by States, local governments, and disaster assistance organizations. This exclusion also applies to assets.

23. Any amount in an Achieving Better Life Experience (ABLE) account, distributions from and certain contributions to an ABLE account established under the ABLE Act of 2014.

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24. The value of any child care assistance provided or arranged (or any amount received as payment for such care or reimbursement for costs incurred for such care) under the Child Care and Development Block Grant Act of 1990.

25. Assistance and assets received by a household under the Emergency Rental Assistance Program pursuant to the Consolidated Appropriations Act, 2021 and the American Rescue Plan Act of 2021.

26. Any other income which is exempted under Federal statute.

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ATTACHMENT 9-E
INFORMATION FOR ANALYZING TAX RETURNS FOR SELF-EMPLOYED APPLICANTS

Self-employed applicants must submit current documentation of the business' 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 applicants have at least two years' tax returns evidencing capital gains. An example would include an individual who purchases old houses, remodels them, and sells them for a profit.

- **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

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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.

- **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, if applicable.

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 applicants have 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 1120-S 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*, which 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. Owners in an LLC are referred to as members. A member of an 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. 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, *U.S. Return of Partnership Income*, each year. LLC profits are allocated to each of the owners according to the profit-sharing arrangement set up in the LLC

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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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ATTACHMENT 9-F WORKSHEET FOR DOCUMENTING ELIGIBLE HOUSEHOLD AND REPAYMENT INCOME [AGENCY 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's income 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 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 3555.151(h).

Definition - Manually Underwritten Loan Files: 1) Loans submitted by lenders that are not supported by the automated underwriting system, GUS. 2) Loans submitted to GUS, that have received an underwriting recommendation of Refer or Refer With Caution. Accept and Accept with Full Documentation loans are not manually

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 7 CFR §3555.152(b). Consider qualifying deductions as described in 7 CFR 3555.152(c). Website for instructions/technical handbook/notices: https://www.rd.usda.gov/resources/directives. **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:

	$

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 applicants 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 applicants 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)

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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)

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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 Applicants

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)

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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)

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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)

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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 _____
5. Is claimant eligible for future benefits? ☐ Yes ☐ No
6. If yes, how many weeks? _____
7. 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)

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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)

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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 : $_____ ☐Weekly ☐ Monthly ☐Yearly

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)

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RECORD OF ORAL VERIFICATION OF EMPLOYMENT

APPLICANT INFORMATION □ **Applicant N**ame of Applicant/Co-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

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CHAPTER 10: CREDIT ANALYSIS

10.1 INTRODUCTION

This chapter discusses the Agency's criteria to assess and document the credit history of a loan file. Credit requirements may vary for loans originated with the assistance of the Guaranteed Underwriting System (GUS) as compared to those manually underwritten. Lenders may impose additional criteria/overlays at their discretion.

10.2 CREDIT ELIGIBILITY REQUIREMENTS

Lenders must review the credit history of an applicant, as applicable, to determine an ability and willingness to meet their debt obligations.

The following adverse credit items will render an applicant ineligible for a guaranteed loan:

- Presently delinquent non-tax Federal debt;
- Presently delinquent court ordered child support payments, **subject to the collection by an administrative offset,** unless the applicant has brought payments current, the debt is paid in full, or otherwise satisfied by a documented release of liability;
- Presently delinquent court ordered child support**, not subject to an administrative offset,** unless the applicant has an approved repayment agreement in place with three timely payments made prior to loan closing, the arrearage is paid in full prior to loan closing, or a release of liability is documented; and
- CAIVRS Claim: An applicant that will be a party to the loan does not have a clear "A" Credit Alert Verification Reporting System (CAIVRS) response.

Refer to Attachment 10-A "Credit Matrix" for additional information.

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10.3 CREDIT REPORT REQUIREMENTS

Credit reports utilized to underwrite guaranteed loans must be from a recognized credit repository that is not affiliated with the lender. Eligible credit reports include:

- Automated Merged Credit Reports: Also known as multi-merged (MMCR) and three-repository merged (TRMCR); and
- Residential Mortgage Credit Report (RMCR).

All credit reports must meet the requirements of Fannie Mae, Freddie Mac, HUD, or VA, which include but are not limited to the following:

- Be no more than 120 days old on the day of loan closing;
- Be accurate and complete;
- Provide an account of the credit 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;
- State the primary repository where specific information was pulled for each account listed; and
- Show the name of the party that ordered the report.

Lenders may follow credit repository guidelines, lending laws, etc. to determine if joint applicants must have separate credit reports. USDA does not require unmarried applicants to be on one credit report, loan application, Form RD 3555-21, etc. Applicants must ensure credit data frozen at any credit repository is made available.

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10.4 CREDIT REPORT VERSIONS

The following table lists credit scoring models that are recognized by the Agency's Guaranteed Underwriting System (GUS) and must also be used to manually underwrite guaranteed loans.

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

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ATTACHMENT 10-A

CREDIT MATRIX

Credit guidance: 3555.151(i)

CONSIDERATIONS FOR CREDIT ANALYSIS

ALL GUARANTEED LOANS:

If the lender is aware of any potential derogatory or contradictory information that is not part of the data submitted to GUS, or if there is any erroneous information in the data submitted to GUS, the loan must be manually downgraded.

CREDIT ALERT VERIFICATION REPORTING SYSTEM (CAIVRS)

CAIVRS is a Federal government wide repository to file and report delinquent and/or defaulted claims on individuals that were paid on their behalf.

CAIVRS may return the following results:

- A: Approved by CAIVRS (no issues exist)
- B: Multiple cases from one or more Federal agencies
- C: Claim filed
- D: Default on loan
- F: Foreclosure of loan
- J: Judgment filed

An "A" response is the only acceptable result for an applicant to be eligible for a guaranteed loan.

CAIVRS in GUS:

- GUS will automatically retrieve the CAIVRS response for each applicant when the Borrower Information application page is saved. If the automatically retrieved CAIVRS response is not an "A" response, the lender must obtain evidence of an "A" CAIVRS response outside of GUS. This documentation must be uploaded as part of a complete loan application submission of the GUS application to USDA. The CAIVRS response cannot be overwritten or revised within GUS. USDA will retrieve and confirm an "A" CAIVRS response when the loan file is processed in the Agency's internal Guaranteed Loan System (GLS).
- If the CAIVRS system is unavailable at the time the lender initially completes the Borrower Information Application page, the user may manually retrieve the CAIVRS response by accessing the GUS Assets and Liabilities Page, under the CAIVRS Information section. Lenders can select the HUD CAIVRS hyperlink to access the CAIVRS website directly. The CAIVRS number retrieved in this manner must be manually entered into the applicable CAIVRS Number block.

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CREDIT ALERT VERIFICATION REPORTING SYSTEM (continued)

Loan Types Not Supported by GUS (Manually Submitted):

- Lenders must obtain and document an eligible CAIVRS response and include this evidence in a complete loan submission to USDA.
- Follow the instructions on the manual file submission process job aid for this type of submission, located at https://www.rd.usda.gov/resources/usda-linc-training-resource-library in the "Loan Origination" tab.

ALL GUARANTEED LOANS:

CAIVRS is not the only source to report a delinquent Federal debt. A delinquent Federal debt identified on the credit report, public records, or equivalent, must be investigated by the lender to determine if the debt is valid, paid in full, or the creditor has issued a release of liability.

An applicant with a delinquent non-tax Federal debt is ineligible for a guaranteed loan.

CREDIT SCORES AND VALIDATION

A credit score is a statistical number that evaluates an applicant's creditworthiness based on their credit history. The credit score considers payment history, amounts owed, percentage of credit used, length of credit history, types of credit, and newly acquired credit.

GUS Loans:

GUS will determine the acceptable credit score to be used for the underwriting recommendation for Accept, Refer, and Refer with Caution recommendations.

GUS Accept/Accept with Full Documentation Files:

No credit score validation is required.

Manually Underwritten Loans and Loan Types Not Supported by GUS (Manually Submitted):

Credit score validation is required.

Lenders must select the middle of three scores, the lower of two (a repeating score may be used), or the single reported score. A credit report with no score must refer to non-traditional tradeline requirements.

Validate Credit Score:

GUS Refer, Refer with Caution, Manually Underwritten, and Loan Types Not Supported by GUS (Manually Submitted):

One applicant whose income and/or assets is used to originate the loan must have a validated credit score. This applicant must have two tradelines on the credit report that have been/were/are open for 12 months based on the date the account was opened as stated on the credit report. A validated score does not indicate the applicant has an acceptable credit history. A validated score confirms that one applicant has an eligible minimum credit history.

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CREDIT SCORES AND VALIDATION (continued)

The following tradelines are eligible to validate the credit score and may be open, closed, and/or paid in full: loans (secured/unsecured), revolving accounts, installment loans, credit cards, collections, charge-off accounts, etc.

Lenders may use an authorized user account to validate the credit score when one of the following is met:

- The tradeline is owned by another applicant on the mortgage loan application;
- The owner of the tradeline is the spouse of the applicant; or
- The applicant can provide evidence that they have made payments on the account for the previous 12 months prior to submission to the Agency.

Public records (bankruptcy, foreclosure, tax liens, judgments, etc.), disputed, self-reported, and deferred accounts are ineligible tradelines for credit validation.

Common Scenario:

- One or no eligible tradelines on the credit report? Consider a non-traditional credit history. Tradelines with at least a 12 month history on the credit report may be combined with non-traditional credit to meet the cumulative tradeline number requirement for a non-traditional credit history. One applicant whose income or assets are used to underwrite the loan must have an eligible traditional or non-traditional credit history.

  Refer to the Nontraditional credit section of this matrix for guidance.

GUS Refer, Refer with Caution, and manually underwritten files are not eligible for debt ratio exceptions if:

1. There is not one applicant with a validated score using traditional tradelines on the credit report, **or**
2. The file requires non-traditional credit tradelines.

CREDIT INQUIRIES/RECENT DEBTS/UNDISCLOSED DEBTS

A credit inquiry is a request by an institution for credit report information. A hard inquiry is requested when an applicant is seeking credit and completes a credit application. Hard inquiries are typically listed on the credit report and factored into the credit score. A soft inquiry is not included on the credit report and does not result in a new credit/debt. Soft inquiries may include a free annual credit report, companies developing marketing lists, prequalification offers, etc.

Inquiries for credit made by the applicant(s) 90 days before the date of the credit report must be investigated to determine if new credit accounts were opened. Lenders must retain documentation in their permanent loan file to support newly identified debts.

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CREDIT INQUIRIES/RECENT DEBTS/UNDISCLOSED DEBTS (continued)

GUS Accept/Accept with Full Documentation Files:

No downgrade is required.

New installment or revolving accounts that are not reflected on the credit report in GUS and/or are not listed on the loan application but discovered during the mortgage loan application process must be manually entered on the GUS Assets and Liabilities page under the Liabilities – Credit, Cards, Other Debts and Leases that You Owe section.

GUS Refer, Refer with Caution, Manually Underwritten Files, and Loan Types Not Supported by GUS (Manually Submitted):

New installment or revolving accounts that are not reflected on the credit report in GUS and/or are not listed on the loan application but discovered during the mortgage loan application process must be manually entered on the GUS Assets and Liabilities page under the Liabilities – Credit, Cards, Other Debts and Leases that You Owe section or on the loan application for non-GUS loans.

CREDIT EXCEPTIONS

Credit repayment issues do not always reflect an inability or unwillingness to meet financial obligations. When evidence of significant derogatory credit is present, lenders may consider extenuating circumstances and determine if the applicant is creditworthy. The lender's underwriter must use prudent underwriting judgment to evaluate loan requests that include significant derogatory credit. Refer to guidance in this Chapter to determine if a credit exception is required.

GUS Accept/Accept with Full Documentation Files:

No credit exception is required.

GUS has determined the credit is an acceptable risk. Confirm the GUS Declarations page is accurately completed for each applicant.

GUS Refer, Refer with Caution, Manually Underwritten Files, and Loan Types Not Supported by GUS (Manually Submitted):

Credit exception is required.

The credit exception must include the lender's documented rationale on the underwriting transmittal summary or similar underwriting form. The rationale must meet the following:

- The circumstances that led to the derogatory credit were temporary in nature, beyond the applicant's control, and due to the current employment/financial/health of the household are unlikely to recur. Examples include but are not limited to temporary loss of job/unemployment, delay or reduction in benefits, illness, divorce, dispute over payment for defective goods or services, etc.; and

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CREDIT EXCEPTIONS (continued)

- The applicant must provide documentation to the approved lender for their permanent loan file that supports the extenuating circumstances; and
- The approved lender must explain their rationale for issuing the credit exception (identified compensating factors, etc.) and why the applicant(s) remains an acceptable credit risk. The applicant's explanation along with the supporting documentation must be consistent with other information in the file and retained in the lender's permanent loan file (**the documentation may be requested for Agency review)**.

USDA does not approve the lender's credit exception. Lenders are responsible for their credit decision. Previous USDA losses, delinquent non-tax Federal debts, delinquent child support, and ineligible CAIVRS results are not eligible for lender approved credit exceptions.

NON-TRADITIONAL CREDIT

Applicants that do not have a traditional credit history with a validated credit score, or no credit score may document their willingness to pay debt obligations through alternate sources. The use of a non-traditional credit history is not a reason to deny a loan. Regardless of the GUS recommendation, it is the approved lender's responsibility to review and determine the loan meets Agency guidelines and is an acceptable credit risk.

Applicants With a 12-Month Verification of Rent (VOR): Multiple VORs may be combined to make up the 12 month requirement when no gaps exist. Two tradelines are required: The VOR plus one additional tradeline. This tradeline must be an eligible traditional tradeline from the credit report with a 12-month history or an eligible non-traditional tradeline.

Applicants With No Rent History: Three tradelines are required. Tradelines may be a combination of traditional tradelines from the credit report with 12-month history or eligible non-traditional tradelines.

Non-traditional credit may be documented as 1. A Non-Traditional Mortgage Credit Report (NTMCR), 2. Self-Reported tradelines on a traditional credit report, or 3. Evidence from third party verifications, canceled checks, money order receipts, electronic payments, payment histories from the creditor/company, bank statements that clearly identify debit payments for the service/product, etc. which demonstrate credit was extended to the applicant. Payments made in cash without accompanying direct or third party verifications are not acceptable documentation options.

An eligible non-traditional tradeline must have a 12-month history and cannot have been closed more than 6 months prior to submission to the Agency. Examples of acceptable non-traditional credit sources include but are not limited to:

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NON-TRADITIONAL CREDIT (continued)

- Rent or housing payments;
- Utility services: gas, electric, water, land-line telephone service, or cable TV (when services are not included in rent payments);
- Insurance payments: automobile, life, household, renter's insurance, medical supplements. Premiums paid through payroll deduction for employee offered coverage of plans are ineligible. Premiums paid quarterly or annually are acceptable when the payment(s) provide 12 months of coverage.
- Childcare: Direct or third-party verification provided by a licensed childcare facility or provider on letterhead must: 1. Identify the child enrolled; 2. Specify the date of enrollment; 3. Indicate any payment due; and 4. Provide a payment history.
- School tuition;
- Payments to local stores (car dealerships, department/furniture/appliance stores, specialty stores);
- Payments for uninsured portions of medical bills;
- Internet or cell phone services;
- Automobile leases;
- Personal loans with repayment terms in writing, supported with canceled checks, money order receipts, or electronic payment receipts;
- Monthly subscription services, gym memberships, etc. when they can be adequately verified in accordance with this section;
- 12 month documented history of savings that demonstrate regular deposits which equal three months of proposed mortgage (PITI) payments that will be retained as cash reserves post-closing;
- Any other reference that gives insight into the applicant's willingness to make periodic payments on a regular basis for recurring credit obligations.

Debts that are obligatory, when credit was not extended to the applicant (such as child support, alimony, garnishments, court ordered debts), are not eligible non-traditional credit tradelines.

Simply meeting the minimum tradelines for non-traditional credit should not be the sole basis for approval. The approved lender's underwriter is responsible for analyzing the complete file when making an underwriting decision.

Applicants that utilize non-traditional credit to qualify for a guaranteed loan are not eligible for debt ratio waivers.

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OVERDRAFT/NON-SUFFICIENT FUNDS (NSF)

No credit exception is required.

An overdraft fee is a fee resulting from the processing of a debit transaction that exceeds the account balance. A non-sufficient funds (NSF) fee is a fee resulting from the initiation of a transaction that exceeds the account balance if the financial institution declines to make the payment.

Multiple overdraft or NSF fees are not considered significant derogatory credit. However, reoccurring overdraft/NSF fees could have a negative impact on the applicant's credit accounts and repayment of the proposed mortgage debt. Therefore, the lender should evaluate the frequency of the NSF fee occurrences and the amount of the overdrafts in their credit decision.

Lenders may choose to include these fees in the applicant's monthly debt if they determine the fees are occurring regularly. Overdraft or NSF fees manually added to the Asset and Liabilities GUS application page will not result in a manual downgrade of a GUS Accept/Accept with Full Documentation file underwriting recommendation.

RECENT/UNDISCLOSED DEBTS/INCREASED BALANCE OF EXISTING DEBTS IDENTIFIED AFTER A CONDITIONAL COMMITMENT IS ISSUED

Lenders may discover new debt(s)/increased payments of existing debts/etc. after USDA issues a Conditional Commitment (Form 3555-17/17E) but prior to loan closing. These debts/payment amounts were not part of the loan application submitted to USDA. Examples of these debts include but are not limited to installment debts, revolving credit lines, real estate taxes, final homeowner's insurance premiums, etc.

Cumulative Debt Amount of $50 or Less:

When the additional monthly amount(s) of the new/increased debt(s) does not exceed $50, the lender may retain the issued Conditional Commitment. The lender must retain all documentation to support the new/increased debt(s) and payment(s) in the permanent loan file. **No further action is required.**

Cumulative Debt Amount of $51 or More:

Lenders must request the GUS loan to be released by USDA. Lenders must enter the new/increased debt(s) and payment amount(s). The lender must retain all documentation to support the data entries. A new preliminary underwriting submission must be completed to confirm the GUS underwriting recommendation. Lenders must upload documentation as applicable and complete a new final underwriting submission to USDA. USDA will issue a new Conditional Commitment. Lenders cannot close loans without a valid Conditional Commitment.

Guidance documents lack the force and effect of law, unless expressly authorized by statute or incorporated into a contract. USDA may not cite, use, or rely on any guidance that is not available through their guidance portal, except to establish historical facts.

CREDIT ACCOUNTS AND ADVERSE CREDIT

AUTHORIZED USER ACCOUNTS (AU)

An authorized user is a person who has permission to use another person's credit card/line of credit but is not legally responsible for payment of the debt.

Lenders are not required to include monthly payments for an AU account in an applicant's debt ratio. A closed AU account requires no consideration. An AU account that is classified as "terminated" is considered a closed tradeline.

Lenders may continue to include the monthly debt at their discretion, if they determine the applicant is making the payment.

AU accounts and credit score validation for GUS Refer, Refer with Caution, and manually underwritten loans is addressed in the Credit Scores and Validation section.

CHAPTER 7 BANKRUPTCY (BK)

Chapter 7 of Title 11 of the U.S. bankruptcy code controls the process of asset liquidation. A trustee is appointed to liquidate nonexempt assets to pay creditors. After the proceeds are exhausted, the remaining debt is discharged.

If the Chapter 7 BK absolved a mortgage debt, the applicant is not legally liable to repay unless the debt was reaffirmed. Foreclosure action post BK discharge is against the property, not the applicant, to allow the lender to obtain title. However, until the property is fully titled to the lender, the applicant remains responsible for real estate taxes, home insurance premiums, HOA fees, special assessments, and similar debts.

A Chapter 7 BK discharged more than 36 months at the time of submission to the Agency is not considered adverse credit. For a bankruptcy that has been dismissed, or not completed, the lender will need to evaluate the overall credit profile to determine if a credit exception is applicable.

GUS Accept/Accept with Full Documentation Files:
No credit exception is required.

GUS may render an Accept underwriting recommendation for loan files that have been discharged from Chapter 7 BK less than 36 months.

Guidance documents lack the force and effect of law, unless expressly authorized by statute or incorporated into a contract. USDA may not cite, use, or rely on any guidance that is not available through their guidance portal, except to establish historical facts.

CHAPTER 7 BANKRUPTCY (continued)

GUS Refer, Refer with Caution, Manually Underwritten Files, and Loan Types Not Supported by GUS (Manually Submitted):

Credit exception is required.

A Chapter 7 BK discharged within the previous 36 months is considered significant derogatory credit. If the approved lender determines the applicant(s) is creditworthy when their Chapter 7 BK has been discharged less than 36 months, a credit exception is required. Refer to the Credit Exception section for guidance. Include applicable items in the debt ratio unless evidence confirms the applicant is no longer in ownership. Lenders must retain documentation in their permanent loan file.

CHAPTER 11, 12, OR 13 BANKRUPTCY (BK)

Chapter 11, 12, and 13 U.S. bankruptcy proceedings allow the debtor to reorganize their finances and debt payments under the supervision and approval of the court. An impartial trustee consolidates the debt and distributes money to each creditor. For a bankruptcy that has been dismissed or not completed, the lender will need to evaluate the overall credit profile to determine if a credit exception is applicable.

Plan in Progress:

An applicant with a Chapter 11, 12, or 13 BK in progress must meet the following:

All required payments have been made on time; and

- The applicant has written permission from the bankruptcy court/trustee to enter into a mortgage transaction. If the bankruptcy court/trustee does not review or issue permissions, the creditor may determine if the applicant is an acceptable credit risk.

Confirm all payment amounts for the Chapter 11, 12, or 13 BK are included on the Asset and Liabilities application page in GUS or on the loan application.

GUS Accept/Accept with Full Documentation Files:

No credit exception is required.

GUS may render an Accept underwriting recommendation. No downgrade is required due to the manual entry of the monthly BK payment.

GUS Refer, Refer with Caution, Manually Underwritten Files, and Loan Types Not Supported by GUS (Manually Submitted):

No credit exception is required.

Lender must obtain documentation to verify that 12 months of the debt restructure plan has elapsed and retain in their permanent loan file.

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CHAPTER 11, 12, OR 13 BANKRUPTCY (continued)

Completed/Discharged Plan – GUS Accept/Accept with Full Documentation Files:
No credit exception is required.

Completed/Discharged Plan (12 months or more) - GUS Refer, Refer with Caution, Manually Underwritten files, and Loan Types Not Supported by GUS (Manually Submitted):
No credit exception required.

Completed/Discharged Plan (less than 12 months) - GUS Refer, Refer with Caution, Manually Underwritten Files, and Loan Types Not Supported by GUS (Manually Submitted):
Credit exception required.

Plans completed less than 12 months prior to submission to the Agency will require a credit exception. Lenders must retain documentation in their permanent loan file. Refer to guidance in the Credit Exception section.

CHARGE-OFFS

A charge-off is a debt that was determined unlikely to be collected by the creditor due to substantial delinquency. Creditors may sell the debt to a collection company or pursue a judgment against the borrower if the statute of limitations has not expired to collect the debt. This adverse credit is reflected in the credit score.

The approved lender's underwriter must review all charge-off accounts and determine if the applicant(s) is an acceptable credit risk, regardless of GUS underwriting recommendation. USDA does not require charge-off accounts to be paid.

If the applicant has a repayment plan with the creditor for a charged off debt, include the payment in the Asset and Liabilities GUS application page or on the loan application.

GUS Accept/Accept with Full Documentation files:
No credit exception is required.

GUS Refer, Refer with Caution, Manually Underwritten Files, and Loan Types Not Supported by GUS (Manually Submitted):
No credit exception is required.

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COLLECTIONS

A collection is a debt that has been assigned/sold to a third-party debt collection agency due to negligent payment of the borrower. This adverse credit is reflected in the credit score.

The approved lender's underwriter must review all collection accounts and determine if the applicant(s) is an acceptable credit risk, regardless of GUS underwriting recommendation. USDA does not require medical collection accounts to be paid.

If the cumulative total of all non-medical collections exceeds $2,000, the following options will apply:

1. Require payment in full of these accounts prior to loan closing;
2. Use an existing repayment agreement or require payment arrangements be made with documentation from the creditor and include the monthly payment; or
3. Include 5 percent of the outstanding balance as the monthly liability amount, no further documentation required.

All open collection accounts on the credit report must be listed on the GUS Assets and Liabilities page under the Liabilities – Credit Cards, Other Debts, and Leases that You Owe section and/or on the loan application.

GUS Data Entry:

- Collections that will be paid at or before loan closing should select the "To be paid off at or before closing" checkbox.
- If the collection is not required to be paid in full, the lender should select the "Omit" checkbox and provide an explanation in the additional data entry pop up box to state why the debt will be omitted from ratio consideration.

If a repayment agreement has a specified monthly payment, include that amount. Do not enter "$1.00" in the monthly payment data field unless this is a documented repayment amount.

GUS Accept/Accept with Full Documentation Files:
No credit exception is required.

GUS Refer, Refer with Caution, Manually Underwritten Files, and Loan Types Not Supported by GUS (Manually Submitted):
No credit exception is required.

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CONSUMER CREDIT COUNSELING - DEBT MANAGEMENT PLANS

Credit counseling provides guidance and support to consumers which may include assistance to negotiate with creditors on behalf of the borrower to reduce interest rates, late fees, and agree upon a repayment plan. The credit score will reflect the degradation of credit due to participation in this plan. Credit accounts that are included in the repayment plan may continue to report as delinquent or as late pays. This is typical and will not be considered as recent adverse credit. Lenders must retain documentation to support the accounts included in the debt management plan and the applicable monthly payment. Lenders must include the monthly payment amount due for the counseling plan in the monthly liabilities.

GUS Accept/Accept with Full Documentation Files:
No credit exception is required.

GUS Refer, Refer with Caution, Manually Underwritten Files, and Loan Types Not Supported by GUS (Manually Submitted):
No credit exception is required.

The following must be documented and retained in the lender's permanent loan file:

- One year of the payment period of the debt management plan has elapsed;
- All payments have been made on time; and
- Written permission from the counseling agency to recommend the applicant as a candidate for a new mortgage loan debt.

DELINQUENT COURT ORDERED CHILD SUPPORT

An applicant that is delinquent on court ordered child support that **is subject to collection by an administrative offset** is ineligible for a guaranteed loan unless the payments are brought current, the debt is paid in full, or otherwise satisfied by a documented release of liability.

An applicant that is delinquent on court ordered child support that **is not subject to an administrative offset** is ineligible for a guaranteed loan unless the applicant has an approved repayment agreement in place with three timely payments made prior to loan closing, the arrearage is paid in full prior to loan closing, or a release of liability is documented.

In all cases, the lender must provide certification of the applicant's eligibility as part of the application submission. Any documentation obtained to support the lender's certification to the Agency will be retained in the lender's permanent loan file.

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DELINQUENT FEDERAL NON-TAX DEBT

A non-tax Federal debt is a debt owed to the U.S. Federal Government other than Federal income taxes. Federal debts are typically discovered when the lender reviews the Credit Alert Verification Reporting System (CAIVRS) result, credit report, public records, or equivalent.

An applicant with a delinquent Federal non-tax debt is ineligible until the debt is paid in full, or a release of liability is documented. The lender must provide certification of the applicant's eligibility to the Agency as part of the application submission. Any documentation obtained to support the lender's certification to the Agency will be retained in the lender's permanent loan file.

FEDERAL TAXES

Federal taxes are due each year on the date determined by the Internal Revenue Service (IRS). Taxpayers who owe taxes and do not pay in full by the filing date are determined delinquent by the IRS.

An IRS approved extension to file a tax return does not grant the applicant additional time to pay their taxes due. Applicants must pay their estimated income tax due by the IRS filing date, or they are determined delinquent by the IRS. An applicant that has owed taxes on previous filed return(s) exhibits a pattern of taxes due; therefore, an estimated tax payment must be made to the IRS by the specified deadline. The applicant may file their return at a later date and remain eligible for a guaranteed loan.

An applicant that has received tax refunds for previous filed return(s) may remain eligible with no estimated tax payment due to the IRS because they would not be determined delinquent. The applicant will remain eligible for a guaranteed loan.

Repayment Plans:

No credit exception is required.

An applicant with delinquent Federal tax debt is ineligible unless they have proof of repayment plan(s) approved by the IRS. A minimum of three timely payments must have been made on each active repayment plan(s). Timely is defined as payments that coincide with the approved IRS repayment agreement(s). The applicant may not prepay a lump sum at one time to equal three monthly payments to meet this requirement. Refer to Chapter 11 for monthly repayment requirements. The lender must provide certification of the applicant's eligibility to the Agency as part of the application submission. Evidence of the repayment agreement(s) and payment history used to support the lender's certification to the Agency will be retained in the lender's permanent loan file. While applicants with multiple approved IRS repayment plan(s) are eligible, the approved lender's underwriter must review and determine if the applicant(s) is an acceptable credit risk.

Failure to File:

Applicants that are required to file taxes but have failed to do so for the current or previous years are ineligible.

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DISPUTED ACCOUNTS:

A disputed account occurs when the applicant questions the validity of a transaction registered to the account. When a dispute is submitted to a creditor, a review is completed to determine if the debt continues to be due from the applicant. Most disputes are reviewed and finalized within 90 days.

The applicant must provide the lender with applicable documentation to support the reason and basis of their dispute with the creditor. The documentation must be retained in the permanent loan file.

Disputed accounts that must be considered are:

- All non-medical collections and
- Accounts with late payments in the last 24 months.

For all GUS recommendations/loan submission types, the lender may exclude the following disputed account scenarios from further guidance in this section:

- Disputed medical accounts/collections;
- Disputed charged off accounts;
- Disputed derogatory accounts that are the result of identity theft, credit card theft, or unauthorized use when evidence (police report, attorney correspondence, creditor statement) is provided to support the applicant's explanation; or
- Disputed accounts of a non-purchasing spouse in a community property state.

DISPUTED NON-DEROGATORY ACCOUNTS:

GUS Accept/Accept with Full Documentation Files:

No credit exception is required.

A GUS Accept recommendation is required to be downgraded unless one of the following are met:

- The disputed tradeline has a zero balance;
- The disputed tradeline states "paid in full" or "resolved" on the credit report;
- The disputed tradelines are 24 months or greater;
- The disputed tradeline is current and paid as agreed;
- The payment stated on the credit report is included in the monthly debts;
- Five percent of the stated account balance on the credit report is included in the monthly debts if no payment is listed on the credit report; or
- A documented payment from the creditor is included in the monthly debts.

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DISPUTED ACCOUNTS (continued):

GUS Refer, Refer with Caution, Manually Underwritten Files, and Loan Types Not Supported by GUS (Manually Submitted):

No credit exception is required.

Lenders must determine the impact of the disputed account on the repayment of the proposed mortgage debt. Each account must include a minimum monthly payment of:

- The payment stated on the credit report; If no payment listed, use
- Five percent of the balance of the account; or
- A lesser amount documented from the creditor.

DISPUTED DEROGATORY ACCOUNTS:

GUS Accept/Accept with Full Documentation Files:

No credit exception is required.

GUS Accept files with less than $2,000 in disputed derogatory accounts will require the lender to determine if the disputed accounts may impact the applicant's ability to repay the proposed mortgage obligation.

Each account (excluding those listed above) must include a minimum monthly payment of:

- The payment stated on the credit report. If no payment listed, use
- Five percent of the balance of the account; or
- A lesser amount documented from the creditor.

GUS Accept/Accept with Full Documentation files must be downgraded to a Refer when the applicant has $2,000 or more collectively in disputed derogatory accounts in the last 24 months.

Refer, Refer with Caution, Manually Underwritten Files, and Loan Types Not Supported by GUS (Manually Submitted):

No credit exception is required.

The lender must analyze the potential impact to the applicant's ability to repay the proposed mortgage debt with disputed derogatory accounts. Each account (excluding those listed above) must include a minimum monthly payment of:

- The payment stated on the credit report; If no payment listed, use
- Five percent of the balance of the account; or
- A lesser amount documented from the creditor.

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GARNISHMENTS

No credit exception is required.

A garnishment is a legal process that instructs a third party to deduct payments directly from a debtor's wage or bank account for defaulted payments. A garnishment may be deducted by the debtor's employer and disclosed on earnings statements.

Garnishments must be included in the debt ratio. Garnishments manually added to the Asset and Liabilities GUS application page will not result in a manual downgrade of a GUS Accept/Accept with Full Documentation file underwriting recommendation. Review the debt type paid through the garnishment to ensure the applicant remains eligible for a guaranteed loan.

NON-FEDERAL JUDGMENT

No credit exception is required.

A judgment is a formal decision made by a court following a lawsuit. The judgment is a legally enforceable court order which could result in various methods to collect the debt.

Court ordered judgments must be paid in full or have evidence of three timely payments made per an agreement with the creditor. The applicant may not prepay a lump sum at one time to equal three monthly payments to meet this requirement. The lender must retain evidence of the repayment agreement and payment history in their permanent file. Include the monthly payment (if applicable) in the debt ratio. A GUS Accept/Accept with Full Documentation file is not required to be downgraded due to the manual entry of the payment.

Confirm the Declarations in GUS and/or the loan application accurately reflect the presence of a judgment**.**

NON-PURCHASING SPOUSE DEBTS (NPS)

Lenders must follow applicable community property state (CPS) lending laws when the applicant(s) and/or property reside in a CPS. The credit history of the NPS is not a reason to deny a loan application. Lenders are responsible to know CPS laws and requirements for the treatment of NPS debts.

The credit report for the NPS must be obtained outside of GUS and retained in the lender's permanent loan file. All NPS debts required to be included based on state law must be manually entered in GUS. Lenders will identify the NPS debts by selecting "Other" as the Account Type Description and entering "NPS debt" in the pop-up box.

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NON-PURCHASING SPOUSE DEBTS (continued)

NPS debt(s) that the lender has determined to exclude will not be entered into GUS. The lender will retain documentation in their permanent loan file that supports exclusion (a copy of the state statute that allows exclusion of the NPS debt).

A GUS Accept/Accept with Full Documentation file is not required to be downgraded due to the manual entry of NPS debts.

Some states and territories have been identified as community property states or territories: Arizona, California, Guam, Idaho, Louisiana, Nevada, New Mexico, Puerto Rico, Texas, Washington, and Wisconsin. Individual jurisdictions regarding community property regulations may change and the list above is not all inclusive. Therefore, it is the lender's responsibility to ensure compliance with these requirements.

DEED-IN-LIEU (DIL)

A deed-in-lieu of (DIL) foreclosure allows the borrower to convey or deed all interest in a property to the lender to satisfy a loan in default and avoid foreclosure. The DIL will be reflected in the applicant's credit score and public records. Lenders must confirm the Declarations in GUS and/or on the loan application are completed accurately.

A DIL recorded 36 months prior to the date of submission to the Agency is not adverse credit. The 36-month period will begin on the date of the DIL or the date that the applicant transferred ownership of the property to the lender.

GUS Accept/Accept with Full Documentation Files:
No downgrade or credit exception is required.

Refer, Refer with Caution, Manually Underwritten Files, and Loan Types Not Supported by GUS (Manually Submitted):
Credit exception is required.

A credit exception is required for a DIL within the 36 months prior to submission to the Agency. Lenders must retain documentation in their permanent loan file. Refer to the Credit Exception section for guidance.

An applicant that has a DIL recorded post-divorce/filed legal separation agreement and the home was awarded to the ex-spouse/remaining party may document the loan was paid as agreed prior to date of divorce decree/legal separation agreement. The payment history on the credit report or other documentation from the loan servicer/lender must be retained in the lender's permanent loan file to confirm eligibility.

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FORECLOSURE OR REPOSSESSION

A foreclosure is the legal process by which a lender takes control of a property, evicts the homeowner (if necessary), and sells the property to attempt to satisfy the debt. The current owner(s) is no longer able or willing to make the required or agreed upon payments as stipulated in the contract.

Repossessions occur when the borrower cannot or will not remit payment for the collateral secured with the lender. The lender may sell the collateral to satisfy the debt. A deficiency balance may remain. If there is a balance remaining, the outstanding debt would need to be treated the same as a collection account, unless there is documentation that the outstanding balance has been charged off. Refer to the Collections or Charge-offs section for guidance. These adverse credit actions will be reflected in the applicant's credit score and public records, as applicable. Lenders must confirm the Declarations in GUS and/or on the loan application are completed accurately.

GUS Accept/Accept with Full Documentation Files:
No credit exception is required.

Refer, Refer with Caution, Manually Underwritten Files, and Loan Types Not Supported by GUS (Manually Submitted):
Credit exception is required.

When an applicant has a foreclosure discharged or a repossession reported within the 36 months prior to submission to the Agency, this is considered significant derogatory credit and requires a credit exception. Lenders must retain documentation in their permanent loan file. Refer to the Credit Exception section for guidance. The 36-month period will begin on the date in which the title transferred from the applicant.

An applicant that has a foreclosure discharged or a repossession reported post-divorce/filed legal separation agreement and the home was awarded to the ex-spouse/remaining party may document the loan was paid as agreed prior to date of divorce decree/legal separation agreement. The payment history on the credit report or other documentation from the loan servicer/lender must be retained in the lender's permanent loan file to confirm eligibility.

USDA considers the loss of a timeshare adverse credit of a long-term obligation and not a foreclosure. This loss will be reflected in the credit score. Lenders must review the applicant's credit history to determine if they are an acceptable credit risk. **No credit exception is required for the loss of a timeshare.**

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SHORT SALE

A short sale allows a homeowner to sell their property for less than the balance due on the mortgage. All sales proceeds go to the lender. The lender will either forgive the difference owed or a deficiency judgment may be obtained to require the borrower to repay the lender all or part of the remaining balance. The short sale will be reflected in the applicant's credit score and public records. Lenders must confirm the GUS Declarations page and/or the loan application are completed accurately.

A short sale closed 36 months prior to the date of submission to the Agency is not adverse credit.

GUS Accept/Accept with Full Documentation Files:
No credit exception is required.

Refer, Refer with Caution, Manually Underwritten Files, and Loan Types Not Supported by GUS (Manually Submitted):
Credit exception is required.

A credit exception is required when the applicant has a short sale closed within the 36 months prior to submission to the Agency. Refer to the Credit Exception section for guidance.

An applicant that has a short sale closed post-divorce/recorded legal separation agreement and the home was awarded to the ex-spouse/remaining party may document the loan was paid as agreed prior to date of divorce decree/legal separation agreement. The payment history on the credit report or other documentation from the loan servicer/lender must be retained in the lender's permanent loan file to confirm eligibility.

PREVIOUS USDA LOSS

An applicant with a previous Section 502 Single Family Housing Direct or Guaranteed loan that resulted in a loss paid by the Federal government may be considered to have significant derogatory credit.

A previous USDA loss that occurred more than seven years prior to the date of submission to the Agency is not considered derogatory credit.

A previous USDA loss that occurred within seven years prior to the date of submission is considered significant derogatory credit which requires the lender to request an **Agency approved credit exception**. The lender must provide the following information:

- Explain and document the circumstances that led to the loss paid on their behalf. For example, if the loss was due to reduced wages, IRS tax transcripts would document the loss of income. Medical explanations are not required to submit private health information. Lenders must explain why the loss is unlikely to recur. For example, losses due to unemployment and no medical insurance would show a new stable work history with medical benefits; and

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PREVIOUS USDA LOSS (continued)

- The lender must provide the supporting documentation and recommendation for loan approval along with the final and complete application submission to the Agency. The lender's approval recommendation should include an explanation of positive aspects of the loan file that would contribute to future homeownership success. Examples include but are not limited to: Stable job time of 2 years or more, low qualifying ratios, reserves available post loan closing, etc.

USDA will review the explanation and supporting documentation and make the final determination of the applicant(s) eligibility for a new guaranteed loan.

RENT/MORTGAGE PAYMENT HISTORY

An indicator of future mortgage payment probability is the applicant's payment of their current rent or housing. Lenders should include the current rent or mortgage payment amounts on the Income and Expenses GUS application page and/or the loan application.

ALL GUARANTEED LOANS:

Lenders should closely evaluate applicants who will pay a significantly higher proposed mortgage payment in comparison to their current housing payment or who have had no previous housing obligations. Applicants paying higher housing payments than what they are currently paying is considered a risk factor and can lead to mortgage default. The underwriter should review the impact of this risk and the probability that the applicants will be able to repay their new mortgage obligation as part of their review.

GUS Accept/Accept with Full Documentation Files:

No credit exception is required.

No Verification of Rent (VOR) required.

GUS Refer, Refer with Caution, Manually Underwritten Files, and Loan Types Not Supported by GUS (Manually Submitted):

Credit exception may be required.

A VOR may be required. Refer to the GUS Underwriting Findings Report to determine if a VOR is required for a complete loan application.

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RENT/MORTGAGE PAYMENT HISTORY (continued)
All housing payments entered in GUS must be adequately verified and documented. Lenders are required to verify any housing payments made within the previous 12 months. Rent or mortgage payment histories from a family member or other interested party will not be considered unless 12 months of canceled checks, money order receipts, or electronic payment confirmations are provided. Applicants with no verifiable history of housing payments are not automatically ineligible. The approved lender's underwriter must review the available documentation to determine if the applicant has an acceptable credit history and meets program guidance. One rent or mortgage payment paid 30 or more days past due in the previous 12 months is considered significant derogatory credit and will require a credit exception. Lenders must retain documentation in their permanent loan file. Refer to the Credit Exception section for guidance.

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CHAPTER 11: RATIO ANALYSIS

11.1 INTRODUCTION

Ratio calculations are used to determine if the applicants' repayment income can reasonably be expected to meet the anticipated monthly housing expense and total monthly obligations involved in homeownership. The Agency has established standards for principal, interest, taxes, and insurance (PITI) and total debt (TD) ratios; however, there is flexibility to apply these standards when valid compensating factors are present.

11.2 THE RATIOS [7 CFR 3555.151(H)(1)(I)]

Ratios are calculated by utilizing the repayment income, as determined by the lender in Chapter 9, Section 2 of this Handbook. 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 their proposed monthly housing expense does not exceed 29 percent of their repayment income. Monthly housing expenses include:

- First Mortgage (P&I);
- Subordinate Lien(s);
- Homeowner's Insurance;
- Supplemental Property Insurance;
- Property Taxes;
- Mortgage Insurance (First year annual fee monthly amount);
- Association/Project Dues (Condo, Co-Op, PUD); and
- Other.

B. The Total Debt Ratio

Applicants are considered to have repayment ability when their total debts do not exceed 41 percent of their repayment income.

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The total debt ratio includes monthly housing expense (PITI) plus other monthly credit or debt obligations incurred by the applicants.

The lender must document the applicants' debts through various records including, but not limited to, credit reports, direct or third-party verifications, court documents, and verification of deposits. All open debts/accounts (including non-medical collection accounts and judgments) incurred through the closing date must be considered in the total debt calculation and documented in GUS and the loan application, as applicable.

Amounts listed on the credit report will be used unless verification supports an alternate payment amount. If an amount other than that shown on the credit report is used, the lender will provide documentation of the amount utilized. This documentation will be uploaded with the final submission to the Agency.

If an applicant pays off a debt in order to qualify, the lender must document the source of funds used to pay off the obligation in their permanent loan file.

The following obligation expenses must be included in the monthly debts:

1. ***PITI***

- First Mortgage (P&I), property taxes, homeowner's insurance, mortgage insurance (first year annual fee monthly amount), association/project dues, other.

2. ***Installment Accounts***

- Accounts that will be paid in full through a specified number of fixed payments such as auto, personal, secured/unsecured, etc. must have the monthly payment included.

- If ten or less months of repayment remains on any individual account per the credit report, creditor verification, etc., the monthly debt may be omitted if the payment does not exceed five percent of the monthly repayment income.

- Installment debt may be paid down to ten months or less of remaining debt.

3. ***Revolving Accounts***

- Credit cards, lines of credit, secured/unsecured loans, etc. must include the minimum monthly payment documented on the credit report or other creditor verification in the total debts.

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- If the credit report shows an outstanding balance, but no minimum monthly payment, the payment must be calculated as five percent of the balance reported on the credit report.

- The lender may obtain a current account statement or creditor verification to document the actual monthly payment and include that amount in the monthly debts.

- Revolving accounts with no outstanding balance on the credit report do not require an estimated payment to be included in the debt ratio.

- Revolving accounts with no outstanding balance are not required to be closed.

4. ***Open 30-Day Accounts***

- A 30-day account is a credit arrangement requiring the applicant to pay off the full outstanding balance on the account every month.

- The lender may utilize the credit report to document the applicant has paid the outstanding balance for the most recent 12 months.

- If the credit report reflects late payments in the most recent 12 months, the lender must include five percent of the outstanding balance in the monthly debts.

- 30-day accounts that are paid monthly in full are not included in the total debt ratio.

5. ***Court Ordered Debts: Child Support, Alimony, Garnishments, etc.***

- Court ordered debts must have the payment included in the total debt ratio unless the applicant has a release of liability from the court/creditor and acceptable evidence is documented.

- Lenders will utilize select pages from the applicable agreement/court order to document the required monthly payment due and the duration of the debt.

- Court ordered debts with ten or less payments remaining may be excluded if the payment does not exceed five percent of the monthly repayment income.

- For GUS transactions, the lender will manually enter the obligation(s) as a monthly liability. When the obligation account is entered as other, the lender will specify what the obligation is (i.e. court ordered child support). A manual

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entry of this monthly obligation does not require an underwriting recommendation of Accept to be downgraded to a Refer

- Lenders must confirm repayment agreements are current. Refer to Chapter 10 for court ordered debt guidance and program eligibility.

6. ***Child Care Expenses***

- Child care expenses are not required to be included in the monthly debt ratio.

7. ***Student Loans***

- For outstanding student loans, regardless of the payment status, lenders must use:
  - The payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or
  - One half (.50) percent of the outstanding loan balance documented on the credit report or creditor verification, when the payment amount is zero.
- Student loans in the applicant's name alone but paid by another party remain the legal responsibility of the applicant. The applicable payment must be included in the monthly debts.
- Student loans in a "forgiveness" plan/program remain the legal responsibility of the applicant until they are released of liability from the creditor. The applicable payment must be included in the monthly debts.
- Co-signed obligations are addressed below in section 11.

8. ***Mortgages: Rental Property***

- A GUS Accept recommendation will not require a manual downgrade to a Refer when the net monthly rental income is negative.
- Income received from rents may only be counted for repayment if received for 24 months or more. Rental income received for less than 24 months should not be entered into GUS as rental income.
- If the credit report reflects late mortgage payments on the rental dwelling in the most recent 12 months, the full mortgage liability and all associated costs must be included in the monthly debts.

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- Refer to Chapter 9 for rental income guidance.

9. ***Mortgages: No Release of Liability***

- Mortgage liabilities disposed of through a sale, trade, or transfer without a release of liability (i.e. the borrower remains on the promissory note) must be included in the total debt ratio unless evidence can be obtained to confirm the remaining legally obligated party has successfully made the payment for the most recent 12 months.

- Evidence may be reported through the credit report or verification from the creditor/servicer to document the payment history has been current for the most recent 12 months.

- If there are late payments in the most recent 12 months, the full mortgage obligation must be included in the monthly debt.

10. ***Mortgages: Divorce***

- In the case of a divorce, the lender must obtain a copy of the legal separation agreement or divorce decree to document the remaining legally obligated party is responsible to pay all mortgage debts from the effective date of the decree forward.

- Mortgage debts assigned to another party by court order (such as through a divorce decree) can be excluded from consideration when there is evidence the other party is legally obligated to pay the debt. A copy of the court order which requires the other party to make the payments must be retained in the lender's permanent loan file.

- The applicant is limited to being party to one USDA funded or guaranteed loan.

11. ***Co-signed obligations***

- Co-signed debts refer to debts where the applicant may be a co-borrower, joint obligor, co-signer, guarantor, etc.

- Co-signed debts must be included in the monthly debts unless the applicants provide evidence another obligor (party to the debt) has successfully made the payment for the most recent 12 months.

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- Acceptable evidence includes, but is not limited to, canceled checks, money order receipts, and/or bank statements of the co-obligor. Late payments reported in the most recent 12 months will require the monthly liability to be included in the monthly debts.

- If the applicant can provide conclusive evidence from the creditor that they will not pursue debt collection against the applicant should the other party default, the 12-month payment history of the additional party is not required.

- Debts identified as "individual" on a credit report must be included in the debt ratio regardless of who is making the monthly payment (e.g. parents paying car payments on behalf of applicant and the loan is solely in the applicant's name).

- Debts assigned to another party by court order (such as through a divorce decree) can be excluded from consideration when there is evidence the other party is legally obligated to pay the debt. A copy of the court order which requires the other party to make the payments must be retained in the lender's permanent loan file.

12. ***Business Debts***

- Business debts (e.g. car loan) reported on the applicants' personal credit report may be omitted from the monthly debt if there is evidence the debt is paid through a business account.

- Acceptable evidence includes canceled checks or bank statements from a business account for the most recent 12 months.

- Payments paid by the business must be included on the cash flow analysis and/or profit and loss statement, when applicable.

13. ***401(k) Loans/Personal Asset Loans***

- Loans pledging personal assets, such as a 401(k) account, retirement funds, savings account, or other liquid assets do not require a payment to be included in the monthly debts.

14. ***Debts of a Non-Purchasing Spouse (NPS)***

- Applicants who currently reside or are purchasing in a community property state must include the debts of the NPS unless specifically excluded by state law.

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- Approved lenders are responsible to confirm state laws are met.

15. ***Collection Accounts***

- Refer to Chapter 10 for collection account guidance.

16. ***Judgment Accounts***

- Refer to Chapter 10 for Federal and non-Federal judgment guidance.

17. ***Charge-off Accounts***

- Refer to Chapter 10 for charge-off account guidance.

18. ***Expense allowances (including automobile allowances)***

- An automobile or other expense allowance will not cancel out a monthly debt for an automobile or expense loan/debt.

- The full amount of the monthly debt associated with the expense (such as a car or equipment payment) must be included in the total debt ratio calculation.

- For guidance on calculating income for expense allowances, refer to Chapter 9.

19. ***Balloon/Deferred Payments***

- Deferred debts and balloon debts that will require payment in full upon their due date must have a payment included in the monthly debts. When the balloon/deferred payment loan is due within 12 months, the lender must evaluate the complete loan application to make a determination regarding the applicants' repayment ability.

- If the actual payment on a deferred/balloon loan is unknown, the lender may obtain documentation from the creditor to establish a monthly payment that will be due on a documented payment date, or they must use five percent of the outstanding balance on the credit report or creditor verification.

20. ***Tax Repayment Agreements***

- Include Federal or State income tax repayment plan payments in the monthly debt. If ten or less months of repayment remains per the plan, the monthly debt may be excluded if the payment does not exceed five percent of the monthly repayment income.

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- Refer to Chapter 10 for Federal Income Tax agreement eligibility.

21. ***Lease Payments***

- Auto, solar, energy, and additional lease payments must have the payment included in the monthly debt regardless of the number of months remaining to pay on the contract.

22. ***Debt Management Plans***

- Include the monthly payment amount due from the counseling plan.
- Refer to Chapter 10 for guidance on credit exception and documentation requirements.

11.3 DEBT RATIO WAIVERS AND COMPENSATING FACTORS [7 CFR 3555.151(H)(3)]

The applicants' PITI ratio may exceed 29 percent, and the Total Debt ratio may exceed 41 percent if the lender determines that strong compensating factors demonstrate that the household has higher repayment ability.

A. Purchase Transactions: Debt ratio waivers

1. ***GUS Accept loans:***

GUS files that receive an Accept or Accept Full Documentation underwriting recommendation do not require a debt ratio waiver.

2. ***GUS Refer, Refer with Caution, and manually underwritten loans without GUS assistance:***

The lender must document eligible compensating factors to support a debt ratio waiver. Agency approval of a lender's request may be granted if all of the following conditions are met:

- Acceptable ratio thresholds are met:
  - The maximum PITI ratio cannot exceed 32 percent, and
  - The maximum TD ratio cannot exceed 44 percent;
- The validated credit score of all applicants is 680 or greater;

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- At least one of the acceptable compensating factors listed below is identified. Supporting documentation is provided to the Agency and maintained in the lender's permanent file. Acceptable Compensating Factors and Supporting Documentation:

  - Accumulated savings or cash reserves available post loan closing are equal to or greater than three months of PITI payments. Documentation may include a verification of deposit (VOD) or bank statements that meet the requirements of Chapter 9. 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 two years. A *Request for Verification of Employment* (VOE) (Form RD 1910-5, comparable HUD, FHA, VA, or Fannie Mae form, or equivalent), or a VOE prepared by an employment verification service (e.g. The Work Number) must be provided. Applicants that have received Social Security benefits or retirement income for two years may utilize this compensating factor with documentation to support the history of receipt of benefits. This compensating factor is not applicable for self-employed applicants.

  - The proposed PITI does not exceed the applicant's current verified housing expense by more than $100 or 5 percent, whichever is less, for the 12-month period preceding loan application. Verification of housing expenses may be documented on a Verification of Rent (VOR), Verification of Mortgage (VOM), or credit report, as noted in Chapter 10. The VOR, VOM, or credit report must include the actual payment due and report no more than one 30 day late payment for the previous 12 months. Rent or mortgage payment histories from a family member or interested party 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.

  - The subject property is an energy efficient home based on the International Energy Conservation Code (IECC) standards, defined as:

    - For new construction, the dwelling meets or exceeds the IECC in effect at the time of construction. The lender is responsible for verifying the home meets the IECC standards, with evidence maintained in the lender's permanent loan file. Refer to Chapter

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12 for guidance in documenting thermal standards for new construction dwellings.

- For existing dwellings, the dwelling meets or exceeds the current IECC. Existing dwellings that have been retrofitted to meet the current IECC standards are eligible. The lender is responsible for verifying the home meets the current IECC standards, with evidence maintained in the lender's permanent loan file.

- 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 an 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 approval.

  - The issuance of the Conditional Commitment for a Loan Note Guarantee represents Agency approval of the ratio waiver.

B. Refinance Transactions: Debt ratio waivers

1. *GUS Accept loans:*

- GUS files that receive an Accept or Accept Full Documentation underwriting recommendation do not require debt ratio waivers.

2. *GUS Refer, Refer with Caution, and manually underwritten loans without GUS assistance:*

- GUS files that receive a GUS recommendation of Refer, Refer with Caution, or are not supported by GUS require debt ratio waivers, and supporting documentation must be submitted to the Agency.

- Streamlined-assist refinance loans do not require debt ratio calculations; therefore, debt ratio waivers are not required.

- Debt ratios for refinance loans are not limited to the maximum purchase debt ratio thresholds.

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- The following are examples of acceptable compensating factors for debt ratio waiver requests:
  - Validated credit score of 680 or higher for all applicants.
  - The proposed PITI does not exceed the borrower's current verified mortgage payment by more than $100 or 5 percent, whichever is less, for the 12-month period preceding loan application.
  - Accumulated savings or cash reserves available post-closing are equal to or greater than three months of the proposed PITI payment. Cash on hand is not eligible for consideration as a compensating factor.
  - Continuous employment with the current primary employer.
  - The subject property is an energy efficient home, defined as a dwelling which meets or exceeds the current International Energy Conservation Code (IECC). Existing dwellings that have been retrofitted to meet the current IECC standards are eligible. The lender is responsible for verifying the home meets the current IECC standards, with evidence maintained in the lender's permanent loan file.
- The issuance of the Conditional Commitment for a Loan Note Guarantee represents Agency approval of the ratio waiver.

11.4 MORTGAGE CREDIT CERTIFICATES

Authorized State or local housing finance agencies may issue a mortgage credit certificate (MCC) that provides a federal income tax credit to a qualified first-time homebuyer and/or low- or moderate-income homebuyer. Refer to Chapter 9 for MCC guidance and GUS data entry information.

11.5 FUNDED BUYDOWN ACCOUNTS

Funded buydown accounts are designed to reduce the borrower's monthly payment during the initial years (temporary buydown) or the full life (permanent buydown) of the loan. Permanent buydowns are fully funded and paid for at loan closing. The interest rate is fixed and will not change for the life of the loan. Temporary buydowns are eligible when the following guidelines are met:

- The mortgage loan must be underwritten at the full note rate. Both the full note rate and the initial buydown rate must be entered into GUS;
- Buydown funds may come from the seller, lender, or other third party;

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- Buydown funds may not come from the borrower;
- The buydown must not reduce the interest rate more than two percent below the full note rate;
- The assistance may increase no more than one percent annually;
- The borrower must agree in writing that the temporary buydown funds will be placed in an escrow with a financial institution supervised by a federal or state agency and paid directly to the lender each month to reduce the monthly mortgage payment;
- The buydown account must be fully funded at origination; and
- A copy of the executed escrow agreement must be retained in the lender's permanent loan file.

11.6 SECTION 8 HOMEOWNERSHIP VOUCHERS

Section 8 Homeownership Vouchers may be used for qualifying applicants. Refer to Chapter 9 for voucher guidance and GUS data entry information.

11.7 OBLIGATIONS NOT INCLUDED IN DEBT-TO-INCOME RATIOS

Obligations not considered or included in total debt-to-income ratio calculations include:

- Medical collections;
- Medical payments;
- Federal, state, and local taxes, unless a payment plan is in place;
- Federal Insurance Contribution Act (FICA) contributions;
- Other retirement contributions such as 401(k) accounts, including the repayment of loans secured by 401(k) funds;
- Automatic deductions to savings accounts, mutual funds, stocks, bonds, certificates of deposit, including the repayment of loans secured by such funds;
- Collateralized loans secured by depository accounts;
- Utilities;

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- Insurance, other than property insurance;
- Commuting costs;
- Union dues;
- Open accounts with zero balances;
- Child care; and
- Voluntary deductions.

All liabilities disclosed by the applicant should be listed in GUS. The lender may "omit" liabilities as permitted.

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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 Single Family Housing Guaranteed Loan Program (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.

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. In particular, sites must be located in eligible 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.

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 a 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

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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 HB-1-3550 Chapter 5 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, as determined by the Secretary of Agriculture and the Secretary of Housing and Urban Development. Any area classified as "rural" or a "rural area" 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, 2010, or 2020 decennial census, and any area deemed to be a "rural area" any time during the period beginning January 1, 2000, and ending December 31, 2020, shall continue to be so classified until the receipt of data from the decennial census in the year 2030 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 an automated system to allow users to enter an address to determine property eligibility. Users who utilize the public website will receive one of three property eligibility decisions when an actual address is entered – "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 is eligible for a

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guarantee prior to requesting an appraisal.

USDA Rural Development Property and Income Eligibility Website: https://eligibility.sc.egov.usda.gov.

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:

- Purchase transactions are eligible if the following requirements are met:
  - The application is dated and received by the lender prior to the area designation change;
  - The Loan Estimate was issued within three days of the application date;
  - The purchase contract is ratified prior to the date of the area designation change; and
  - The applicant and property meet all other loan eligibility requirements.
- Existing Conditional Commitments that have been issued will be honored provided the commitment was issued prior to the area designation change;
- Existing direct and guaranteed loans that meet all requirements, as outlined in Chapter 6, remain eligible for refinance transactions;
- REO properties sold from Agency inventory remain eligible for purchase transactions;
- SFHGLP REO property sales and transfers with assumption may be processed in areas that have changed to non-rural; and
- A supplemental loan may be made in conjunction with a transfer and assumption

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of a guaranteed loan.

12.4 SITE REQUIREMENTS [7 CFR 3555.201(b)]

A qualified property must be predominately residential in use, character, and design. Sites must be 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.** There is no specific limitation to the size/acreage of the site. The appraiser must provide an explanation in the addendum of the appraisal to explain adjustments to comparable properties, how the subject compares to other single family sites in the area, etc.

- **Income-Producing Buildings.** The property must not include buildings principally used for income-producing purposes. Barns, silos, commercial greenhouses, or livestock facilities used primarily for the production of agricultural, farming, or commercial enterprise are ineligible. However, barns, silos, livestock facilities, or greenhouses no longer in use for a commercial operation, which will be used for storage, do not render the property ineligible. Outbuildings such as storage sheds and non-commercial workshops are permitted if they are not used primarily for an 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 commercial real estate features are not restricted.

- **Accessory Dwelling Unit.** An Accessory Dwelling Unit (ADU) refers to a habitable living unit, within, or detached from a single family dwelling, which together constitute a single interest in real estate. The presence of a single ADU does not automatically render the property ineligible. Design features such as converted portions of existing homes that include a kitchenette or additional attached living area (e.g., bedroom and/or bathroom) without a separate address or independent utilities (e.g., water, gas, electricity) are not restricted, provided they function in support of only the household members. ADUs which function in support of the household members, such as multigenerational households, are consistent with the objective of this program, however those designed to create a

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potential rental income stream are not. The appraiser will determine if the ADU represents a second single family housing dwelling unit. The appraiser must document the highest and best use considering all property characteristics, including the status of the utilities if they are separate, when making this determination. The appraiser will include their evaluation in the site analysis and highest and best use section of the appraisal report, as applicable.

- **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. A residential site that houses a minimal income producing feature such as a windmill, billboard, cell phone tower, etc. located on the property does not render the site income-producing. These features are typically maintained with a legal agreement and generate a minimal amount of additional income. The lender will review the available documentation and income received in accordance with the requirements in Chapter 9 for the purpose of calculating annual household income, as applicable.

- **Multiple Parcels.** The lender will ensure the mortgage provides a valid first lien covering each parcel. Each parcel must be conveyed in its entirety and have the same basic zoning. The entire property will contain only one dwelling but may have non-residential, non-income producing buildings, such as a garage. An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home. Parcels divided by a road, that would otherwise be contiguous, are acceptable.

- **Properties with Solar Panels.** Dwellings with solar panels are not considered an income producing property. If the property owner (seller) is the owner of the solar panels and the solar panels will be included as part of the purchase transaction, then standard eligibility requirements apply (i.e. appraisal, insurance, and title). If the solar panels are subject to a lease agreement, power purchase agreement (PPA), or similar type of agreement, the following requirements apply:

  - Leases and contracts will vary by company and should be considered on a case by case basis to ensure all terms/regulations are met.

  - First lien position, by the lender, should be protected and maintained.

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- The property should maintain access to an alternative source of electric/gas power that meets community standards.

- The energy company or lessee should not block any foreclosure or servicing actions.

- If an agreement for an energy system lease or PPA could cause restriction upon transfer of the house, the property is subject to impermissible legal restrictions and is generally ineligible for the guaranteed loan.

- The lease agreement or PPA should indicate that any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment, and the owner is obligated to repair the damage and return the improvements to their original or prior condition.

- The lease agreement, PPA, or other agreement should indicate that the owner of the solar panels cannot be a loss payee on the homeowner's insurance policy.

- If a lease includes payment for equipment, it should be considered a debt and included in the total debt ratio. See Chapter 11 for additional guidance.

- Leased solar panels are considered personal property and are not included in the appraised value.

- Properties with Property Assessed Clean Energy (PACE) loans or assessments are ineligible for a SFHGLP loan.

- **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, with public access or permanent recorded easements.

- **Utilities.** The site must be supported by adequate utilities and water and wastewater disposal systems.

- **Zoning.** The property must comply with applicable zoning requirements and

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restrictions. If an existing property does not comply with all current zoning ordinances but it is accepted by the local zoning authority, the appraiser must report the property as legal non-conforming. The appraisal must reflect any adverse effect of the legal nonconforming use on the value and marketability of the property.

SECTION 2: APPRAISALS [7 CFR 3555.107(d)]

12.5 RESIDENTIAL APPRAISAL REPORTS

Approved lenders must ensure appraisals are completed by a qualified appraiser that is independent and objective. Approved lenders are responsible to review all appraisals for integrity, accuracy, and thoroughness, prior to submission of a complete loan application package to USDA. The lender may pass the cost of the appraisal on to the borrower. The appraisal must have been completed within 180 days of loan closing. Appraisals that are older than 180 days prior to loan closing are eligible for an appraisal update as indicated in this Chapter.

A. Qualified Appraiser

Approved lenders must select qualified and competent appraisers that are properly licensed or certified, as appropriate, in the State in which the property is located. 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 www.asc.gov/appraiser.

B. Appraisal Report

All appraisals must comply with the reporting requirements of USPAP available at www.appraisalfoundation.org. All appraisal reports must 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*, located online at: https://singlefamily.fanniemae.com/delivering/uniform-mortgage-data-program/uniform-appraisal-dataset.

The appraiser will utilize the most current residential appraisal forms acceptable to Fannie Mae, Freddie Mac, HUD, or VA.

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Appraisal considerations:

- Appraiser/client confidentiality under USPAP Ethics Rules does not permit the appraiser to discuss the appraisal with anyone other than the client, without the client's permission. It is recommended, but not required, that USDA/RD be identified as an intended user with the lender in the appraisal report obtained.

- The market or sales comparison approach is required in all cases. No 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 appraiser will determine if the cost approach is required. For example, the property is unique, has specialized improvements, is new manufactured housing, or if the client requests the cost approach to be completed, then 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.

- The income approach is only required if the appraiser determines that it is necessary to develop credible assignment results.

- An appraisal prepared for REO purposes, loan servicing consideration, or any other purpose other than the guaranteed purchase or refinance transaction is ineligible to be used in the origination of a guaranteed loan. A new appraisal with the intent to arrive at an opinion of value for a purchase transaction must be obtained.

Photographs. Photographs in the appraisal report must be in color and be clear and descriptive to identify the property's condition and quality. Photographs must clearly represent the improvements, any physical deterioration of the property, amenities, conditions, and external influences that may have a material effect on the market value or marketability of the subject property. Lenders will upload the appraisal report at the *Application Documents* page in the Agency's automated underwriting system, GUS, by selecting *10002 Appraisal Report* and uploading as an individual document. An appraisal report with interior and exterior inspection of the subject property must include at least the following:

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- A front view of the subject property;
- A rear view of the subject property;
- A street scene identifying the location of the subject property and showing neighboring improvements;
- The kitchen, main living area, bathrooms, bedrooms;
- Any other rooms representing overall condition, recent updates, such as restoration, remodeling, and renovation;
- Basement, including all finished and unfinished rooms;
- Attic and/or crawl space when it can be safely accessed without disturbing or moving items that obstruct access or visibility;
- Comparable sales, listings, and/or pending sales utilized in the valuation analysis must include at least a front view of each comparable utilized;
- The HUD Data Plate and the HUD Certification Label(s) for manufactured homes; and
- Condominium projects should include additional photographs of the common areas and shared amenities.

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 initial 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 180 days at loan closing to be valid.

Appraisal update. The validity period of an appraisal report can be extended only one time with an Appraisal Update Report. The appraisal may be expired at the time the appraisal update is requested. However, when the original appraisal is subsequently

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updated, the appraisal is valid for no greater than one year from the effective date of the original appraisal report at loan closing. The purpose of an appraisal update request is to determine if the property has declined in value since the effective date of the original appraisal. An update is not eligible to support a higher appraised value of the property.

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 assignment that was already completed; it is simply a new assignment. Refer to USPAP Advisory Opinion 3 for additional clarification, available at www.appraisalfoundation.org.

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 that contains all the necessary information/analysis to satisfy the applicable reporting requirements, without incorporation of the prior report by either attachment or reference.
2. Provide a new report that incorporates by attachment specified information/analysis from the prior report so that, in combination, the attached portions and the new information/analysis added satisfies the applicable reporting requirements.
3. Provide a new report that incorporates by reference specified information/analysis from the prior report so that, in combination, the referenced portions and the new information/analysis added satisfies the applicable reporting requirements.

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.

Property flipping. It remains the lenders responsibility to ensure any recently sold property's value is strongly supported when a significant increase between sales occur. The lender must perform a thorough review of the appraisal report to validate and support the property's value and protect the applicants from possible predatory real estate lending.

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C. Agency Review

The Agency will review appraisals for 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 Review 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 to communicate and initiate 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 Agency will notify the lender when appraisals completed by ineligible appraisers will no longer be accepted for the SFHGLP.

D. Directors of the Origination and Processing Division Responsibilities

A director of the Origination and Processing Division (OPD) will designate or delegate authority to the supervisory staff of the unit 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.

A director of the OPD will determine and establish the training needs for Rural Development OPD staff completing appraisal reviews. A director of the OPD will also assure that an adequate number 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

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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 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 uploading. 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 items that affect loan security, value conclusions, or unacceptable property conditions.

2. Technical Desk Reviews

A technical desk 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 the Agency Appraiser. Technical reviews completed by Agency appraisers must follow current USPAP guidelines.

- 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 random method. The percent of files randomly selected will be set by the direction of the SFHGLP.

A director of the OPD, the Quality Assurance and Lender Oversight Division, or designated supervisory staff, will coordinate with Program Support Staff (PSS) in National Headquarters to establish internal management controls and systems to document and substantiate residential appraisal compliance activities, which will be

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evaluated during Internal Control Reviews, Single Family Housing program reviews, and other similar types of reviews. Technical desk reviews of appraisals received by the Agency provide a method of internal control by the appraisal review staff and ensure that appraisals received by the Agency are in compliance with USPAP and Agency regulations. A Director of the OPD, or designated supervisory staff, will support completion of technical desk reviews in coordination with PSS to achieve the appraisal quality control requirements of the Agency.

A technical review may also be requested by OPD 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. OPD staff will document the nature of their concerns on Form RD 1922-15. The appraisal will then be forwarded to the Appraisal Services Branch 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 Agency Appraisal staff on a random, spot-check basis to determine if the appraiser has followed accepted appraisal techniques and arrived at a logical conclusion.

- 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. A director of the OPD, or designated supervisory staff, and the appraisal review staff are responsible for the administration of residential appraisal compliance and training. Appropriate actions will be initiated by a director of the OPD, or designated supervisory staff, and appraisal review staff to ensure compliance with USPAP and SFHGLP policies governing the residential appraisal process.

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 Agency, it may be difficult to obtain adequate comparable sales to appraise a property. When the sales comparison approach cannot be developed for a

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credible opinion or conclusions 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 Agency and are defined as areas with all 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.

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 that meet the requirements in HUD Handbook 4000.1 or meet the requirements of local and/or state health authority do not require additional inspections other than water purity tests as

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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 may be used if the individual water system, with purification, meets the requirements of the state department of health or other comparable reviewing and regulatory authority.

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. 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 EPA's Safe Drinking Water Hotline at (800) 426-4791 for referral to certified labs and other inquiries.
  - The water analysis report must be no greater than 180 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.
- The well location for individual water supply systems must be measured to establish the distance from the septic system. The separation distance between the well and septic systems must meet the SF Handbook (HUD Handbook 4000.1) or be found acceptable by the Local and/or State Health Authority.
- Individual water systems/wells should be located on the subject property site. If located on an adjacent property, evidence of water rights and recorded

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maintenance agreement must be retained in the lender's permanent loan file as acceptance of the well as the primary source of water.

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 unless approved and enforced by the local code authority.

- 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; and

  - 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.

3. Community Owned

If the property is served by a community water system operated by a private corporation or nonprofit property owner's association, the lender must ensure the

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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.

5. Individual Water Systems in Hawaii and the Western Pacific Region

Due to the limited regulation provided by local ordinances and/or regulations of each jurisdiction in Hawaii and the Western Pacific Region regarding individual water systems (IWS), including rainwater catchment systems, the Agency has determined that an IWS is considered an eligible water system if the following conditions are met:

- The property is located in Hawaii or the Western Pacific Region;

- The property does not have an available affordable connection to a public or private community water system;

- The alternative water supply system, rainwater catchment system, complies with and/or is not prohibited by ordinances and/or regulations of the local jurisdiction in which the property is located;

- Water quality tests are not required if the state or local authority does not have specific requirements and EPA testing is not available;

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- Reliance upon the rainwater catchment system does not diminish the marketability or value of the property within its marketplace. The system must be typical for the area as described by the appraiser; and

- The applicant is required to acknowledge and certify of their responsibility to maintain the rain catchment system.

B. Wastewater

1. Individual Privately Owned

The lender is required to obtain a septic evaluation. A qualified appraiser who certifies the property meets required HUD's Single-Family Housing Policy Handbook, a government health authority, a licensed septic system professional, or a qualified home inspector may perform the septic evaluation. The septic evaluation may require additional inspections as a result of the inspection. The septic system must be free of observable evidence of failure.

Existing dwellings appraised by a qualified appraiser who indicates the dwelling meets the required HUD handbook policy does not require further septic certification; however, water supply systems must be measured to establish the distance from the septic system. The separation distance between the well and septic systems must meet the SF Handbook (HUD Handbook 4000.1) or be found acceptable by the local and/or State Health Authority.

If the property is served by an individual sewage disposal system, the lender must ensure the system:

- 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

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the property owner's permitted use; and

- 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 owner's 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; and

- 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.

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. Private roads or streets are acceptable provided each property has vehicular or pedestrian access. Private roads or streets must be protected by permanent recorded easement (non-exclusive and non-revocable easement without trespass from the property to a public street) or the street must be maintained by a homeowner's association (HOA). Shared driveways must also meet these requirements requiring a permanent 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 loan file, may be used to

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evidence the easement. Private streets must have a permanently recorded easement or be owned and maintained by an HOA. All evidence of recorded easements or maintenance agreements 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 always pass. 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 properties financed under the SFHGLP. Modest housing is defined as a new or existing dwelling that a low- or moderate-income borrower can afford based on their repayment ability. The property must not be primarily designed for income producing activity.

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 an adequate, safe, and sanitary single-family home. 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 the dwelling meets the current minimum property requirements of the Single Family Housing Policy Handbook (SF Handbook; HUD Handbook 4000.1, also known as HUD Handbook) or as superseded by HUD. An existing dwelling is defined as been completed for more than 12 months or has been completed less than 12 months but has been previously occupied.

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Qualified appraisers are licensed or certified and can attest the property meets HUD Handbook 4000.1 standards. It remains the lenders responsibility to determine if the appraiser is thoroughly familiar with the HUD Handbook. The appraiser may certify the requirements of the HUD Handbook 4000.1 have been met on page three of the appraisal form in the "comment" section, or in an addendum to the appraisal.

Appraisers who are unfamiliar with the HUD Handbook standards should not certify that a property meets those standards and doing so constitutes a misrepresentation. If the qualified appraiser is unfamiliar with the HUD Handbook standards, the lender should obtain a home inspection report provided by a home inspector deemed qualified by the lender. The appraiser must report all readily observable property deficiencies, as well as any adverse conditions discovered performing the research involved in completing the appraisal.

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. A property in which a qualified appraiser indicates is in average or good condition may be considered in good repair, though repairs may still be required by the lender. Lenders are responsible for ensuring the following guidelines are met:

- Lenders must encourage applicants to obtain a detailed home inspection of the property independent of the inspection noted above.

- 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. As stated in the HUD Handbook, the responsibility for enforcing code rests with the local municipalities.

- Termite/pest inspections are required if the lender, appraiser, inspector, or State law requires the inspection to confirm the property is free of active infestation.

- Lenders are not required to collect an inspection report to confirm thermal standards for existing dwellings.

- Lenders must provide applicants with Form HUD-92564-CN, *For Your Protection: Get a Home Inspection*, with evidence maintained in the lender's permanent loan file.

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Lenders are responsible to determine if any repairs will be required to meet HUD Handbook standards. Lenders are reminded they are responsible for the acts of their agents, including appraisers. 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.

HUD Handbooks and forms are located at:
https://hud.gov/program_offices/administration/handbks_forms

B. New Dwellings [7 CFR 3555.202(a)]

New dwellings must be designed and constructed in accordance with certified plans and specifications. Evidence of all of the items below must be retained in the lender's permanent loan file:

- Certified plans and specifications;
- Required construction inspections; and
- Thermal standards are met.

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. One year builder warranties are deemed acceptable to the Agency when the policy is non-refundable or cancellable, the policy is from an insurance company licensed to do business in the state where the property is located, and the coverage includes (from effective date) at least one year for any defects caused by faulty workmanship or defective materials. The one year builder's warranty must be fully executed and include the date of warranty, owner, warrantor name, location of property, signatures of all parties, and any other applicable information. This section will provide documentation options necessary to meet each of these

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requirements for both stick built and manufactured homes.

Information regarding financing new manufactured and modular homes may be found in Chapter 13 of this Handbook.

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1. Documentation Requirements for New Construction Stick Built Homes:

Evidence of Certified Plans and Specs	Evidence of Construction Inspections	Evidence of Thermal Standards
OPTION 1 Copy of the certification from a qualified individual or organization that the reviewed documents comply with applicable development standards; ***OR***	**OPTION 1** Certificate of Occupancy issued by a local jurisdiction showing that it has performed at least 3 construction phase inspections, as identified in Section 12.9(B), and an acceptable 1 year builder warranty; ***OR***	**OPTION 1** A qualified, registered architect or a qualified, registered engineer may certify confirmation with IECC standards; ***OR***
OPTION 2 Certificate of Occupancy issued by a local jurisdiction; ***OR***	**OPTION 2** Three construction phase inspections performed at each of the phases identified in Section 12.9(B) and an acceptable 1 year builder warranty; ***OR***	**OPTION 2** Builder may certify confirmation with the IECC standards; ***OR***
OPTION 3 Building Permit (or equivalent) issued by local jurisdiction.	**OPTION 3** Final inspection and a 10-year insured builder warranty. Builder backed 2/10 warranty fulfills the 10-year warranty requirement.	**OPTION 3** The final inspection or Certificate of Occupancy issued by a local jurisdiction.

The lender is responsible for obtaining one form of required evidence from the list of available source options in each category. This evidence must be kept in the lender's permanent loan file.

New Construction Certified Plans and Specifications for Stick Built Homes

The lender’s file must contain evidence the plans and specifications comply with all development standards* applicable to the new construction. Acceptable evidence includes:

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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 is not 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:

- Licensed architects;
- Professional engineers;
- Plan reviewers certified by a national model code organization;
- Local building officials authorized to review and approve building plans and specifications; or
- National codes organizations.

*Applicable development standards. The current International Code Council (ICC) standards or current state adopted ICC code(s) for residential construction.

Evidence of Construction Inspections for Stick Built Homes

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 showing that it has performed at least 3 construction phase inspections, including inspections noted in option 2 below, and a 1-year builder warranty plan acceptable to Rural Development.

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-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; and
   - A 1-year 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 and a 10-year insured builder warranty.
   - Final Update and/or Completion Report (*Fannie Mae Form 1004D/Freddie Mac Form 442*) is acceptable as a final inspection, provided the appraiser is deemed qualified by the lender.
   - Builder backed 2/10 warranty fulfills the 10-year warranty requirement.

Evidence of Thermal Standards for New Construction Stick Built Homes

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. Evidence of thermal standards are typically included in the plans and specs to which the dwelling is built.

Documentation of conformance may be met by one of the following options:

1. A qualified, registered architect or a qualified, registered engineer may certify confirmation with IECC standards; or

2. The builder may certify confirmation with the IECC standards; or

3. The final inspection or Certificate of Occupancy issued by a local jurisdiction meets this requirement.

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2. Documentation Requirements for New Construction Manufactured Homes:

Evidence of Certified Plans and Specs	Evidence of Construction Inspections	Evidence of Thermal Standards
OPTION 1 Copy of the certification from a qualified individual or organization that the reviewed documents comply with applicable development standards; ***OR***	**OPTION 1** Certificate of Occupancy issued by a local jurisdiction showing that it has performed at least the footing and final inspections, as identified in Section 12.9(B), and an acceptable 1 year builder warranty; ***OR***	**OPTION 1** HUD Data Plate confirmation with IECC standards; ***OR***
OPTION 2 Certificate of Occupancy issued by a local jurisdiction; ***OR***	**OPTION 2** Footing and final inspections performed by a qualified inspector as identified in Section 12.9(B), and an acceptable 1 year builder warranty; ***OR***	**OPTION 2** Builder may certify confirmation with the IECC standards; ***OR***
OPTION 3 Building Permit (or equivalent) issued by local jurisdiction.	**OPTION 3** Final inspection and a 10-year insured builder warranty. Builder backed 2/10 warranty fulfills the 10-year warranty requirement.	**OPTION 3** The final inspection or Certificate of Occupancy issued by a local jurisdiction.

The lender is responsible for obtaining one form of required evidence from the list of available source options in each category. This evidence must be kept in the lender's permanent loan file. Warranty documents for manufactured homes must include the serial number.

New Construction Certified Plans and Specifications for Manufactured Homes

The lender’s file must contain evidence the plans and specifications comply with all

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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 is not 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.

Evidence of Construction Inspections for Manufactured Homes

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 showing that it has performed at least 2 construction phase inspections, which must include the inspections noted in option 2 below, and a 1-year builder warranty plan

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acceptable to Rural Development.

-OR-

2. Two construction inspections performed when:
   - Footings and foundation are ready to be poured and prior to back-filling;
   - Final inspection of completed work prior to occupancy; and
   - A 1-year 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 and a 10-year insured builder warranty.
   - Final Update and/or Completion Report (*Fannie Mae Form 1004D/Freddie Mac Form 442*) is acceptable as a final inspection, provided the appraiser is deemed qualified by the lender.
   - Builder backed 2/10 warranty fulfills the 10-year warranty requirement.

Evidence of Thermal Standards for New Construction Manufactured Homes

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. Evidence of thermal standards are typically included in the plans and specs to which the dwelling is built.

Documentation of conformance may be met by one of the following options:

1. A HUD Data Plate confirmation with IECC standards; or

2. The builder may certify confirmation with the IECC standards; or

3. The final inspection or Certificate of Occupancy issued by a local jurisdiction meets this requirement.

In general, the lender has primary responsibility for all loan origination activities. The Agency has primary responsibility to review lenders' actions and monitor participants'

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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, including pest and termite inspections that the lender may opt to collect as part of state laws or investor requirements;
- 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;
- 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.

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C. Repair Escrows for Existing and New Dwellings, Post Issuance of the Loan Note Guarantee [7 CFR 3555.202(c)]

Repair escrows, post issuance of the Loan Note Guarantee, are acceptable provided the home is habitable, as determined by the lender. All items of new construction or repairs must be 100 percent (100%) complete in accordance with plans and specifications, except for minor items not affecting the livability of the structure or that cannot be completed due to weather conditions, and the estimated cost to complete the work is not greater than 10 percent of the total loan amount. This section does not apply to the Single Close Combination Construction to Permanent Loans or Rehabilitation or Repair Loans. The lender assumes responsibility for completion of repairs in accordance with the conditions set forth in this Section for any repair escrow established. Lenders may utilize Attachment 12-E, *Repair Escrow and Rehabilitation & Repair with Purchase Comparison*, when determining how repairs or rehabilitation may be financed.

Repair items will be required to be completed within 180 days of loan closing. This period may be extended at the discretion of the Agency for homes that need exterior repairs but are in an area experiencing inclement weather conditions. The maximum exterior repair escrow period when an extension is granted is limited to 240 days. Extensions may be granted beyond 180 days for exterior escrows only.

The Agency may issue a Loan Note Guarantee prior to the completion of interior or exterior repairs provided all the following conditions are met:

- The incomplete work does not affect the livability of the dwelling, nor the health or safety of the occupants;
- A signed contract between the borrower and the contractor is in effect for the proposed work;
- The funds to be escrowed are not less than 100 percent of the repair cost contract. The loan underwriter may determine the escrow amount, which could exceed the repair cost;
- The Closing Disclosure reflects the holdback;

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- The development will be completed within 180 days of closing, unless an extension is granted by the Agency for inclement weather conditions;

- The escrow account is established in a federally supervised financial institution; and

- An inspection report certifying the defect/repair has been properly repaired is obtained. 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 to pay for the work. All documentation supporting the development and confirmation of the completion will be retained in the lender's permanent loan file and is subject to the certification of Form RD 3555-18/18E. Funds that remain in the escrow account after the completion of all required repairs must be utilized for an eligible loan purpose or applied to the principal balance of the permanent loan. Personal funds of the borrower utilized to fund the repair escrow (excluding loan funds or a seller concession) may be returned to the borrower. A seller's personal funds utilized to fund the repair escrow (excluding a seller concession as part of the sales contract) may be returned to the seller.

Escrow completion for interior or exterior repairs on an existing dwelling – 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 conditions are met:

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- The estimated cost to complete the work is not greater 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, skills, and time necessary to complete the work within the maximum 180-day limit.

All remaining requirements as noted at Paragraph 12.9 C 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 loan file and is subject to the certification of Form RD 3555-18/18E. Funds remaining in the escrow account upon completion of the work that are representative of loan funds or a seller concession as part of the sales contract will be used to reduce the unpaid principal balance of the mortgage or utilized for an eligible loan purpose. Personal funds of the borrower utilized to fund the repair escrow (excluding loan funds or a seller concession) may be returned to the borrower. A seller's personal funds utilized to fund the repair escrow (excluding a seller concession as part of the sales contract) may be returned to the seller.

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SECTION 4: ENVIRONMENTAL REQUIREMENTS [7 CFR 3555.5]

12.10 HAZARD IDENTIFICATION

A. Due Diligence

Lenders are required to utilize due diligence regarding potential environmental hazards to ensure the property is safe, sanitary, and has sufficient value to adequately secure the loan. The property must be free to the maximum extent possible of any 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).

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 FF-206-FY-21-116, *Standard Flood Hazard Determination Form (SFHDF),* to determine whether the dwelling is in a Special Flood Hazard Area (SFHA) in accordance with the National Flood Insurance Reform Act of 1994.

Existing dwellings located in a SFHA are eligible for the SFHGLP when flood insurance through FEMA's National Flood Insurance Program (NFIP) is available for the

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community and flood insurance, whether NFIP, "write your own," or private flood insurance, is purchased by the borrower. Lenders are required to accept private flood insurance policies that meet the requirements of 42 U.S.C. 4012a (b)(1)(A) and remain responsible for ensuring private policies continue to meet this requirement. Insurance must be obtained as a condition of closing and maintained for the life of the loan for existing residential structures when any portion of the structure is determined to be in a SFHA, including decks, 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. Existing dwellings financed through the SFHGLP are not subject to the requirement within RD Instruction 1970, Subpart F, which requires a search for practicable off-site alternatives to purchasing an existing dwelling within the SFHA.

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) that removes the property from the SFHA is obtained from FEMA;

- The lender obtains a *FEMA National Flood Insurance Program Elevation Certificate* (FEMA Form FF-206-FY-22-152). 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 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; or

- Documentation is included in the file in accordance with RD Instruction 1970 Subpart F, that there is a demonstrated need for the SFHGLP and there are no practicable alternatives to new construction within the SFHA that are acceptable to the applicant(s). Examples include but are not limited to the following: the entire community is located within the SFHA, there are no comparable homes to the proposed new dwelling, the existing housing stock is unacceptable to the applicant, etc.

Note: Part of the site may be in the SFHA without triggering these requirements if no part of the dwelling is in the SFHA. At the lender's discretion they may require flood insurance even if the residential building and related improvements to the property are

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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.

Existing dwellings and newly constructed dwellings located within the SFHA which are not served by public sewer systems and have on-site septic or sewage treatment systems must have a drinking water supply which is protected from cross contamination from the onsite septic/sewage treatment during flooding. A property serviced by an on-site septic or sewage treatment system is eligible under this Section, provided one of the following can be met:

- The property is served by a publicly provided water supply.
- The property is serviced by a private drinking water well/supply with a fitted sanitary well cap which prevents backflow floodwater from entering the drinking supply well.
- The property is served by a private drinking water well/supply whose opening is located above the base flood elevation of the SFHA. Additional documentation, such as an elevation certificate, will be required to verify this type of property.

Flood insurance is not required for properties located in unmapped communities. Since these are often newly developed areas where the potential for flooding is unknown, lenders have the discretion to require flood coverage as a condition of the loan.

SECTION 5: CONDOMINIUMS [7 CFR 3555.205]

12.11 CONDOMINIUMS AND PLANNED UNIT DEVELOPMENTS

A. General Condominium Project Requirements

Condominium projects typically consist of multi-unit buildings governed by a Homeowner's Association (HOA). Each condominium unit is a single family dwelling that is individually owned, and the common areas such as hallways and recreational facilities are owned by all the unit owners. Condominium projects may consist of attached, semi-detached, detached, or manufactured housing units.

Lenders may request a Conditional Commitment for Loan Note Guarantee for a

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condominium unit if the condominium project:

- Can be approved in accordance with HUD/FHA, VA, Fannie Mae, or Freddie Mac, as applicable; or

- Has been approved or accepted by HUD/FHA, VA, Fannie Mae, or Freddie Mac.

A Condominium Rider must supplement the Mortgage or Deed of Trust. HOA dues for dwellings in a condominium project must be included in total debt-to-income. 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 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.

1. Ineligible Condominiums

Condominium projects with ineligible characteristics listed under HUD/FHA, VA, Fannie Mae, or Freddie Mac guidelines are not eligible for guarantee. Lenders are responsible for verifying eligibility at the time of loan underwriting.

1. Acceptability of a Non-Approved Condominium Project

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, Fannie Mae, or Freddie Mac, as applicable, may determine the acceptability of the condominium project. Lenders may refer to HUD/FHA, VA, Fannie Mae, or Freddie Mac for additional guidance in performing their approval review of the condominium project. Lender representation and certification of project approval may be accepted as long as the lender meets the self-certification criteria set

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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's permanent loan 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.

2. Underwriting a Condominium Unit in an Approved Condominium Project (by HUD/FHA, VA, Fannie Mae, or Freddie Mac)

Units in a condominium project are eligible for a guarantee if the condominium project has been approved or accepted by HUD/FHA, VA, Fannie Mae, or Freddie Mac. 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 is approved or accepted by HUD/FHA, VA, Fannie Mae, or Freddie Mac. 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. The lender may indicate compliance by stating the project classification on the *Uniform Underwriting and Transmittal Summary* (Fannie Mae Form 1008, Freddie Mac Form 1077). 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. Lenders who receive an "Accept" underwriting recommendation through GUS, 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. In addition, the lender must ensure that the condominium meets all the applicable requirements for units in approved condominium projects at the time of underwriting. Lenders may use Form HUD-9991, *FHA Condominium Loan Level/Single-Unit*

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Approval Questionnaire, or similar, to document these requirements.

a. Insurance

The lender is responsible for ensuring the condominium project and the unit are adequately insured.

(i) **Walls-In (HO-6) Insurance**: Applicants remain responsible for obtaining individual homeowners' insurance to cover the interior of the unit and personal property inside the unit. The lender must verify the applicant has obtained a Walls-In (HO-6) policy if the condominium project's master or blanket policy does not include interior unit coverage.

(ii) **Hazard Insurance**: The HOA must obtain and maintain adequate hazard insurance for the entire condominium project. Lenders must verify that the HOA has a master or blanket hazard insurance policy for the entire condominium project that provides coverage and compensation for physical damage resulting from fire, wind, or natural occurrences.

(iii) **Flood Insurance**: The lender must verify if the unit in the condominium project is located in a SFHA and ensure that the HOA obtains and maintains adequate flood insurance for buildings in a condominium project located within the SFHA.

A Condominium Rider must supplement the Mortgage or Deed of Trust. HOA dues for dwellings in a condominium project must be included in total debt-to-income. 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 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.

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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 homeowner's association (HOA) for the benefit of use by the individual PUD unit owners. All homeowners in the PUD must be part of the HOA and pay lien supported assessments. 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. Condominium projects located within a PUD may have a separate condominium HOA fee in addition to the PUD HOA fee. In this case, both HOA fess 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: COMBINATION CONSTRUCTION TO PERMANENT LOANS [7 CFR 3555.105]

A combination construction to permanent loan, also known as a "single-close 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 are described in the following sections below.

12.12 SINGLE-CLOSE FEATURES

A 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. The approved lender makes the loan to an eligible applicant. There is a one-time closing prior to the start of construction. At closing, funds are disbursed to cover the cost of land and applicable closing costs, subject to the maximum loan to value. The lender will be responsible for managing the disbursement of the loan proceeds during construction to the builder/contractor from custodial account known as the "lenders construction holdback." Written approval from the borrower must

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be obtained prior to each draw payment. In GUS, the lender will select *Purchase* as the loan purpose type on the *Loan and Property Information* page. On the *Lender Loan Information* page, the lender will identify the transaction detail as *Construction-Conversion/Construction-to-Permanent* and select the *Single-Closing* radio button.

If the applicant is currently renting, the rent payment may be excluded from the total debt ratio if the lender obtains documentation verifying the applicant will no longer be liable for rent payments under the lease agreement once the financed single-close construction home is completed. If the applicant is currently renting and will remain liable for rent payments under the lease agreement even after the single-close construction home is completed, the rent payment must be included in the total debt ratio.

If the applicant's current principal residence is pending sale, but the transaction will not be complete prior to the commencement of the applicant's new SFHGLP construction loan, the existing PITI payment and the proposed PITI payment must be used in qualifying the applicant for the new guaranteed mortgage loan. The lender may exclude the existing PITI payment under the following conditions:

- The new loan is a SFHGLP single close construction loan;
- The lender can document an executed sales contract for the current residence; and
- The lender can confirm that any financing contingencies have been cleared.

The permanent mortgage loan interest rate, which is used for underwriting, is established at 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.

12.13 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. By submitting the request for the Conditional Commitment, the lender is self-certifying that they have staff with two or more years' experience making and administering construction loans, or

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employ a construction loan management company with two or more years' experience as their agent. Lenders are responsible to ensure that builders' experience is relevant to the loan type. Repair and renovation experience is not a substitute for experience making and administrating new construction loans. The lender must meet the following conditions to offer this loan feature:

- Lenders will ensure the utilization of a fixed price construction contract;

- Conduct investigations and obtain documentation to confirm the eligibility of construction contractors/builders, and their construction loan management company if they contract one;

- Approve construction contractors, construction loan management companies, or builders upon submittal and review of evidence the contractor/builder meets requirements set forth in Paragraph 12.14 of this Chapter;

- Agree to retain evidence of contractor/builder/construction loan management company approval for future review by the Agency;

- For loans closed prior to commencement of construction:

    - Loans securitized individually may disburse proceeds for the cost of the land, or the balance owed on the land, and Agency allowed closing costs. Any balance of the mortgage proceeds, including the "custodial reserve account," must be placed into a reserve account.

    - Lenders utilizing a warehouse line of credit will not be required to disburse all funds at closing nor required to reserve all funds prior to the commencement of construction.

- Approve and disburse mortgage proceeds in accordance with the construction loan agreement, 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 section when requesting a commitment for loan note guarantee.

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12.14 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 and their agent, if any, will be responsible for approving participating builders. Each builder seeking to participate will be subjected to a process that involves license verification, insurance validation, and reference verification. 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 Chapter 15.

Construction contractors or builders of homes financed with the single close loan must have:

- Two or more years of experience building and 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; and

- Evidence of commercial general liability insurance with a minimum coverage of $500,000.

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.

12.15 ELIGIBLE LOAN COSTS

The loan will be used to finance the construction of a new single-family housing residence, which can include modular and manufactured home construction. Condominiums, including detached condominiums and site condominiums, are ineligible for this type of loan feature.

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 property is located. A contingency reserve to cover eligible expenses associated with

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unplanned problems with construction or change orders may be utilized. If used, the reserve is limited to 10% of the cost of construction (including labor, materials, and soft costs). Reserve funds must be deposited into the construction reserve account. The cost to construct must not include items such as furniture, electronic and home entertainment equipment, or other personal items.

Loan costs which may be included in the loan amount are subject to the maximum loan to value and will be reasonable and customary construction costs such as:

Land

- Acquisition cost of the land; and
- 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; and
- 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
- Permit plan review fees
- Architecture or design fees
- Engineering fees
- Title updates

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- Lender construction administration fees
- Contingency reserve
- Interest reserve, including interim interest as accrued during the construction period on a warehouse line of credit up to 12 months
- Principal, interest, taxes, and insurance (PITI) payment reserve up to 12 months
- Project review fees
- Builder acceptance or review fees
- 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.

12.16 PLAN AND THERMAL CERTIFICATION

Certification of plans and confirmation of thermal requirements are required in accordance with Paragraph 12.9B.

12.17 APPRAISALS

The fair market value, as determined by a licensed or certified appraiser in accordance with regulation 3555.107(d), of the proposed (to-be constructed) subject property will be utilized to establish the maximum loan amount.

12.18 BUILDER WARRANTY

A builder's warranty will be provided to the borrower in accordance with Paragraph 12.9B.

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12.19 LOAN APPROVAL PROCESS

Issuance of a Conditional Commitment will be in accordance with Chapter 15 of this Handbook. The approved lender must submit the construction contract executed by the applicant and builder with each single-close request.

12.20 LOAN CLOSING

Standard industry closing documents are utilized when closing a single-close loan. The lender is responsible for ensuring all applicable security documents, including a valid and enforceable Note, are completed at loan closing. The lender is responsible for any state specific construction related requirements that may influence the validity of the first lien or the construction disbursement process. The date of closing will be the date the interim construction loan is closed. These construction documents may be in any form acceptable to the lender.

At closing, the term of the loan is for thirty years. During construction, interest on the construction loan is payable monthly, either directly from the borrower or indirectly drawn from an established reserve account. If the lender elects not to establish a reserve account and 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 interest rate during the construction period must be a fixed rate. Adjustable interest rates during construction are not allowed.

- Warehouse line of credit lenders may opt for dual loan disclosures to the borrower disclosing the terms of the interim construction period and a separate disclosure for the terms of the permanent loan, or they may choose a single disclosure method that blends the terms of the construction portion and the permanent loan. Lenders may establish an interest only or PITI reserve account. If the lender elects not to collect a PITI reserve account to make the regularly scheduled PITI payment during the construction period, only interest payments on the advanced construction loan balance will be due and paid during the construction phase. Once construction has been completed, excess funds from the contingency reserve account, if any, will be applied as a principal curtailment. The loan may be reamortized to achieve full repayment for the remainder of the loan term. When a loan is reamortized via a modification, the lender can also reduce the permanent interest rate. In such cases, the lender must provide an executed loan

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reamortization agreement (modification agreement) to confirm the existence of the permanent loan and the corresponding amortizing interest rate on the mortgage loan. Amortization must begin no later than the first of the month, 60 days from the final inspection.

- Lenders who securitize the loan immediately after loan closing may elect to establish a reserve account for the borrower's regularly scheduled PITI payment from the original loan closing. The established PITI reserve account will then be utilized to make the monthly loan payments on the amortized loan during the construction period. This alleviates the requirement for a loan modification or reamortization at the end of the construction period and allows the lender to securitize the loan prior to the completion of construction. Once construction has been completed, excess funds from the contingency reserve account, if any, will be applied as principal curtailment.

Annual guarantee fees will begin to accrue upon loan closing and will be due and payable each year upon the anniversary of the initial loan closing.

At the completion of construction, the lender should obtain the appraiser's final inspection, a certificate of occupancy, a final endorsement to the title policy clear of all liens, and retain evidence in the lender's permanent loan file. The approved lender monitoring the construction of the subject dwelling should retain a certification stating the dwelling has been completed and ready for occupancy, construction phase inspections have been conducted, and the required warranty coverage has been obtained. Attachment 12-D of this Chapter is an example of a lender certification.

The approved lender (i.e. the lender identified on the Loan Note Guarantee) will finalize the single-close transaction by completing the *Single Close Construction/Rehab* page in the Lender Loan Closing (LLC) system. Users must have security permissions to access the LLC. Upon logging into the system, the user will be routed to the *Single Family Housing Lender Administration List* page. The loan can be found by searching on *USDA Borrower ID, Borrower SSN, Borrower Name/Property State,* or *Lender Loan Number*. **Note:** User will need to toggle the default selection for *Request Type* from *Obligations* to *Loans* in order to find the borrower/loan. Once the loan is found, user must select *Single Close Construction/Rehab* from the *Action* dropdown menu and then select the hyperlinked Borrower ID associated with the request. In the C*onstruction/Rehab Completion Information* section of the page, the user will choose

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from the following options for *Completion Type: Principal Reduction Only, Principal Reduction with Loan Modification*, or *Construction Complete (No Principal Reduction or Loan Modification)*. The page will dynamically display fields necessary for completion based on the *Completion Type* selected.

Document upload is required to process the transaction when *Completion Type* is either *Principal Reduction Only* (requires evidence of the principal reduction) or *Principal Reduction with Loan Modification* (requires evidence of the principal reduction and a copy of the Loan Modification Agreement). Documents are to be uploaded via the *Lender Upload Document(s)* push button located on the *SFH Construction/Rehab* page. When more than one type of document is to be uploaded, the user must upload each document separately using the *Type of Document* dropdown to uniquely identify each document being uploaded. Once the page has been completed, the user must select the *Submit* push button at the bottom of the page to transmit the information to USDA.

12.21 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 documents and re-qualify the borrower before the loan note guarantee can be requested and/or issued.

12.22 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 single-close 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 and Electronic Status Reporting (ESR) in accordance with Chapter 17 of this Handbook are applicable.

12.23 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

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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 with the exception of an initial disbursement to commence construction. When funds are disbursed, the lender is warranting to Rural Development the work was done as specified. The lender will maintain documentation in their file evidencing the work was completed for the draw which was disbursed. At a minimum, documentation should include evidence of a third-party inspection, signed conditional lien waiver from the contractor/builder, and a title insurance endorsement for each draw.

12.24 CHANGE ORDERS

Lenders will approve any change orders during construction. The borrower(s) will be responsible for any costs related to change orders that exceed available funds in the contingency reserve account, or for ineligible loan purposes that occur post loan closing. Proposed changes, during the course of construction, should not affect the scope of the project and/or affect the appraised value.

12.25 CASH BACK TO BORROWER

The borrower is not to receive funds after closing. Lenders must apply any excess funds from the construction proceeds to reduce the principal balance of the permanent loan. 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 if the borrower paid these items from their personal funds and they do not represent loan funds. Funds that remain in the contingency reserve account after the completion of construction may be utilized for an eligible loan purpose or applied to the principal balance of the permanent loan.

12.26 MORTGAGE FILE DOCUMENTATION

The lender’s permanent loan 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

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(for example, purchase contracts with the builder, Construction Loan Agreement, plans and specifications, receipts, invoices, lien waivers, etc.);

- All closing disclosures 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;

- A final title insurance policy endorsement ensuring the lender remains in a first lien position and that no junior liens exist against the property;

- All canceled checks, paid receipts, draw requests, lien waivers, change orders, title endorsements, etc. for all property-related requirements for new construction;

- The appraiser's certificate of completion and a photograph of the completed property; and

- All third-party inspections and warranties as defined in this Chapter.

12.27 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.

12.28 REHABILITATION AND REPAIR WITH PURCHASE OF EXISTING DWELLINGS

The rehabilitation and repair feature of the SFHGLP allows borrowers to finance the cost of repairs to improve an existing dwelling at the time of purchase. The maximum loan amount cannot exceed the cost of acquisition plus the cost of repairs up to the as-improved market value, plus the guarantee fee, if financed. The borrower obtains one loan at a fixed interest rate to finance both the acquisition and the rehabilitation of the property. The loan is guaranteed after the loan has closed, prior to the completion of the repairs, which minimizes the risk to the lender. In GUS, the lender will select *Purchase* as the loan purpose type on the *Loan and Property Information* page. On the Lender Loan Information page, the lender will identify the transaction as *Renovation, Construction-*

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Conversion/Construction-to-Permanent and select the *Single-Closing* radio button. On the *Additional Data* page, "Purchase is" field equals *Existing*.

Unless otherwise specified, the rehabilitation and repair construction loan process should be closed and managed following the same procedures described in the single-close feature for new construction.

Lenders may utilize Attachment 12-E, *Repair Escrow and Rehabilitation & Repair with Purchase Comparison*, when determining how repairs or rehabilitation to properties may be financed.

B. Type of Loans

1. Non-Structural Repairs up to $75,000

This feature allows borrowers to finance up to $75,000 for repairs such as those identified by a home inspector or appraiser. There is no required minimum repair amount. The repairs must be non-structural, and the home must be considered habitable within 30 days of closing to be eligible for this feature. Since the dwelling will be habitable within 30 days of closing, the loan is not eligible for reserve accounts for PITI payments during the construction period. The timeframe for the repairs to be completed should typically not exceed 10 months, however, may be extended at the lender's discretion.

2. Structural Repairs and Repairs Exceeding $75,000

This feature allows borrowers to finance structural repairs or improvements greater than $75,000 for extensive rehabilitation. If the dwelling is not habitable at the time of closing, reserves for principal, interest, taxes, and insurance may be established to cover the mortgage payments for up to 10 months, or until the home is determined to be habitable by a third-party inspector deemed qualified by the lender during the construction period. While the reserve period should typically not exceed 10 months, contract deadline extensions may be approved at the lender's discretion.

C. Property Eligibility

New construction or incomplete constructions are not eligible. Evidence that the home has been completed for 12 months or older must be obtained. Evidence of

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completion such as a Certificate of Occupancy or documentation from local taxing entities is acceptable.

If the dwelling must be demolished as part of the rehabilitation, the complete existing foundation must still be in place and will be used. Properties where the foundation has been demolished or where only the footings remain, are not eligible. Evidence by a licensed engineer that the existing foundation is structurally sound and supports the proposed construction will be required. The new dwelling to be placed on the existing foundation, including manufactured housing, must meet all program requirements.

1. Prohibited Loan Purposes

- Installation of new inground swimming pools, hot tubs, or saunas;
- Repairs to condominiums;
- Converting structures to SFH dwellings (barns, schoolhouses, etc.);
- Alterations that allow income-producing features;
- Installation of luxury items (exterior fireplaces and kitchens, etc.); and
- Repairs or improvements to common space areas (community meeting rooms, playgrounds, etc.)

2. Eligible Loan Costs

Loan proceeds must be used for the acquisition of the land and dwelling plus the total amount for repairs that include but are not limited to:

- Removing safety and health hazards;
- Making the dwelling accessible to persons with disabilities;
- Repair or installation of septic system and water wells;
- Additions, structural alterations, or reconstruction of an existing dwelling;

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- Addition of a garage, attached or detached;
- Modernizations (kitchens and bathrooms, interior floor cover, exterior siding, etc.);
- Installation of energy conservation or weatherization features;
- Repairs to existing swimming pools, hot tubs, or saunas; and
- Repairs to accessory dwelling units.

Applicable soft costs as defined in Paragraph 12.15 are allowable in addition to:

- Contingency reserves; 10% when utilities are on, 15% when they are off for all transactions;
- Principal, Interest, Tax, and Insurance payments for up to ten months for reserves, when applicable; and
- Inspection/Consultant fees, if applicable.

D. Managing Construction

Originating lenders do not need to have construction experience if the servicing lender will administer the construction phase. Servicing lenders must meet the requirements outlined in Paragraph 12.13. Builder/contractors must meet the requirement outlined in Paragraph 12.14. The borrower may not act as the general contractor. A pre-construction conference with all parties is strongly encouraged.

The lender may engage any inspector or consultant deemed qualified by the lender to evaluate the property, write up the necessary improvements, conduct periodic inspections, and to act as a liaison between the borrower, builder, and lender.

- **Inspector/Consultant fees:** For structural repairs and those exceeding $75,000, an inspector will perform a thorough inspection of the property and prepare a detailed write-up of the work to be repaired and include estimated costs for labor and materials and associated fees that are customary and typical for the area. This write-up will be used to obtain cost estimates from contractors. Inspectors or

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consultants are selected by the lender. An inspector or consultant is not required for non-structural repairs of $75,000 or less.

- **Cost Estimate**: The borrower must obtain a detailed and fixed cost estimate that fully describes the work being performed to include itemized costs for labor and material. The cost estimate must identify the borrower's name, subject property address, contractor's name, contact information, and license number, where applicable. For work repairs $75,000 or less, the cost estimate must indicate that the repairs are non-structural.

- **Appraisals:** The appraisal report must support the "As Improved" market value of the property with the assumption that all repairs are completed. A copy of the original write-up or the cost estimate including reserves will be provided to the appraiser.

- **Construction Period:** The construction period should typically not exceed 10 months from the date of closing for all transactions. However, contract deadline extensions may be approved at the lender's discretion.

- **Construction Contract:** The lender must ensure the utilization of a fixed price contract. The total amount in the construction contract must match the total cost breakdown of the bid proposal, must have a start and end date, must be signed by the contractor and borrower(s) and must be referenced and made part of the Security Instrument.

- **Additions**: New structures or additions to the existing dwelling must comply with local codes and applicable national codes.

- **Unpermitted work:** When unpermitted work is discovered in the existing dwelling, the lender must ensure that the owner and/or contractor contact the appropriate code enforcement office to obtain retroactive permitting or devise a plan to permit the previous construction. The lender must ensure that the borrower obtains a rehabilitation loan permit certification prior to the loan closing so that all permit fees associated with the new and/or previous construction are included in the total bid.

- **PITI Reserve**: The lender will be responsible for making the borrower's monthly

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PITI payments during the period of rehabilitation, up to a maximum of 10 months or when the dwelling is determined to be habitable by a qualified third-party inspector.

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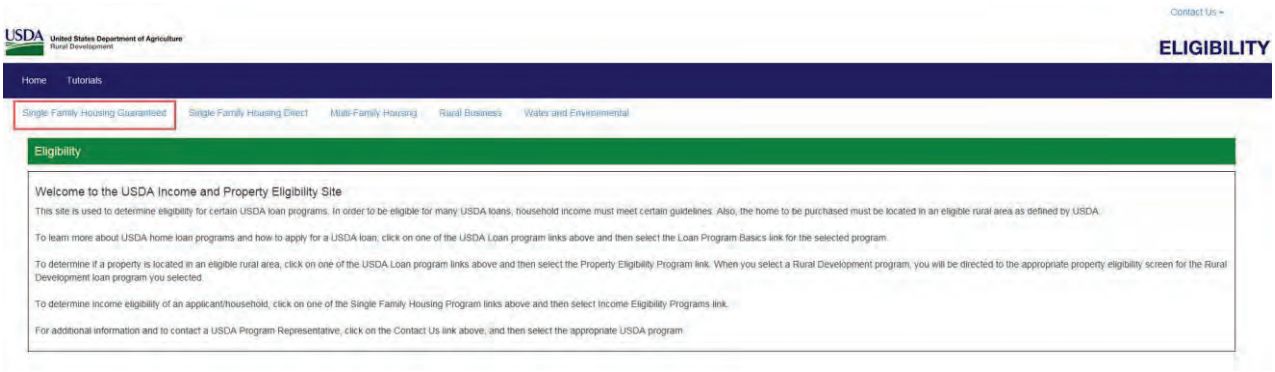
ATTACHMENT 12-A

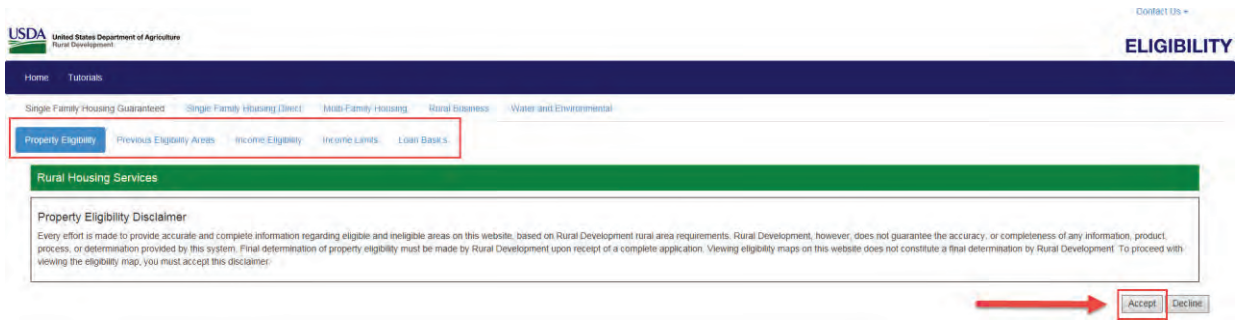
Determining Eligible Areas Using the Public Website

https://eligibility.sc.egov.usda.gov

Select “Single Family Housing Guaranteed” from the menu.



The additional menu options for the guaranteed loan program will be available. The “Property Eligibility Disclaimer” will be displayed. Read the disclaimer and select “Accept.”



Enter the address of the property to determine if it is located in an eligible rural area. Every effort is made to ensure eligible rural areas inquiries are provided an accurate response. If a property is deemed “Ineligible” or “Unable to Determine,” lenders can obtain assistance by contacting the Guaranteed Policy, Analysis and Communications Branch at sfhgld.program@usda.gov.

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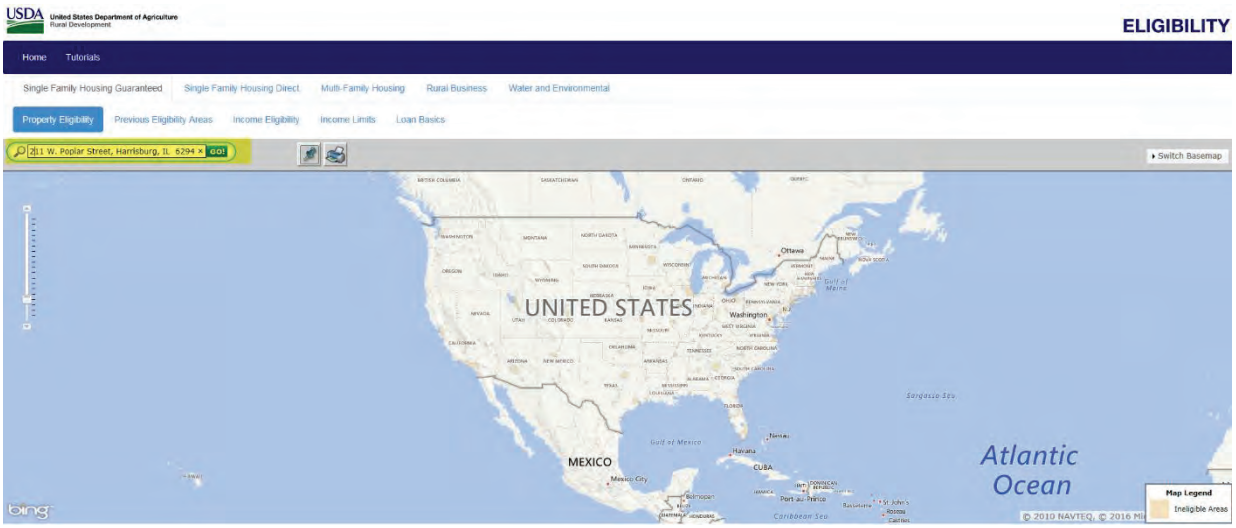
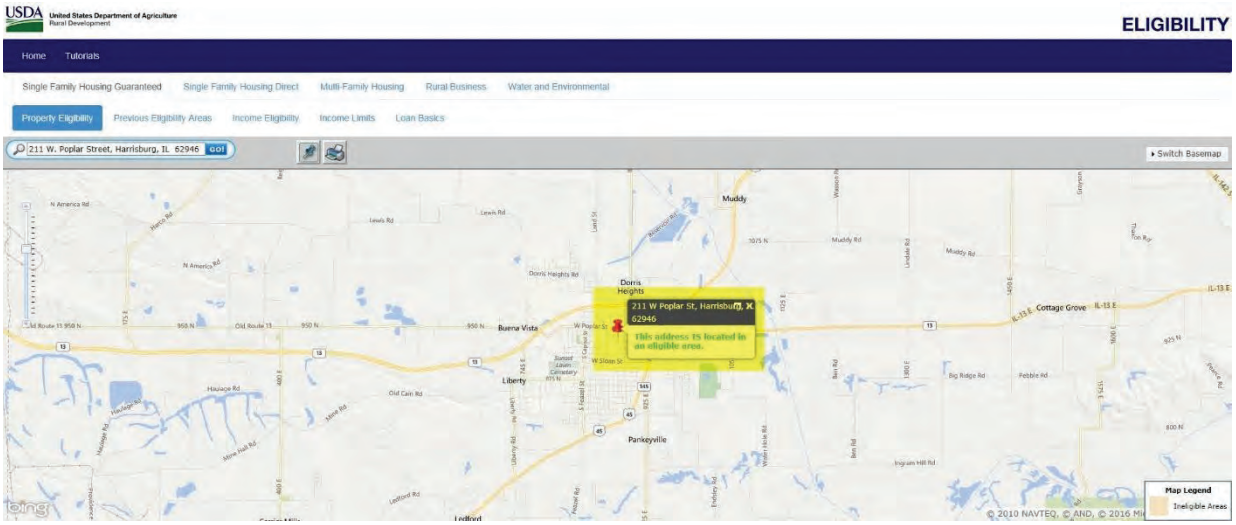


The eligibility determination is returned. It may be Eligible, Ineligible, or Unable to Determine. In the example below the property is eligible.



The map view may be changed by selecting the “Switch Basemap” option.

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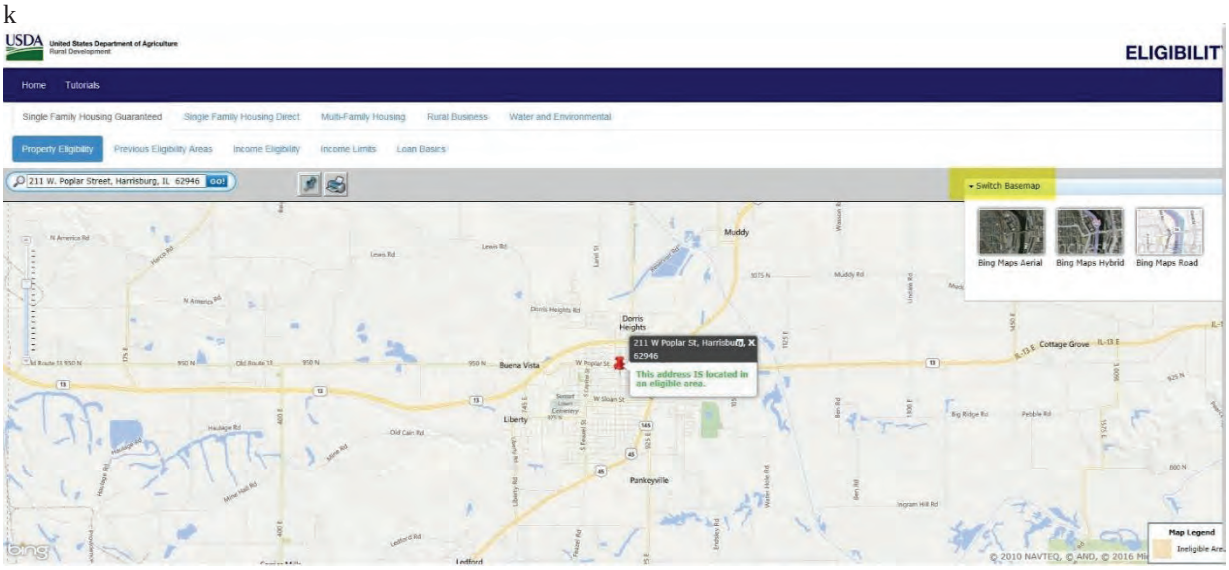

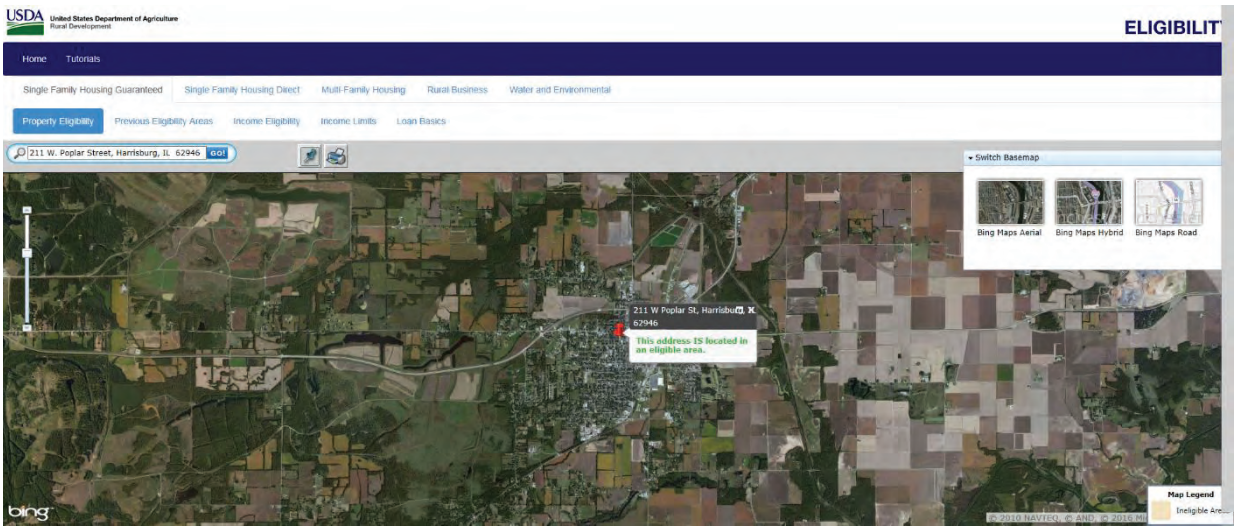

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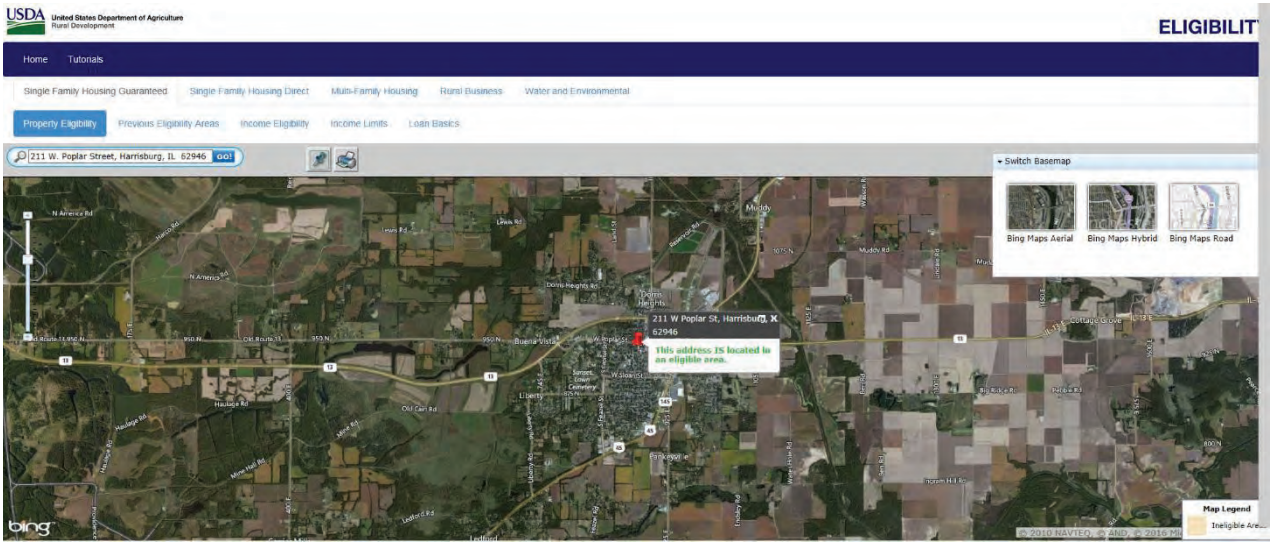
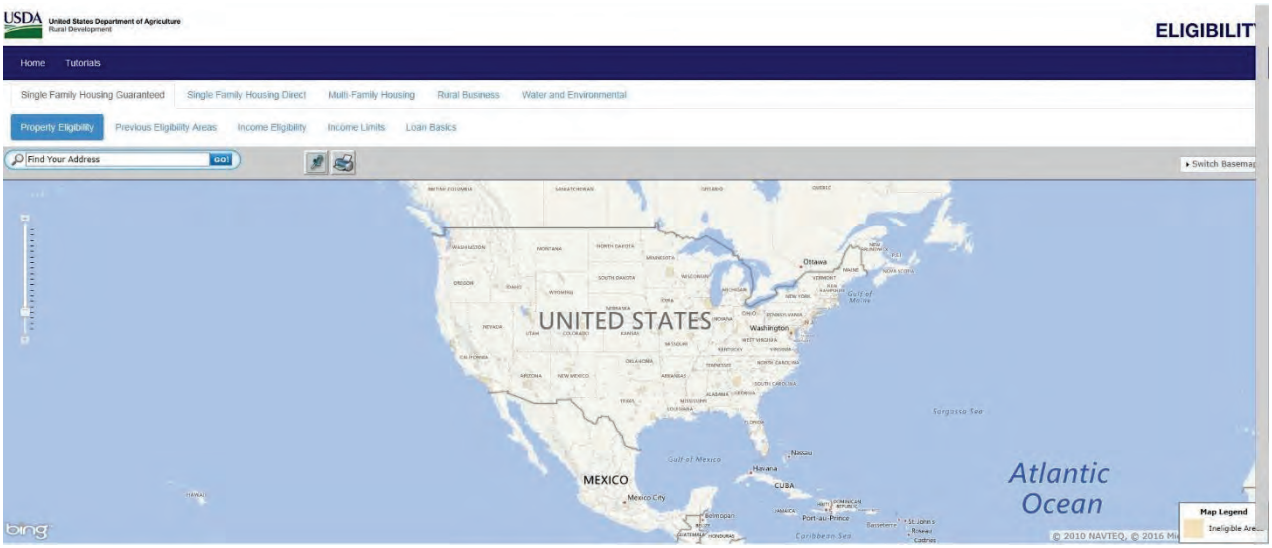


If an exact address is unknown, the user may click on a State from the U.S. map to review eligible and ineligible areas.



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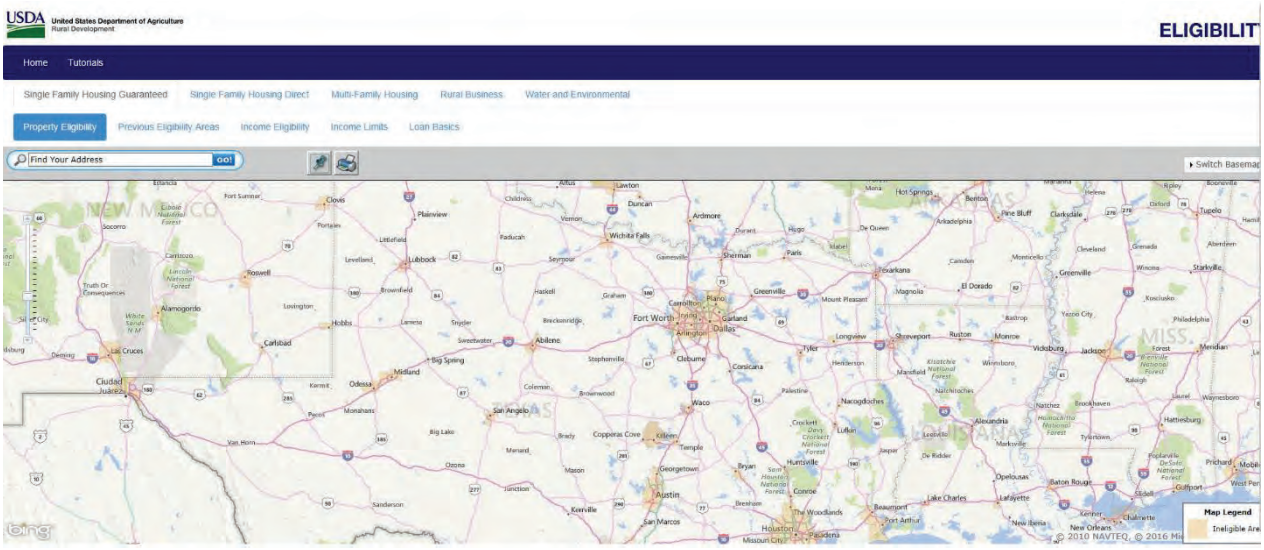

This is a closer look at Texas. A double click will enhance zoom. The darker colored areas will provide users with a good idea of eligible and ineligible areas.

All property eligibility determinations will be made by USDA. Questions regarding property eligibility determinations made from this online tool should be directed to the Policy, Analysis and Communications Branch at sfhgld.program@usda.gov to obtain additional clarification.

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ATTACHMENT 12-B

RURAL DEVELOPMENT CONDOMINIUM CERTIFICATION

This warranty certifies the dwelling served by the homeowner's 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 permanent loan file 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

***This optional checklist is not an exhaustive list of requirements for the Single Close Construction loan product. Details on key points referenced in this checklist, along with full program details, can be found throughout Chapter 12 of this Handbook.**

☐ **Documentation of lender requirements**

See Paragraphs 12.13 and 12.19-12.27 of Chapter 12 for construction oversight, loan management, and experience requirements.

☐ **Documentation of contractor-builder requirements**

See Paragraph 12.14 of Chapter 12 for licensure, insurance, and experience requirements.

☐ **Budget – Cost Breakdown (See Paragraph 12.15)**

- Must match construction contract.
- Must be for eligible loan costs, including change orders.
- Contingency reserves are limited to 10% of new construction costs and 15% when repairing an existing dwelling with disconnected utilities.

☐ **Plans, Drawings and Specifications (See Paragraph 12.9B)**

- Must be certified in accordance with Paragraph 12.9B.
- Must fully describe work to be completed.
- Lender may use optional Form RD 1924-25 or an alternative source that documents the necessary information.

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☐ **Construction Contract**

- Evidence of all pages of the fixed price contract.
- Must contain a time frame for work to be completed (start/end).
- Change order fees that exceed what is available in the contingency reserve account 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.

☐ **Rehabilitation and Repair with the Purchase of Existing Dwellings (See Paragraph 12.28)**

- Construction period should not exceed ten months from date of closing.
- Appraisal report should support the "As Improved" market value.
- An inspector/consultant is not required for non-structural repairs of $75,000 or less.
- The lender administering the construction phase must meet the experience requirements in Paragraph 12.13.
- Fees associated with bringing previously unpermitted repairs up to code must be included in total bid prior to the loan closing.

☐ **Loan Closing (See Paragraph 12.20)**

- Lender will ensure all security documents are completed at loan closing and may use industry standard documents, as USDA does not maintain a list of required forms.
- May not exceed 30-year term, including construction period.
- Interest on loan is payable monthly. Lender will determine payor based on how the loan is structured.

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ATTACHMENT 12-D

APPROVED LENDER CERTIFICATION

Completion of New Construction

Borrower: _____

Co-Borrower: _____

Property: _____

City, State, Zip: _____

In accordance with Paragraph 12.20 of Chapter 12, HB-1-3555, I have included a copy of the loan amortization agreement if the loan was reamortized or modified after construction. In addition, whether the loan was reamortized or not, I 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 our permanent loan 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.

    b. Required construction phase inspections have been completed in accordance with Paragraph 12.9B of Chapter 12, HB-1-3555;

    c. Thermal standards meet or exceed the 2021 International Energy Conservation Code (IECC) or subsequently issued code;

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d. Construction warranties have been issued to the borrower; and

e. Evidence of the construction contract, cost breakdown and construction ledger related to the construction of this home.

Approved Lender Certification:

I am duly 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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ATTACHMENT 12-E

Repair Escrow and Rehabilitation & Repair with Purchase Comparison

REQUIREMENT	Repair Escrow: Minor Borrower Completed Repairs	Repair Escrow: Contractor Completed Repairs	Rehab and Repair Program: Minor Rehab ($75,000 or less)	Rehab and Repair Program: Extensive Rehab (greater than $75,000)
Property Type	New or Existing[1]	New or Existing[1]	Existing	Existing
Repair Amount	Up to $10,000 and not greater than 10% of the loan amount	Not greater than 10% of the loan amount, lender must escrow at least 100% of total repairs	Not to exceed $75,000[2]	Greater than $75,000[2]
Timeframe	180 days	180 days	Typically 10 months	Typically 10 months
Property to be habitable at close	Yes	Yes	Yes	No[3]
Contract Required	No[4]	Yes	Yes	Yes
Loan Note Guarantee Issued	At Close[5]	At Close[5]	At Close	At Close

Lenders should follow the guidance in 12.9 C. Repair Escrows for Existing and New Dwellings, Post Issuance of the Loan Note Guarantee [7 CFR 3555.202(c)] as well as 12.28 Rehabilitation and Repair with Purchase of Existing Dwellings.

1. New construction must be 100% complete, except for minor work not affecting livability that cannot be completed due to weather conditions.
2. The maximum loan amount cannot exceed the cost of acquisition plus the cost of repairs, up to the as-improved market value, plus the guarantee fee, if financed.
3. Extensive rehab over $75,000 allows for up to 10 months PITI reserves, or until lender deems property habitable.
4. Borrower may complete their own repairs if lender determines borrower has knowledge, skills, and time to complete work within 180 days.
5. Repair work can be escrowed for and completed post Loan Note Guarantee, provided the work does not affect the livability of the dwelling, and all requirements of Section 12.9C are met.

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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, properties with restrictions on resale price, leasehold estates, Native American restricted land, and loans on Hawaiian Home Lands. Section 2 describes the specific processing requirements for loans made on 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 special ownership types: Community land trusts, properties with restrictions on resale price, leasehold estates, Native American restricted land, and loans on Hawaiian Home Lands. 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 applicants and the property otherwise meet the requirements outlined in this Handbook.

A. Definition

A community land trust is defined as a private nonprofit 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.

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- Comply with financial accountability.

- Maintain, through significant representation on the organization's governing board, accountability to low-income community residents regarding decisions on the design, siting, development, and management of affordable housing.

- Have its corporate membership open to any adult resident of a geographic area specified in the by-laws of the organization.

- Be established to carry out all 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 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.

If the Lender acquires title to the home through foreclosure or acceptance of a deed in lieu of foreclosure, the Lender shall give the community land trust written notice of such

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acquisition, and the community land trust shall then have an option to purchase the home from the Lender for the full amount owed to the Lender under the Mortgage.

To exercise this option to purchase, the community land trust must give written notice to the Lender of the community land trust's intent to purchase the home within thirty (30) days following the community land trust's receipt of the Lender's notice. The community land trust must then complete the purchase of the home within sixty (60) days of having given written notice of its intent to purchase. If the community land trust does not complete the purchase within this 60-day period, the Lender shall be free to sell the home to another entity.

C. Appraisals

A property located on a site owned by a community land trust must be appraised as a leasehold interest.

D. Title Policy

The leasehold estate must constitute real property, be subject to the mortgage lien, and be insured by a title insurance policy. Refer to title insurance policy requirements outlined in Chapter 16 of this Handbook.

13.4 RESTRICTIONS ON RESALE PRICE

Restrictions on the resale price of the property or recapture of equity are permitted. A maximum sales price may be imposed or the sales proceeds due to the borrower may be limited, with any excess funds payable to a governmental body or nonprofit organization for reuse in a community land trust or to preserve long term affordability. When such restrictions apply, the requirements listed below must be met.

- 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.

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- 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.

A. Right of First Refusal

One method to ensure that housing remains part of an affordable housing program is 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 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.

- 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 investment plus reasonable shares of appreciation.

13.5 LOANS ON LEASEHOLD ESTATES [7 CFR 3555.203(B)]

Loans to finance the purchase of dwellings located on a leasehold estate may be guaranteed if the conditions described in this paragraph are met, and the applicants 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 the appropriate legal documents that have been reviewed for compliance with Agency regulations.

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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 Native American restricted land. See Section 13.6 for guidance regarding loans on Native American restricted land.
- The leasehold estate must be assignable or transferable.
- 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 (as applicable) 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.
- Provide renewal options for the leasehold mortgagee.

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13.6 LOANS ON NATIVE AMERICAN RESTRICTED LAND

A. Definition

Native American restricted lands are lands in which title is held by the United States in trust for an Indian tribe or which is held by an Indian tribe or individual subject to a restriction by the United States against sale, transfer, or encumbrance.

B. Requirements

Trust or restricted land must remain in trust or restricted status. The mortgage, deed of trust, leasehold interest, or other security interest must be approved by the Secretary of the Interior. For loans to Native Americans on restricted or trust land, the lender must obtain:

- Evidence that the tribe has enacted legally binding and effective foreclosure procedures and will enforce those procedures upon notice of default from a lender.
- Evidence that the tribe has enacted legally binding and effective eviction procedures and will enforce those procedures upon notice of default from a lender.
- Evidence that the tribe has adopted procedures ensuring that the guaranteed loan will always have first lien priority (if applicable) and will be satisfied before all other property debts (with the exception of tribal taxes) or has adopted legislation requiring the tribe to follow state or local priority of lien procedures.
- A copy of the tribe's lease for use on residential land.
- The lender will adhere to the tribe's mortgage, foreclosure, and eviction procedures.
- 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 leasehold estate must be assignable or transferable.

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- The lease cannot be terminated except for nonpayment of lease rents.

The lease must:

- Have an unexpired term at least equal to the term of the loan. Leases for a period of 25 years, renewable for a second 25 years are permissible.
- 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 (as applicable) 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.
- Provide renewal options for the leasehold mortgagee.

13.7 LOANS ON HAWAIIAN HOME LANDS

A. Definition

Hawaiian Home Lands consists of property owned by the State of Hawaii, Department of Hawaiian Home Lands (DHHL) and held in trust for Native Hawaiians. An applicant purchasing a home on Hawaiian Home lands must be a Native Hawaiian, as determined by DHHL.

B. Requirements

In order for a mortgage with a Hawaiian Home Lands lease to be eligible for guarantee, the property shall be located within an area designated as Hawaiian Home Lands, and DHHL shall have granted to the applicants a homestead lease covering the

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property. For loans to Native Hawaiians on Hawaiian Home Lands, the lender must obtain:

- Certification that the lease provided by DHHL is not in default and has not been cancelled.
- All other requirements set forth in 7 CFR Part 3555 and any successor regulation.
- All other requirements set forth in an MOU between DHHL and USDA Rural Development which is available in the USDA LINC Training and Resource Library, located at www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-origination.

C. Recording

Mortgages on Hawaiian Home Lands leaseholds are recorded in the recording system established at DHHL.

SECTION 2: MANUFACTURED HOMES
[7 CFR 3555.208]

13.8 DEFINITION

Manufactured homes are single-or multi-width units constructed partially off-site and transported to a site to be completed and anchored to a permanent foundation. Manufactured homes are structures built to the Federal Manufactured Home Construction and Safety Standards (FMHCSS) and evidenced by an affixed HUD Certification Label. They are not the same as a modular home. The primary distinction between manufactured homes and modular lies in the construction standards or code and the inspection processes they must adhere to.

Unless otherwise specified in this section, the guidelines and procedures outlined in Chapters 6 and 12 for new construction should be followed.

13.9 AUTHORIZED LOAN PURPOSES

The following are eligible loan purposes for the financing of manufactured homes:

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- 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. The following criteria outlines an eligible new manufactured unit for guarantee with the Single Family Housing Guaranteed Loan Program (SFHGLP):

    - Must be a new unit in stock that has never 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 financed.

    - Must have a floor area of not less than 400 square feet.

    - 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).

    - Meet or exceed the Federal Manufactured Home Construction and Safety Standard (FMHCSS) Uo Value Zone for the geographic area the unit will be placed. The Uo Value Zone will be indicated on the Comfort Heating and Cooling Certificate. Builder must certify thermal requirements at time of purchase have been met.

    - Must have a manufacture date that is within 12 months of the date of loan closing. The manufactured home must be affixed with a data plate located inside the home in which the date the unit was manufactured can be found. The certification label must be affixed in a location that will remain visible after all work is completed that is necessary to complete the installation of the home at the home site.

        - As an alternative to the original HUD Certification Label(s), the lender may obtain a verification letter with the same information contained on the HUD Certification Label(s) from the Institute for Building Technology and Safety (IBTS). A duplicate HUD Data Plate may be available from IBTS or by contacting the In-Plant Primary Inspection Agency (IPIA) of the manufacturer. A list of IPIA and DAPIA offices is posted on HUD's website.

    - Construction and site requirements for new dwellings can be found in section 13.11.

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- Purchase of an eligible existing unit and site. The following criteria outlines an eligible unit manufactured unit for guarantee under the SFHGLP:

    - Must be an existing unit that has never been previously installed on a different homesite.

    - Must have a floor area of not less than 400 square feet.

    - Must have not had any alterations or modifications since construction in the factory, except for porches, decks, or other structures which were built to engineered designs or were approved and inspected by local code officials.

    - Must be installed on a permanent foundation in accordance with the manufacturer's requirements and HUD installation standards. Guidelines are presently published in the "Permanent Foundation Guide for Manufactured Housing" (HUD-4930.3G). Certification of a proper foundation is required.

    - Must meet or exceed the Federal Manufactured Home Construction and Safety Standard (FMHCSS) Uo Value Zone for the geographic area.

    - Must have a manufacture date that is within 20 years from the date of loan closing and meets or exceeds the Federal Manufactured Home Construction and Safety Standard (FMHCSS) as evidenced by both an affixed HUD Certification label and HUD Data Plate. The manufacture date can be found on the data plate located inside the home.

        - As an alternative to the original HUD Certification Label(s), the lender may obtain a verification letter with the same information contained on the HUD Certification Label(s) from the Institute for Building Technology and Safety (IBTS). A duplicate HUD Data Plate may be available from IBTS or by contacting the In-Plant Primary Inspection Agency (IPIA) of the manufacturer. A list of IPIA and DAPIA offices is posted on HUD's website.

- Financing of an existing unit due to a transfer of an existing Section 502 Direct or Guarantee loan or purchase of a Real Estate Owned (REO) property. Repairs associated with these transactions may be included.

13.10 LOAN RESTRICTIONS

The Agency will not guarantee loans to finance the following:

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- The purchase of a unit without an eligible site.

- The purchase of an existing unit that was not constructed in conformance with the Federal Manufactured Home Construction and Safety Standards (FMHCSS) as evidenced by an affixed HUD Certification label and HUD Data Plate

- The existing unit was not installed on a permanent foundation complying with manufacturer and HUD installation standards.

- 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.

- Additions and modifications on new or existing units are prohibited except for porches, decks, or other structures built to engineered designs and inspected and approved by a local building code official.

- Purchase of a unit to be moved from a site other than the manufacturer/dealer lot to the site securing the mortgage loan.

- Existing manufactured home units with a manufacture date exceeding 20 years from the date of loan closing unless the unit and site are already financed with a Section 502 loan.

- A unit with a tow hitch or running gear remaining.

13.11 CONSTRUCTION AND SITE REQUIREMENTS FOR NEW DWELLINGS

The borrower will contract with a licensed manufactured dealer. Manufactured homes must meet the site and other requirements for new dwellings in accordance with Chapter 12 of this Handbook. The lender's permanent loan file must contain the following:

- 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.

- Dealer certification that any cash payment or rebate as a result of the purchase will be deducted from the price of the unit and not paid directly to the applicants.

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- Dealer certification that proposed cost is the full price of the unit. If furniture is being purchased by the applicants with personal funds, a lien will not be filed against the security property.

- Foundation plan designed to meet the HUD Handbook 4930.3G, Permanent Foundations Guide for Manufactured Housing (PFGMH), guidelines.

- Plot and site development plans.

- Inspections in accordance with Chapter 12 of this Handbook.

- Contractor certification that multi-sectioned units were properly joined and sealed according to the manufacturer's specifications and the home sustained no damage during transportation and set-up.

13.12 LOAN CLOSING FOR MANUFACTURED HOUSING

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 manufacturer warranties. The warranty must identify the unit by serial number. A copy of all warranties and certifications will be retained in the lender’s permanent loan file.

B. 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 will be retained in the lender’s permanent loan file.

C. Real Estate Tax Requirement

As required by the local taxing authority, the unit and site must be classified, zoned, and taxed as real estate. Certificate of title to the manufactured home must be surrendered to the appropriate state government authority if state law permits.

D. Title and Lien Requirements

The mortgage must be insured by a standard real property title insurance policy. Refer to title insurance policy requirements outlined in Chapter 16 of this Handbook.

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Additionally, both the unit and the site must be evidenced by a recorded mortgage or deed of trust. A combination of a chattel and real estate mortgage is not acceptable. If the certificate of title cannot be surrendered, the lender must indicate its lien on the certificate of title.

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. Modular homes, whether "off frame" or "on frame", are considered stick-built homes; therefore, the guidance outlined in Chapter 12 of this Handbook will be followed for new and existing modular homes.

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CHAPTER 14: FUNDING
[Official Agency Use Only]

14.1 INTRODUCTION

Congress appropriates program funds to the Agency for loan guarantees for each fiscal year (FY) basis (October 1 through September 30). 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. While the Agency operates under a Continuing Resolution, the Budget Office receives funds that are allotted to the program according to the duration of the Continuing Resolution. Throughout this period, funds are allotted based on a percentage of the total days for which the Continuing Resolution remains in effect. The denominator used in this calculation can be either the amount of funds obligated in the previous year or the program level authorized in the Continuing Resolution.

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 by the budget staff at the beginning of each fiscal year through the Single Family Housing Guaranteed Loan Program (SFHGLP). The State accounts will receive funds proportionate to the percentage of prior year's actual obligations. Additionally, a portion of the funds will be held in the National Office reserve to support State accounts that may require a higher allocation compared to the previous year. This measure aims to guarantee adequate funding for the SFHGLP across all State accounts, based on the allocated funds approved by the Budget Office.

The National Office will keep lenders and Agency staff apprised of the potential for a shortage of available funds with an advance notice.

14.3 PRIORITIZATION OF FUNDING [7 CFR 3555.107]

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 processing first. The priority system is used to determine the order in which applications

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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:

1. Households that Qualify for First-Time Homebuyers Preferences [7 CFR 3555.10]

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 who is unemployed or underemployed, and having trouble obtaining or upgrading employment. Or an individual who in recent years has worked primarily without earnings to care for the home and family and has 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 minor children, or is pregnant.

2. Households that Qualify for Veterans Preferences [7 CFR 3555.10]

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

The National Office will keep lenders and Agency staff apprised of the potential for a shortage of available funds. If funds become limited, the Agency will allocate funds in accordance with the percentage obligated in the prior year under a Continuing Resolution or based on the basic allocation formula in RD Instruction 1940-L for the current fiscal year.

Agency staff 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.

If the request is received after funds are exhausted, the Agency will notify the lender that the loan guarantee request may be deferred until the following fiscal year. Approval officials will keep lenders aware of actions to be taken. If there is a possibility that funds will soon be available, the request for guarantee may be reviewed. The lender should be notified if the Agency cannot honor normal turn-around times. Complete applications 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 of the reason the application is being returned, and what is required to complete the application. The approving office is responsible for keeping the lender abreast of the status of the applications submitted and any availability of funds.

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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 that are contingent upon the availability of congressionally appropriated funds, Agency personnel will include a specific condition stating that the funds are currently unavailable and outlining the expected actions from lenders during the interim period. The National Office will provide the authorized statement for commitments subject to funding, which will be included in the Conditional Commitment generated by the system. Subsequently, once a Conditional Commitment is initially issued with the "subject to availability of funds" language, it will be reissued to the lender after funds have been obtained and obligated, with the "subject to availability of funds" language removed from the Conditional Commitment.

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 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 funds become available and the Agency issues the Loan Note Guarantee.

14.5 LENDER WITHDRAWAL OF APPLICATION

If a lender wishes to withdraw an application in the Guaranteed Underwriting System (GUS), they can do so by clicking the "Withdraw Application" button. However, this option is only available if the application's submission status is "Unknown" or "Preliminary." If the application's submission status is "Final," the withdraw application button will be disabled and the lender cannot withdraw the application at that stage.

However, if the application status is set to "Pending," the lender has the option to recall the application from the "Final" submission status. This means that if the

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application has been finalized but is still in the "Pending" stage under application status, the lender can request to withdraw it. This is a two-step process; first the lender must recall the final submission and second withdraw the application. Once the application status changes to "In Process" or "Approved," the recall option will be disabled, and the lender will be unable to recall or withdraw the application.

In cases where the application status is "In Process" or "Approved," the lender should notify the Agency immediately to withdraw the application. By notifying the Agency, the loan guarantee request can be removed from the system, and the funds allocated for that application can be released back to the state's allotment. This is done to ensure that the funds can be utilized for other guarantee requests and maximize the number of loans granted.

It is crucial for lenders to inform the Agency promptly when they no longer require the funds to avoid depriving other pending applicants the opportunity to obtain a loan guarantee. By releasing the funds, the Agency can reallocate them to deserving applicants and facilitate the loan guarantee process efficiently. Some common reasons for withdrawing a loan guarantee request are:

- Lender’s rejection of the borrower’s application;
- Change in property; or
- Choice of a loan program other than the SFHGLP.

14.6 AGENCY ACTION – REQUESTING FUNDS FROM THE NATIONAL OFFICE RESERVE

Funds may be retained by the National Office during a fiscal year to meet program needs or Agency objective. To request funds from the National Office reserve, Agency employees will:

- Request funding on the Agency’s SharePoint site at: https://usdagcc.sharepoint.com/sites/rd_hcfp/SFH1/GRH/OPD. Click on the Need Funds button.
- Request actual funding needs by using the dropdown selection for the appropriate 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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14.7 AGENCY ACTION – REQUEST FOR RESTORATION OF FUNDS

The Guaranteed Loan Division Lender Reporting Section (GLDLRS) of the Servicing Office in St. Louis, Missouri will review and approve/deny all restoration of funds requests. The following is required to submit a request for restoration of funds:

1. A fully completed Request for Restoration of Funds from a Prior Fiscal Year form.

   - Agency personnel will complete the form electronically via Adobe.
   - The form will be electronically signed with the employee's LINC Pass (PIV) card.
   - The form should be saved (not printed and scanned).
   - Find the fillable form on the Agency's SharePoint site at https://usdagcc.sharepoint.com/sites/rd_hcfp/SFH1/GRH/OPD. Click on Policies and Procedures, then Templates to access the Restoration of Funds form.

2. A copy of all Conditional Commitments issued for the loan.

3. If the Agency extended the Conditional Commitment, documentation pertaining to the lender's request and the Agency's approval must be included with the restoration request. Dates are required.

4. A detailed explanation must be entered on the form to indicate whether the Agency or lender is at fault.

5. If the restoration request is for a higher obligation amount than the original obligation, then additional document is required. The Agency must demonstrate that the loan request was reviewed for repayment at the higher amount and the loan amount does not exceed the maximum amount based on the property's appraised value.

6. If the lender did not comply with regulatory requirements and a restoration of funds from the prior fiscal year is being requested, an exception to the regulatory requirement will be required. Submit a request in accordance with Chapter, Section 1.9 of this Handbook. A copy of the approved exception must be submitted with the request for a restoration of funds

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7. Completed *Request for Restoration of Funds from a Prior Fiscal Year* form and all documentation must be submitted electronically to the GLDLRS within the Servicing Office in St. Louis at rd.so.hsb@usda.gov.

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CHAPTER 15: SUBMITTING THE APPLICATION PACKAGE [7 CFR 3555.107]

15.1 INTRODUCTION

It is the lender's responsibility to work 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 loan must be underwritten and approved by the lender prior to submission to the Agency. The Agency requires that lenders use the Guaranteed Underwriting System (GUS), the Agency's automated underwriting system, for all supported loan products. Lenders will certify upon a "final" underwriting submission that the loan has been reviewed, underwritten, and all data entered in GUS is true, complete, accurate, and retained. Lenders must review the GUS Underwriting Findings Report to ensure all requirements are met. Refer to Attachment 15-A, *Guaranteed Rural Housing – Loan Origination Checklist,* for a list of required items to be provided to the Agency for a complete loan application package.

15.2 LENDER RESPONSIBILITY

The originating lender is responsible for the accuracy of all information used to obtain a Rural Development guarantee in accordance with 7 CFR 3555 and this Handbook. The permanent loan file must contain verified documentation that supports household eligibility for the Single Family Housing Guaranteed Loan Program (SFHGLP) and the lender's approval of the loan request.

Lenders are not authorized to close loans prior to the issuance of the Conditional Commitment. Closing a loan prior to obtaining a Conditional Commitment from the Agency will render that loan submission ineligible for a Loan Note Guarantee and may affect the lender's approval status to participate in the program.

15.3 LOAN APPLICATION PACKAGE

A. Manually Underwritten Loans

Manually underwritten loans are defined as:

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- GUS applications that receive an underwriting recommendation of "Refer" or "Refer with Caution."

  - These loan applications are submitted as final in GUS and based on the GUS recommendation, must be manually underwritten by the lender's underwriter.

  - Additional documentation, in accordance with Attachment 15-A, must be provided to the Agency along with the request for a Conditional Commitment.

B. Manually Submitted Loans

Manually submitted loans are defined as:

- Any loan type that is unsupported by GUS, including Streamlined Assist Refinance transactions and select pilot programs.

  - These loan applications must be manually underwritten by the lender's underwriter.

  - The associated documents must be uploaded via GUS; however no GUS recommendation is generated.

  - A job aid for this type of manual submission is available in the USDA LINC Training and Resource Library in the "Loan Origination" tab located at https://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-origination under "Documents and Resources," "Manual Submission Job Aid."

C. Guaranteed Underwriting System - GUS Accept loans

1. Streamlined Documentation Loan Files

When GUS renders an underwriting recommendation of "Accept," this allows the lender to submit streamlined documentation to request a Conditional Commitment. Information regarding processing procedures is located in the GUS User Guide posted to https://www.rd.usda.gov/resources/usda-linc-training-resource-library/guaranteed-underwriting-system.

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2. Full Documentation Loan Files

GUS "Accept with Full Documentation" loan files require additional items to be submitted to the Agency. Full documentation submissions are not re-underwritten by the Agency. Full documentation loan files will undergo a review to compare the data entered by the lender to the submitted documentation. Any discrepancies identified by the Agency will be reviewed with the approved lender before the file is released for correction or denied.

15.4 ELECTRONIC SIGNATURES

Rural Development will accept electronic signatures for origination, loan closing, and servicing documents unless otherwise prohibited by law or program. This guidance is limited to lenders. Agency staff will continue to follow internal policy.

7 CFR 3555 does not prohibit or consent to electronic signatures. Lenders may use electronic signatures when the lender perfects and maintains a first lien position, an enforceable promissory note, and meets all other agency requirements. This includes electronic promissory notes (eNotes), deed of trust, and other documents relevant to the loan transaction. Lenders should be familiar with the securitization requirements of government sponsored enterprises (GSE), such as Ginnie Mae, regarding the transferability of eNotes.

Lenders who choose to accept electronic signatures must meet the standards and requirements set forth in the E-Sign Act, as well as all other applicable federal and state regulations and guidelines. Lenders are charged with the same responsibility of due diligence with electronically signed documents as they are with paper documents.

If any electronically signed document 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 to 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.

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15.5 AGENCY REVIEW OF APPLICATION PACKAGE

The Agency's automated system will track the date and time the application package is received. Agency review of the application package is completed in the order it is received. As outlined below, there are circumstances which may require a more thorough review by the Agency. In these situations, the Agency will contact the lender.

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 to properly underwrite the loan and ensure program requirements have been met. Agency review of the application does not relieve the lender of these responsibilities. Agency staff must determine if the loan:

- Is located in an eligible rural area,
- Meets the adjusted annual income limit,
- Has appropriate collateral value to support the loan request,
- Meets environmental requirements of RD Instruction 1970, and
- Meets applicable requirements of 7 CFR 3555 and this Handbook.

Agency staff will utilize the SFHGLP Documentation and Processing Checklist in their review of Conditional Commitment requests, which assists in the review, processing, and closing of a guaranteed loan.

B. Agency Review of Lender's Underwriting Decisions

It is the approved lender's responsibility to underwrite loans, however, under limited circumstances, the Agency may determine that a more thorough review of the lender's submission should be performed. The Agency must notify the lender in writing of the additional review. The Agency may review the lender's underwriting decisions under the following circumstances:

1. Lenders who are new to the program

When a new lender is approved for participation in the program, the initial application submissions will receive a thorough Agency review, including a review of the lender's underwriting decisions. The purpose of these reviews is to provide

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training and ensure that the lender has a complete and accurate understanding of the Agency's requirements. The Agency will continue to review new lender underwriting decisions until the Agency is confident that the lender is performing satisfactorily. Additional training is provided when incomplete or deficient packages are received during initial submission.

2. Lenders that submit incomplete or inaccurate applications

If a lender submits incomplete applications or applications with inaccurate information, the Agency may choose to review the lender's underwriting to ensure that they understand the Agency's requirements. Thorough reviews will continue until the lender demonstrates their ability to submit complete and accurate application packages on a regular basis.

3. Lenders with significant loan review findings

Lenders that exhibit above average default, foreclosure, and loss claim activity may have their current loan submissions reviewed more thoroughly by the Agency. The lender will be referred to the Lender Oversight Branch for continued monitoring.

C. Conditions for the Loan Guarantee

Agency staff will determine if any conditions must be met for the loan to qualify for a guarantee. Terms and conditions will be listed and issued to the lender on Form RD 3555-18 or Form RD 3555-18E, *Conditional Commitment for a Single Family Housing Loan Guarantee.*

15.6 LENDER NOTIFICATION ON REQUEST FOR LOAN GUARANTEE

The Agency will notify the lender of the results from the application review. The following are possible results of the review:

A. The Request for a Loan Guarantee is Approved

If the loan file meets Agency requirements, the lender will receive an email with a link to view Form RD 3555-18/18E, *Conditional Commitment for Single Family Housing Loan Guarantee*. The Conditional Commitment establishes conditions for issuing the Loan Note Guarantee. This form will also be available under the Documents section of the GUS system once it has been issued by the Agency. In order to receive the Loan Note Guarantee, the lender must submit any required documents and certify to all conditions noted on Form RD 3555-18/18E (including any attachments to the form). Chapter 16 of this Handbook provides additional guidance to obtain the Loan Note Guarantee.

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B. Return of Incomplete Applications

If the application request is missing information specified in Attachment 15-A and/or the final GUS Underwriting Findings Report, the Agency will suspend the application and request the missing documentation from the approved lender. Once the file is complete, the lender must alert OPD staff that all requested information is ready for a subsequent review, as GUS does not automatically alert the Agency when new documentation is uploaded. The file will then be placed in line again for Agency review. If the lender cannot provide the necessary information, the lender should request to withdraw the loan file from GUS. Agency staff will not withdraw loan files without first contacting the lender to request the missing documentation.

C. The Request for a Loan Guarantee is Denied

The loan guarantee request will be denied if the proposed loan fails to meet program requirements. The Agency will notify the lender in writing of the reason for the denial and will provide review and appeal rights as indicated in Appendix 3 of this Handbook. The Agency must properly process the loan in the Agency's internal Guaranteed Loan System (GLS) database to record the loan denial.

15.7 LENDER RESPONSE TO CONDITIONAL COMMITMENT

The lender has three responses to the issuance of Form RD 3555-18/18E: 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.

A. Accepting the Conditions

If the lender understands and agrees to accept the conditions listed on Form RD 3555-18/18E, no further communication with the Agency is required until the lender is ready to request the loan guarantee. The loan must close in accordance with Form RD 3555-18/18E which includes:

1. A loan amount equal to or less than the authorized amount,

2. An interest rate equal to or less than the authorized amount, and

3. Compliance with all stated conditions.

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B. Declining the Conditions for Loan Guarantee

If the lender determines that the terms and conditions stated on Form RD 3555-18/18E cannot be met, that the loan guarantee is not needed, or that the loan will not go to closing, the lender must inform the Agency in writing as soon as possible. The funds for that loan request are reserved for the transaction until the expiration of the Conditional Commitment. Upon being informed that the lender intends to decline the conditions for loan guarantee, Agency staff will cancel the loan guarantee obligation in GLS. This will release the committed funds for reallocation to a new commitment.

C. Requesting Changes in Conditions

Requests to close the loan at a lower loan amount or interest rate than those authorized on the issued Conditional Commitment do not require any action. If the lender believes that there are erroneous conditions and requirements on Form RD 3555-18/18E that should be altered, the lender may contact the Agency and propose alternatives. The request must be made via email and must not affect the eligibility of the loan.

Modifications that adversely affect the loan, such as an increase in loan amount, interest rate, monthly liabilities, real estate taxes and homeowner's insurance (that exceed the allowed threshold); or lower repayment income, assets, etc. require a new underwriting review. Refer to the resubmission policy outlined in Chapter 5 of this Handbook. The lender is not authorized to close the loan until a new Form RD 3555-18/18E is issued.

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ATTACHMENT 15-A

Guaranteed Rural Housing

Loan Origination Checklist

Lender Instructions: *Submit the identified documents for the applicable loan type. To expedite loan review, please submit only the identified documents. Documents must not exceed the maximum allowable age set forth in the 7 CFR 3555 and Handbook 1-3555. Rural Development will consider all documents submitted as the certified and true copies of the original documents retained in the lender's permanent file. Lenders should submit loan files electronically to Rural Development. See 4.1.13 of the* GUS lender user guide (usda.gov) for further information on submitting a file through GUS, as well as the Manual Submission Job Aid (usda.gov) for files not supported by GUS.

General Information		
Applicant(s):	Lender:	Date:

Loan Origination Checklist
Guaranteed Underwriting System (GUS)- Purchase and Non-Streamlined and Streamlined Refinance Transactions
Underwriting Recommendation: ACCEPT

When submitting documents in GUS, the appraisal report must be uploaded separately in color.

☐	**Form RD 3555-21, Request for Single Family Housing Loan Guarantee** Include all pages from the current published version Executed by applicant(s) and lender
☐	**FEMA Standard Flood Hazard Determination Form** New construction properties located in 100-year flood plains require additional documentation, including confirmation the base flood elevation (BFE) is below lowest habitable floor. Lender to use the most current form available from FEMA.
☐	**Mortgage Payoff Statement:** If refinance transaction
☐	**Uniform Residential Appraisal Report (URAR)** The appraiser must use the most current forms acceptable to Fannie Mae, Freddie Mac, VA, or HUD. Not required for most streamlined refinance transactions.

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Loan Origination Checklist
Files Not Supported By GUS, GUS Refer/Refer with Caution Underwriting Recommendation, or
GUS Accept with Full Documentation Message on GUS Underwriting Findings and Analysis Report

When submitting documents in GUS, the appraisal report must be uploaded separately in color.

The Manual File Submission Job Aid located on the LINC Training and Resource Library at
https://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-origination

☐	**Form RD 3555-21, Request for Single Family Housing Loan Guarantee** Include all pages from current published version Executed by applicant(s) and lender
☐	**Underwriting Analysis: FNMA 1008/FHLMC 1077, or similar form** Documentation of annual and repayment income calculations Credit waiver explanations, debt ratio waiver compensating factors, and overall loan file comments may be documented on this form
☐	**Income Verification Documentation: Applicable methods** **Alternative Documentation: Non self-employed:** Written/Electronic VOE + 1 earning statement with YTD figures **Full Documentation: Non self-employed:** 2 years W-2s + 4 weeks of earning statements with YTD figures **Self-Employed:** 2 years personal and business filed income tax returns or IRS transcripts with all schedules + YTD profit and loss statement **Additional Income Types: SSI, VA Benefits, Pension, Retirement, etc.** Refer to Chapter 9 for acceptable verification documents
☐	**Asset Documentation:** Documentation for all applicable household members per 3555.152(d) VOD's, bank or investment statements, gift letters, etc. Refer to Chapter 9 for acceptable verification documents for each asset type.
☐	**Credit Report:** (as applicable) Credit Report: For loans submitted outside of GUS. GUS loans will have the credit report uploaded. Non-Traditional credit tradelines, as applicable Credit supplements, if utilized to support data adjusted from credit report
☐	**Verification of Rent:** NOT APPLICABLE FOR GUS ACCEPT FULL DOCUMENTATION Applicable for manually underwritten loans with credit scores less than 680 when rental history is indicated. Refer to Chapter 10 for guidance on documenting rent and non-traditional credit when a VOR is required, but not available.
☐	**Mortgage Payoff Statement:** If refinance transaction
☐	**FEMA Standard Flood Hazard Determination Form:** New construction properties located in 100-year flood plains require additional documentation, including confirmation base flood elevation (BFE) is below lowest habitable floor. Lender to use most current form available from FEMA.
☐	**Uniform Residential Appraisal Report (URAR)** NOT APPLICABLE TO MOST STREAMLINED OR STREAMLINED-ASSIST REFINANCES The appraiser must use the most current forms acceptable to Fannie Mae, Freddie Mac, VA, or HUD.

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Loan Origination Checklist
Streamlined Assist Refinance Manual Underwrite Review

This checklist is for the Streamlined Assist Refinance program. All documents must be submitted to the Agency using GUS, however the lender will not complete a final submission in GUS. Guidance on this process can be located in the Manual File Submission Job Aid located on the LINC Training and Resource Library at https://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-origination.

After uploading documents in GUS, the lender must notify the Agency the documents have been uploaded.

When underwriting a Streamlined Assist Refinance:

- Borrowers must receive at least a $50 net tangible benefit reduction in total principal, interest, and monthly annual fee payment.
- The interest rate cannot exceed the rate of the loan being refinanced.

☐	**Form RD 3555-21, Request for Single Family Housing Loan Guarantee** Include all pages from current published version Executed by applicant(s) and lender
☐	**Underwriting Analysis: FNMA 1008/FHLMC 1077, or similar form** Documentation of annual and adjusted annual income calculations
☐	**Uniform Residential Loan Application: FNMA 1003/FHLMC 65** Not required to be signed by applicant(s) or lender
☐	**Income Verification Documentation: Required for Annual Income Calculations** **Alternative Documentation: Non self-employed:** Written/Electronic VOE + 1 earning statement with YTD figures **Full Documentation: Non self-employed:** 2 years W-2's + 4 weeks of earning statements with YTD figures **Self-Employed:** 2 years personal and business filed income tax returns or IRS transcripts with all schedules + YTD profit and loss statement **Additional Income Types: SSI, VA Benefits, Pension, Retirement, etc.** Refer to Chapter 9 for acceptable verification documents
☐	**Asset Documentation: Annual Income Calculations** Documentation for all applicable household members per 3555.152(d) VOD's, bank or investment statements, gift letters, etc. Refer to Chapter 9 for acceptable verification documents for each asset type.
☐	**Mortgage Payment History** As specified in Chapter 6, Section 6.2D Credit Report or Verification of Mortgage
☐	**Mortgage Payoff Statement**
☐	**Uniform Residential Appraisal Report (URAR)** Only applicable to current Direct Loan borrowers for the purpose of calculating subsidy recapture.

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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 or Form RD 3555-18E, *Conditional Commitment for Single Family Housing Loan Guarantee,* and any attachments, as applicable. The loan must close under the same terms as underwritten and approved for in the Conditional Commitment.

16.2 CLOSING THE LOAN

Required Closing Timeframe:

- Purchase and refinance transactions - the lender has 90 days from the issuance of the Conditional Commitment to close the loan, with an opportunity for one 90-day extension. The extension must be requested prior to the expiration of the Conditional Commitment.

- Construction transactions - the expiration date for new construction, other than the "combination construction to permanent loan" option outlined in Chapter 12, should correspond with the estimated project completion date, but cannot exceed 12-months.

- Requests for extensions must be approved by the Agency in writing. Upon approval, a new Conditional Commitment will be issued reflecting the new expiration date. The Guaranteed Loan System (GLS) application page will be updated with the commitment extension.

Closing in Compliance with Conditional Commitment Approval:

- The loan must close under the same, or more favorable, terms as underwritten and approved on the Conditional Commitment. Any changes in the loan terms, characteristics of the applicant, or characteristics of the property between the issuance of Conditional Commitment and loan closing requires the lender to notify the Agency in writing.

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- Adverse changes may require the release of the application submitted in the Guaranteed Underwriting System (GUS) to the lender for correction and resubmission to ensure there is no impact to the underwriting recommendation.

  Refer to Chapter 5 for guidance on file submission.

- The Agency must verify in writing, prior to loan closing, that the changes are acceptable. Failure by the lender to obtain approval from the Agency may result in denial of the request for Form RD 3555-17 or Form RD 3555-17E, *Loan Note Guarantee.*

Signatures:

- All individuals applying for the loan and assuming responsibility for the mortgage debt must sign the Uniform Residential Loan Application and any addenda.

- Standard industry closing documents are utilized when closing the loan. The lender is required to ensure a valid and enforceable first lien on the property is obtained. Any individual whose signature is required by state law must sign the security instruments and/or note 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.

- Lenders should not encourage borrowers to sign blank or incomplete documents.

A Power of Attorney (POA) may be used when the mortgagee verifies and documents that the following applicable requirements have been satisfied:

- Any specific or general POA must comply with state law and allow for legal enforcement of the mortgage note.

- For military personnel, a POA may only be used for one of the applications (initial or final), but not both:

  - when the service member is on overseas duty or on an unaccompanied tour;

  - when the mortgagee is unable to obtain the absent borrower's signature on the application by mail or via fax; and

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- where the attorney-in-fact has specific authority to encumber the property and to obligate the borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.

- For incapacitated borrowers, a POA may only be used where:
  - a borrower is incapacitated and unable to sign the mortgage application;
  - the incapacitated individual will occupy the property to be guaranteed; and
  - the attorney-in-fact has specific authority to encumber the property and to obligate the borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.

Electronic signatures in accordance with the conditions outlined in Chapter 15 of this Handbook may be accepted.

Title Evidence. The lender will ensure that the mortgage must have a valid first lien position at closing and is covered by either a title insurance policy issued by an acceptable insurer (including any required endorsements) or an attorney's title opinion letter issued by an attorney experienced in the examination of titles in the jurisdiction where the subject property is located. When using attorney title opinion letters, the lender will retain the documentation the attorney used in making its determination on the title coverage in their permanent case loan file. Additional guidance for acceptable lien position requirements can be found in this Chapter. The lender should be aware of any additional investor criteria/overlays beyond the SFHGLP requirements regarding the use of attorney opinion letters.

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Below are the requirements for the use of each title evidence type:

Title Insurance	Attorney Title Opinion
The guaranteed loan must be in first lien position when recorded.	The guaranteed loan must be in first lien position when recorded.
The title policy must list all other liens and state that they are subordinate to the guaranteed loan.	The attorney opinion letter must list all other liens and state that they are subordinate to the guaranteed loan.
The amount of title insurance coverage must at least equal the original principal amount of the loan.	The attorney opinion letter must include language relating to the amount of coverage that must at least equal the original principal amount of the loan.
The title policy must provide evidence of good and marketable title. If there are exceptions discovered during the title search, the lender is responsible for reviewing and determining if those title exceptions affect the property's value or marketability.	The attorney opinion letter must be prepared and signed by an attorney licensed to practice law in the jurisdiction where the subject property is located and experienced in examination of titles for all property types. If there are any exceptions discovered, the lender is responsible for reviewing and determining if those exceptions affect the property's value and marketability.
The following property types are ineligible for an attorney title opinion letter: • Manufactured Homes • Leasehold Estates (Native American restricted land and Community Land Trust)	

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 will certify that the loan has been underwritten and closed in accordance with 7 CFR 3555.107, that it meets all conditions set forth in the Conditional Commitment, and that all documentation has been submitted to Rural Development. The lender acknowledges that upon receipt and acceptance of the

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conditions of the Conditional Commitment and the required fees in the appropriate amount, Rural Development will execute and issue the Loan Note Guarantee.

16.3 REQUESTING THE LOAN NOTE GUARANTEE

The lender must provide evidence the loan was properly closed and remit the upfront loan guarantee fee and the USDA technology fee within 30 days of closing the loan. Requests received more than 30 days after loan closing will be considered, however the submission must include a payment history verifying the loan is current, as well as certification that all required escrow accounts are current and neither the lender nor another interested party provided funds to bring and/or keep the mortgage current to obtain the Loan Note Guarantee. A Loan Note Guarantee will not be issued beyond 30 days of the loan closing if the account is in default at the time of the Loan Note Guarantee request.

Approved lenders must submit all guaranteed loan closing transactions to the Agency electronically via the Lender Loan Closing (LLC) system.

Lenders are required to execute and submit a Lender Loan Closing User Agreement to the Agency prior to gaining access to the system. Individual user access requires a validated eAuthentication ID and password (formerly Level 2). User guides for gaining access to and using the LLC system can be found at https://www.rd.usda.gov/resources/usda-linc-training-resource-library.

Lenders must upload the following documentation in the LLC system to receive a Loan Note Guarantee:

- Final Closing Disclosure. The closing date listed on the Closing Disclosure must be entered on the GLS "Add/Update Loan Closing" screen. The Closing Disclosure is not required to be signed;
- Promissory Note; and
- Any other necessary documentation as specified in the Conditional Commitment.

In addition to uploading documentation, lenders are required to enter basic loan closing information (e.g. loan closing date, promissory note amount, etc.) into the system and authorize electronic payment of the upfront guarantee fee and the USDA technology fee through the Pay.gov interface.

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16.4 UPFRONT LOAN GUARANTEE FEE

Lenders will pay the Agency the upfront guarantee fee through the LLC system interface with Pay.gov. The fee may be passed onto the borrower and is an eligible loan purpose. If the Agency is unable to issue the Loan Note Guarantee, the fee may be returned to the lender. Once the Loan Note Guarantee is issued, the fee is not refundable.

The upfront guarantee fee amount is published in Exhibit K, of RD Instruction 440.1, available in any Rural Development office, or by selecting "Part 1800: General" on the Rural Development Instruction website located at https://www.rd.usda.gov/resources/directives/instructions. The fee is subject to change to maintain a subsidy neutral program required by Public Law 111-212.

A. Calculation of Upfront Loan Guarantee Fee

The maximum loan amount for a guaranteed loan is 100% of the appraised value plus the upfront guarantee fee. Eligible closing costs may be included in the loan amount up to 100% of the appraised value. Additional guidance on eligible closing costs is available in Chapter 6 of this Handbook.

An up-front fee calculator is available for use by lenders and employees at https://www.rd.usda.gov/resources/usda-linc-training-resource-library. Refer to Chapter 6 of this Handbook for assistance in determining the maximum loan amount allowed for refinance transactions.

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There are three options for payment of the upfront guarantee fee. The following examples assume a 1% upfront fee.

1. Pay the entire upfront guarantee fee at loan closing

Borrowers are not required to finance the upfront guarantee fee and may elect to pay the entire fee at loan closing from personal funds, seller concessions, or eligible gift assistance at settlement.

Example: $100,000 loan x 1% = $1,000.00 upfront guarantee fee paid at loan closing.

2. Finance part of the upfront guarantee fee

The borrower may elect to finance a portion of the upfront guarantee fee. In these cases, the borrower will pay an upfront fee that corresponds to the total loan amount that includes a portion the upfront fee. The remaining amount of the upfront guarantee fee not financed, will be paid by the borrower from personal funds, seller concessions, or eligible gift assistance at settlement.

Example: $500 of the 1% fee will be financed; therefore, the total loan amount will be $100,500 loan x 1% = $1,005.00 (guarantee fee)

In this scenario, the applicant will borrow $100,500.00 which includes $500.00 of the upfront guarantee fee. The borrower will pay the remaining $505.00 of the guarantee fee from personal funds at settlement ($1,005.00 total fee minus the $500.00 financed = $505.00)

3. Finance the entire upfront guarantee fee

The appraised value may only be exceeded by the amount of the upfront guarantee fee financed. Therefore, the entire upfront guarantee fee may be financed into the total loan.

Example: The appraised value of the subject property is $100,000. The purchase price of the property is $98,000. The borrower has elected to finance $2,000 in eligible loan closing costs that does not include the upfront guarantee 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 entire upfront guarantee fee being financed as follows: $100,000 / .99 = $101,010.10 (total loan amount including the upfront guarantee fee) $101,010.10 x 1% = $1,010.10 (upfront guarantee fee).

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16.5 ANNUAL FEE

The servicer will electronically pay the Agency the annual fee on all purchase and refinance transactions, which may be passed on to the borrower. The servicer responsible for payment is required to enter into a User Agreement to electronically receive billing notifications and submit payments. The annual guarantee fee amount published in Exhibit K of RD Instruction 440.1, available in any Rural Development office or by selecting "Part 1800: General" on the Rural Development Instructions website located at https://www.rd.usda.gov/resources/directives/instructions. The fee is subject to change to maintain a subsidy neutral program required by Public Law 111-212.

Information for gaining access to the Agency's Guaranteed Annual Fee (GAF) system can be found at https://www.rd.usda.gov/resources/usda-linc-training-resource-library.

A. Amount of Annual Fee

The servicer will pay an annual fee to the Agency which is calculated on the average scheduled unpaid principal balance of the mortgage.

B. Calculation of Annual Fee

The amount of the annual fee is calculated from the original amortization schedule of the mortgage at loan closing. The annual fee does not include delinquent payments, prepayments, agreements to postpone payments, or loan modifications to the original mortgage.

C. Due Date of Annual Fee

The annual fee is due and payable to the Agency on the 1st day of the billing month with a grace period for 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 be credited 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.

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D. Payment of Annual Fee

The servicer is responsible for the payment of the annual fee to the Agency.

E. Advance Notice, Billing, and Reconciliation of the Annual Fee

Servicers will receive advance notice, two months prior to the current annual fee due date, documenting the annual fee amount due in the subsequent year to allow the servicer 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 servicer on the anniversary closing month of the loan each year. Payment of any annual fee billed is 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 servicer's portfolio that are subject to an annual fee.

F. Late Charge on Unpaid Annual Fee

Payments received by the Agency after the payment dates prescribed in this section and supported by §3555.107(h) 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 one percent of the unpaid annual fee amount. Annual fee late charges cannot be passed on to the borrower.

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.

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H. Duration of Annual Fee

The servicer shall pay the annual fee to the Agency until termination of the Loan Note Guarantee. 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; or
- Voluntary conveyance. The property was conveyed to the lender through an approved deed-in-lieu of foreclosure agreement.

A termination event must be reported to the Agency within 15 days of occurrence.

I. Pro Rata Payment of the Annual Fee

If the Loan Note Guarantee is terminated prior to the due date of the annual fee due, the servicer shall pay a prorated portion of the fee. The annual fee is prorated monthly beginning with the month proceeding the settlement date. The servicer 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 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 annual fee payment, the servicer shall pay a prorated portion of the annual fee. The calculation will be prorated from the due date of the last annual fee to the date of termination.

A pro rata annual fee will also be due and payable after a foreclosure is complete. The lender shall pay a portion of the annual fee prorated from the due date of the last annual fee to the date of settlement.

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J. Method of Payment of the Annual Fee

Payment of the annual fee will be remitted electronically. Implementation and technical guides to explain electronic payment of the annual fee may be found on the USDA LINC website, located at https://usdalinc.sc.egov.usda.gov/RHShome.do.

K. Nonpayment of the Annual Fee

If for any reason the servicer fails to pay the scheduled annual fee payment, submitted loss claims may be reduced by the cumulative amount of unpaid annual fees, late fees, and/or additional late charges due to the Agency.

Servicers 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.

16.6 TECHNOLOGY FEE

Lenders will pay the Agency a technology fee, which may be passed to the borrower as an authorized loan purpose, when the request for loan guarantee is submitted via the Agency's Guaranteed Underwriting System (GUS). The fee can be included in the loan amount, subject to maximum loan-to-value thresholds. The technology fee will be collected through the Agency's LLC system interface with Pay.gov when the lender submits the loan closing package.

A. Amount of Technology Fee

The Agency will notify all lenders via the Agency website and GovDelivery notifications of the required technology fee amount. The technology fee is nonrefundable once the loan is closed and the Loan Note Guarantee has been issued. Failure to pay the technology fee at the time of closing will result in denial of the Loan Note Guarantee request.

B. CFPB Forms: Loan Estimate and Closing Disclosure

When the technology fee is passed on to the consumer, it will be disclosed on the *Loan Estimate* and *Closing Disclosure* as "Services You Cannot Shop For/Services Borrowers

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Did Not Shop For" in accordance with 12 CFR 1026.37(f)(2) and 1026.38(f)(2).

These items should be titled as "USDA Technology Fee" on both disclosures, when applicable.

16.7 AGENCY REVIEW OF CLOSING DOCUMENTS AND ISSUANCE OF THE GUARANTEE

The Agency will review the required loan closing documents to ensure the lender has completed and fulfilled all requirements specified on the Conditional Commitment.

A. Incomplete Closing Documents

If the Agency determines that the closing documentation is incomplete or has correctable errors, the lender should be granted up to 30 days to correct the situation. The lender will be notified of incomplete packages by telephone, in writing, by e-mail, or, 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.

While the burden of submitting a complete loan closing package is on the lender, Agency staff should be cognizant that the lender cannot satisfy 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 Agency will not issue a Loan Note Guarantee. The Agency will return the loan closing package if corrections cannot be made within 30 days.

B. Acceptable Closing Documentation

Lenders:

- Submit their upfront guarantee fee and technology fee electronically through the Pay.gov interface with LLC;
- Submit all required documentation through the LLC system; and
- Retrieve and print the Loan Note Guarantee within the LLC system.

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Agency Staff:

- Will review and determine if the closing documents are acceptable and issue the Loan Note Guarantee within 10 business days of receipt of the closing package;

- Enter loan closing information into the Guaranteed Loan System (GLS);

- Provide Form RD 3555-17 or Form RD 3555-17E, *Loan Note Guarantee* and the *Loan Amortization Schedule* to the lender; and

- Retain a copy of Form RD 3555-17 or Form RD 3555-17E for the Agency's Electronic Customer File (ECF).

NOTE: The Loan Note Guarantee does not take effect until Form RD 3555-17 or Form RD 3555-17E is issued.

C. Unacceptable Closing Documents

The Agency will not issue the Loan Note Guarantee if there are errors in the closing documents, the loan does not meet all program requirements, does not meet all conditions set forth on the Conditional Commitment, or if 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 loan being guaranteed.

Loan funds and/or seller paid concessions may not be disbursed to the applicant(s). Lenders can correct oversights and unauthorized use of loan funds. If the lender can make the necessary corrections, the Agency will ensure the loan meets regulatory requirements prior to issuance of the Loan Note Guarantee.

Frequently asked questions regarding corrections after the loan has closed can be found in Attachment 16-B.

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 of this Handbook. Guaranteed loan funds will not be de-obligated until all

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appeal rights have expired, even if the process continues across fiscal years. If the Agency is upheld on appeal, Agency staff will de-obligate the funds in GLS. If the Agency's decision to deny the request is overturned, the approval official will immediately take the necessary steps to issue the Loan Note Guarantee.

16.8 CLOSING DATE

The date of closing will be defined as the closing date listed on the Closing Disclosure and entered on the GLS "Add/Update Loan Closing" screen.

Borrowers may elect an interest credit settlement, where interest will be paid at closing to the previous first day of the month. The maturity date for this type of settlement will be slightly less than 30 years. Example: Borrower closes loan on October 3, 2019. For most loan closing settlements, interest would be paid from the settlement date to the beginning of the next month, November 1, 2019. The first payment would be due December 1, 2019. The maturity date would be November 1, 2049. Should the borrower elect an interest credit settlement, fewer funds are required at closing. Interest would be paid to the previous first day of the month, October 1, 2019. The first payment would begin November 1, 2019, and the maturity date would be October 1, 2049, in this example.

16.9 DUPLICATE LOAN NOTE GUARANTEE

Lenders can retrieve a reissued Loan Note Guarantee from the LLC system. Occasionally a lender may request a certified copy or a duplicate original of Form RD 3555-17 or Form RD 3555-17E, *Loan Note Guarantee*. 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 Form RD 3555-17E will be honored.

16.10 TRANSFERRING LOANS AND/OR SERVICING RIGHTS

Lenders may transfer guaranteed loans to other USDA approved lenders by following the requirements described in Chapter 4 of this Handbook.

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16.11 ACCEPTABLE LIEN POSITION

The guaranteed loan must have first lien position at closing; however, the lender may permit liens junior to the guaranteed loan if:

- 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 and/or closing cost assistance creates the overage; and
- The junior lien is for an authorized loan purpose.

16.12 OWNERSHIP REQUIREMENTS

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 of recording, 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 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 lender failed to obtain all required security, the originating lender may be subject to indemnification if a loss claim request is made 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

Acceptable fee-simple ownership is evidenced by a fully marketable title with a deed

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vesting a fee-simple interest in the property to the borrower.

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 the following conditions are met:

- The applicant must be unable to obtain fee-simple title to the property;
- The rent charged for the lease must not exceed the rate paid for comparable leases; and
- The appraisal documents these conditions.

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. For those loans to Native Americans on restricted or trust land, the lender must obtain:

- Evidence that the tribe has enacted legally binding and effective foreclosure procedures and will enforce those procedures upon notice of default from a lender.
- Evidence that the tribe has enacted legally binding and effective eviction procedures and will enforce those procedures upon notice of default from a lender.
- Evidence that the tribe has adopted procedures ensuring that the guaranteed loan will always have first lien priority (if applicable) and will be satisfied before all other property debts (excepting tribal taxes) OR has adopted legislation requiring the tribe to follow state or local priority of lien procedures.
- A copy of the tribe's lease for use on residential land.

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- The lender will adhere to the tribe's mortgage, foreclosure and eviction ordinances and the terms of the lease and the lender can only sell the leasehold interest to the tribe, the tribally designated housing entity, or another tribal member. The lender and RD staff should consult with the tribe to ensure they adhere to the tribe's ordinances, the terms of the lease, and may exercise flexibility as directed by the tribe. The Agency's Native American Coordinators should also be contacted for additional assistance.

For all other leasehold interest:

- 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 must be in writing, recorded, and contain all 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.

  - 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 borrower 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.

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- 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-A 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 borrowers continuously maintain hazard insurance on the collateral to protect against fire and weather-related damage. A hazard insurance policy must be in force at the time the loan is closed. A policy must document if the dwelling is on a leasehold to ensure state laws regarding insurance requirements are met.

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 cannot be accepted that in whole or part excludes wind, hurricane, or catastrophe insurance unless the coverage is provided in another policy with

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the same coverage limits as the hazard policy.

Properties should have replacement cost coverage in an amount that is at least equal to the guaranteed value of the improvements or the unpaid principal balance. Deductible(s) should not exceed 5% of the total coverage amount.

When using a high deductible, lenders must be mindful of the applicant's repayment ability and ensure that chosen deductibles are reasonable for the applicant and will not cause undue hardship on the borrower.

2. Flood Insurance

If a dwelling is in a Special Flood Hazard Area (SFHA) as identified by the FEMA, the property must be located within a National Flood Insurance Program (NFIP) participating community and the borrower must obtain flood insurance. The lender must ensure the borrower continuously maintains flood insurance for the life of the loan and that the policy is in force at the time of loan closing.

Flood insurance must cover the lesser of the outstanding principal balance of the loan or the maximum amount of coverage allowed under NFIP. Unless a higher amount is allowed by state or federal law (which includes FEMA policies), the maximum deductible clause for a flood insurance policy should not exceed $10,000. Existing dwellings are eligible for the SFHGLP if flood insurance is available.

When using a high deductible, lenders must be mindful of the applicant's repayment ability and ensure that chosen deductibles are reasonable for the applicant and will not cause undue hardship on the borrower.

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ATTACHMENT 16-A

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 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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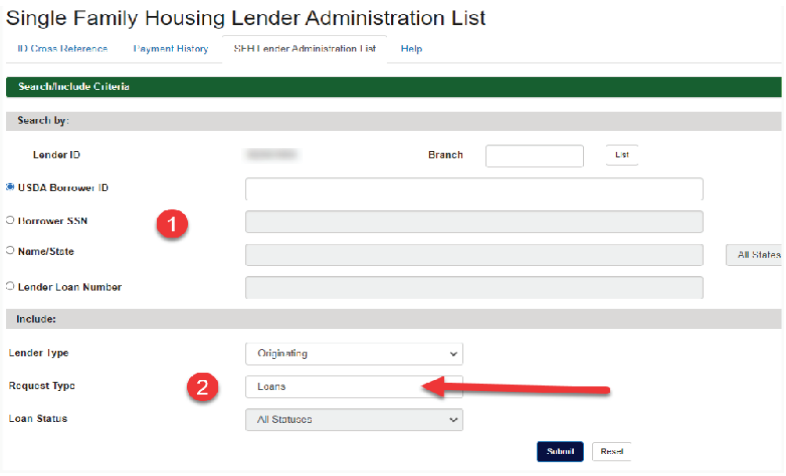
ATTACHMENT 16-B
Guaranteed Loan Closing Reference Guide

Question	Answer
I am trying to access the Loan Note Guarantee from the Single-Family Housing Lender Administration List page in the LLC system, but nothing is coming up when I search for the Borrower/Loan.	Verify you are using the correct Borrower ID number (default choice), Borrower SSN, Name/State, or Lender Loan Number and are selecting "Loans" for the "Request Type." 
Where can I find instructions for submitting the lender loan closing?	The "Lender Loan Closing (LLC) Guide" is available in the LINC Training and Resource Library, in the "Loan Closing" section. The LINC Training and Resources Library is located at https://www.rd.usda.gov/resources/usda-linc-training-resource-library.
How do I change the LLC roles of my associates? How do I modify or delete Security Administrators?	The "SFHGLP System Access and Security Guide" is available in the LINC Training and Resource Library, in the "Guaranteed Underwriting System" section, which includes step by step instructions to add, modify, or delete existing users. The LINC Training and Resources Library is located at https://www.rd.usda.gov/resources/usda-linc-training-resource-library.
It has been over 30 days since the loan closed, but we forgot to submit the loan closing package. Is it too late to request a Loan Note Guarantee?	No. Rural Development will continue to accept complete loan closing submissions to assist the lender in obtaining a Loan Note Guarantee. Requests received more than 30 days after loan closing must include a loan payment history verifying the loan is current, as well as certification that all required escrow accounts are current and neither the lender nor another interested party provided funds to bring and/or keep the mortgage current to obtain the Loan Note Guarantee. A Loan Note Guarantee will not be issued beyond 30 days of the loan closing if the account is in default at the time of the Loan Note Guarantee request.

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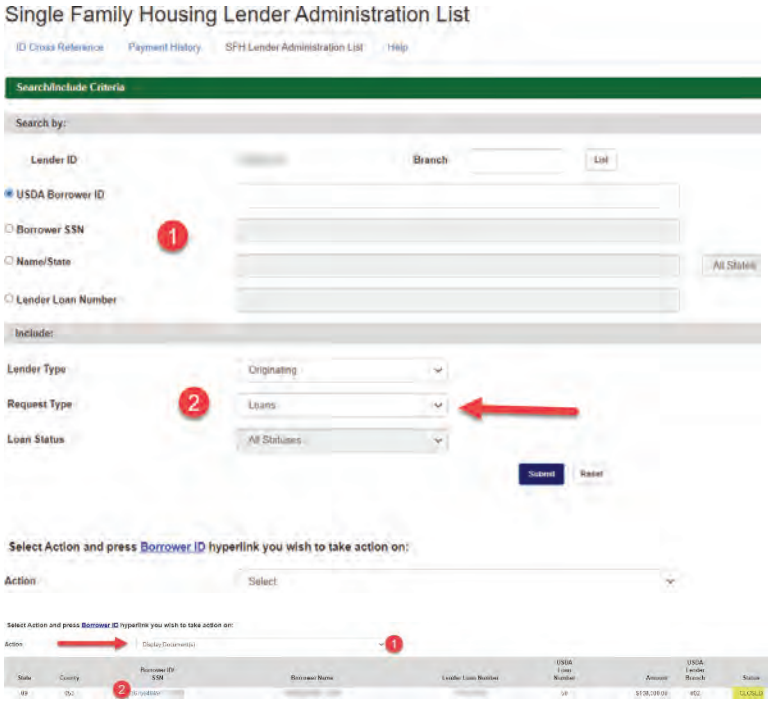
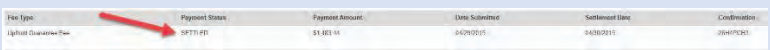
Question	Answer
I did not receive the email with a link to the Loan Note Guarantee. Can you resend it to me?	The Loan Note Guarantee can be accessed by the lender anytime once it is issued by USDA. Lenders can retrieve a copy from GUS by accessing the Application Documents Page. The Loan Note Guarantee is also available via the LLC System by following these steps: • Enter the correct Borrower ID number (default choice), Borrower SSN, Name/State, or Lender Loan Number. • Select "Loans" for the "Request Type." • Select "Display Documents" from the Action drop-down menu. The status of the loan will be set to "closed." • Select the Borrower ID hyperlink. 
I think I submitted the loan closing, but I am unsure how to confirm. Can you check for me?	The easiest way to check on a submitted loan closing is to log into GLS and check the "Add/Update Loan Closing" screen. Scroll towards the bottom to see if the upfront fee payment information is completed/accepted. For searches completed on the same day the lender submitted the LLC, the payment will reflect "pending" until the next day. The Loan Note Guarantee cannot be issued by USDA until the payment status changes to "settled." 

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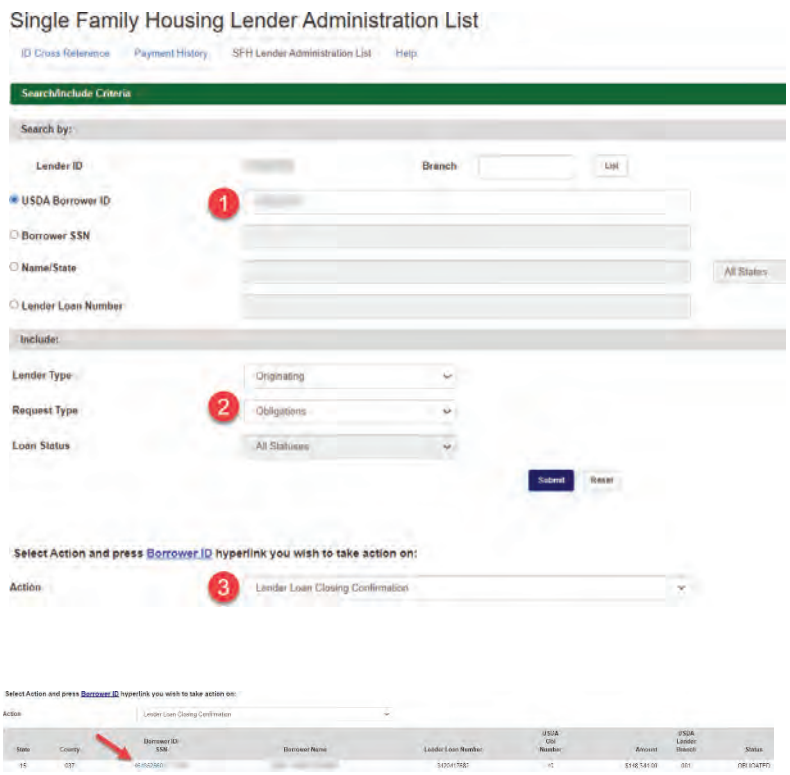
Question	Answer
I submitted the loan closing, but I did not receive the loan closing confirmation screen. Our company requires us to print this for our files. Is there a way to obtain this?	Lenders may obtain a copy of this confirmation by going to the Single Family Housing Lender Administration List page in the LLC system. Enter the Borrower ID and ensure the "Request Type" is set to "Obligations." When the correct Borrower has been identified, select the "Action" as "Lender Loan Closing Confirmation" and click on the Borrower ID hyperlink. 
Unauthorized loan funds were released to the borrower at closing. How can we correct this?	Lenders have two possible solutions: 1. The lender may apply the amount of the unauthorized loan funds to the principal loan balance. Documentation of the amount applied must be submitted to USDA. 2. Loan fees paid by the applicant(s) with credit cards or other short-term loans may not be reimbursed at closing. If the lender is required to reimburse an applicant as the result of erroneous preparation of the Loan Estimate, funds may be provided directly to the applicant since it represents a penalty due from the lender.

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Question	Answer
The loan has closed for a higher loan amount and/or interest rate than what was authorized on the Conditional Commitment. The Loan Note Guarantee has not been issued, what can I do?	The lender may perform a loan modification to rectify the loan amount and/or interest rate to match the issued Conditional Commitment. If that is not an option, the lender must request USDA to release the GUS loan back for correction. Once the loan amount and/or interest rate has been corrected, a new underwriting submission may be performed, and USDA will issue a new Conditional Commitment. Agency staff will follow the loan closing reversal guidance found on the SFHGLP SharePoint site when processing these requests.
I have received the Loan Note Guarantee, but our quality control/investor/etc. will not accept the loan until X is corrected. Can you please release the file back to me for correction of GUS?	No. Once USDA has issued a Loan Note Guarantee, GUS will not be released. Loan Note Guarantees will not be revoked. Once they are issued, they remain valid per §3555.108(a). The lender may submit a "Self-Report" to the Agency for review and response. A self-report must include: • Borrower ID/GUS Application ID and last name to select the correct file; • Description of the issue; • Provide supporting documentation, if applicable; and • Lender/Servicer contact information. Submit this information via email to SFHGLD.QualityAssurance@usda.gov. Response time is dependent on the issue and number of submissions received by USDA. It is the responsibility of the lender to ensure their investor will accept responses from USDA for investor delivery.

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Question	Answer
I need to have GUS released for correction after an automated loan closing has been submitted but prior to issuance of the Loan Note Guarantee.	Prior to de-obligation of funds, Agency employees must ensure that the fiscal year funds utilized for the loan were not prior year funds. If the funds are from the current year, Agency staff will follow the instructions on how to reverse an LLC transaction prior to the issuance of a Loan Note Guarantee found on the SFHGLP SharePoint site. Loans obligated with prior year funds cannot be released in GUS. Agency staff must follow the guidance in Chapter 14 of this Handbook to process restoration of prior fiscal year funds. The Loan must be submitted manually in order to be re-obligated. The upfront loan guarantee fee was paid when the lender submitted their previous loan closing. When the closing is deleted from GLS, the fee already paid does not get returned to the lender. Instead, it goes into a pending state until USDA recloses the loan in GLS. Agency staff will not ask the lender to resubmit the upfront Guarantee Fee.

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CHAPTER 17: REGULAR SERVICING – PERFORMING LOANS

7 CFR 3555.251

17.1 INTRODUCTION

Servicers are responsible for servicing SFHGLP loans and protecting security interests and servicing accounts in a reasonable and prudent manner. This Chapter provides additional guidance about the ways in which servicers 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 defines the requirements associated with servicing current accounts, such as collecting payments, escrowing funds, and loan reporting functions. Section 2 defines how the servicer should consider borrower requests for partial releases of security, and transfers and assumptions.

A. Sale of Loans to Approved Lenders [7 CFR 3555.54]

Lenders may sell SFHGLP loans to any USDA approved servicing lender (servicer). 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 omissions and/or unresolved review findings 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 holding lender is responsible for ensuring the loan is properly serviced by a USDA approved servicing lender. If the USDA approved servicing lender contracts out rights to a third-party provider, the holding lender remains responsible for ensuring the loan is properly serviced.

C. Notifying the Agency of Loan Sales or Servicing Transfers

The Agency must be notified within 15 days of a sale or servicing transfer by submitting Form RD 3555-11 to the Single Family Housing Servicing Branch, Lender Reporting Section. Agency notification should be password protected or encrypted and emailed to rd.so.hsb@usda.gov.

D. Non-Compliance

Failure by the lender to comply with Agency requirements including reporting or other program guidelines, or failure to provide high quality origination, underwriting, or servicing can result in the following Agency actions:

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- Withdraw the lender's approval;
- 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 HB-1-3555, Appendix 3. Failure to comply with the reporting requirements and other lender responsibilities outlined in HB-1-3555, Chapter 4 could indicate non-compliance.

SECTION 1: SERVICING PERFORMING LOANS

17.2 REQUIRED SERVICING ACTIONS [7 CFR 3555.252]

In addition to collecting regularly scheduled payments, servicers are also responsible for a wide variety of servicing activities including, but not limited to, the following actions.

A. Ensuring Payment of Loan

Servicers should have a system of record to record loans, monitor payment activity, and the history of borrower accounts. The USDA approved servicer is responsible for monitoring activities completed by any third-party providers.

B. Handling Late Payments and Fees

Servicers may assess late payment charges to a borrower's account when appropriate; however, these charges will not be covered by the loan guarantee. The late payment charge must not exceed a rate that is reasonable and customary, as governed by state law, the percentage of the payment due as prescribed by HUD, or the percentage of payment as prescribed by Fannie Mae or Freddie Mac.

C. Ensuring Payment of Taxes and Insurance

Servicers 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 securing a guaranteed loan. Escrow funds may be used only for the purpose for which they were collected. Escrow accounts for all guaranteed loans must be administered in accordance with all applicable regulations and must be insured by the FDIC or the NCUA insurance fund. Rural Development will not include any taxes or insurance amounts that accrued prior to due date of last paid installment in any potential loss claim.

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D. Maintaining Hazard and Flood Insurance

Until the loan is paid in full, servicers must ensure that borrowers continuously maintain hazard and, if applicable, flood insurance in an amount sufficient to protect the property securing the guaranteed loan. Servicers should adopt accepted industry standards for hazard and flood insurance as noted in Chapter 16 of this Handbook.

- Servicers must administer hazard insurance claims involving property damage in an expeditious manner. 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 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;

    - The released funds may not exceed $20,000.00; and

    - The borrower must execute an affidavit in which the borrower expressly agrees to apply the released funds promptly to repair or reconstruct the residence.

- For insurance claims that do not meet the criteria required above, servicers 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 Chapter 18 of this Handbook for additional information regarding insurance claims involving property damage.

- In the case where the borrower cannot demonstrate adequate hazard insurance, the servicer can place a policy with coverage in accordance with Chapter 16 of this Handbook.

E. Obtaining Final Payments

The servicer must not satisfy a borrower's account and release the security instruments until full payment of all amounts owed including unpaid principal and

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interest, protective advances, overpayment of interest assistance, shared equity, and mortgage recovery advances have been received and verified. For those borrowers who have received interest assistance and/or a mortgage recovery advance (MRA) (whether secured or unsecured), even if the borrower repays the full outstanding account balance, the account is not considered paid in full until shared equity and the MRA have been paid.

F. Handling Borrowers in Bankruptcy

The servicer is responsible to take appropriate action during bankruptcy proceedings to protect the borrower and the government's interest. Upon receipt of a bankruptcy notice, the servicer 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 servicer 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.

G. Complying with the Servicemembers Civil Relief Act (SCRA)

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 servicer 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.

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1. Change of Active Military Status

The servicer 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 servicer may process a new payment assistance agreement if the borrower is eligible according to Appendix 6 of this Handbook.

2. Amount of Assistance

According to 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 servicer 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 servicer failed to establish the note rate after notification by the borrower of non-active military service.

H. Approving Borrower Actions

During the term of the guaranteed loan, the borrower may ask the servicer for permission to undertake actions that could affect the value of the security property.

Section 2 of this Chapter provides guidance to servicers regarding such actions as a partial release of security or a transfer and assumption of an outstanding guaranteed loan.

17.3 REPORTING REQUIREMENTS [7 CFR 3555.51 (B)(8)

Servicers are required to report monthly loan status (203) and monthly loan default status (264) reports for all SFHGLP loans in their portfolio via Electronic Status Reporting (ESR) by the sixth government workday of each month. Servicers are also required to review and correct status and default reject errors starting on the 13th business day of the month through the last day of the calendar month. New servicers, as part of the lender approval process as outlined in Chapter 3 of this Handbook, will enter into an agreement to electronically report the status of their SFHGLP portfolio. Servicers' documentation, including detailed guides for reporting can be found at:

https://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-servicing

The servicer must continue to report on each loan until:

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- The default is cured (default reporting can stop after the appropriate code to end the default event has been reported via ESR);

- The mortgage is paid-in-full, and the loan has been reported as Paid in Full via ESR; or

- The account is liquidated through foreclosure sale, pre-foreclosure sale, or a deed-in-lieu of foreclosure until the servicer is in receipt of the loss claim payment.

If a lender is unable to sell a loan or retains the loan they must contact the Single Family Housing Servicing Branch, Lender Reporting Section at rd.so.hsb@usda.gov to initiate the process for monthly status reporting and annual fee payment. Failure to submit timely loan status reporting or annual fees is a violation of a lender's participation agreement and could result in reduced or denied loss claim payments (HB-1-3555, Appendix 8).

17.4 PROTECTIVE ADVANCES [7 CFR 3555.302]

Servicers 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 servicer may schedule repayment consistent with the borrower's ability to pay if the borrower can make regular payments and bring the mortgage account current within 18 months or less. In most cases, the servicer should be able to arrange with the borrower to bring the account current within 120 days.

A. Advances for Property Repairs

Servicers 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, servicers should advance funds only to pay for emergency repairs to protect the security value of the property. Protective advances for repairs should be considered only if the borrower informs the servicer 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 may be 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 servicer 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 servicer is unsure whether the repairs would affect the security value of the

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property, the servicer should request that an inspector examine the property to assess whether repairs are necessary. Based on the value of the property, the servicer must determine whether the repairs are cost effective and document this assessment in the servicer's file. Protective advances exceeding $2,000 require Agency concurrence.

B. Advances for Taxes and Insurance

The servicer 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 servicer to advance funds on behalf of the borrower. The servicer will notify the borrower in writing of any escrow shortages and document the decision in the servicer's file. Servicers are encouraged to adopt accepted industry standards for hazard and flood insurance as noted in Chapter 16 of this Handbook. Servicers may also advance for unpaid association dues to protect the status of the lien when necessary.

17.5 INSURANCE PROCEEDS [7 CFR 3555.252]

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:

1. Prior liens (including past-due property taxes);

2. Past-due amounts (requires written consent from borrower);

3. Protective advances; and

4. Released to the borrower if the servicer's debt is adequately secured.

SECTION 2: BORROWER ACTIONS REQUIRING SERVICER OR AGENCY APPROVAL

17.6 OVERVIEW [7 CFR 3555.255]

A borrower must obtain approval from the servicer before taking actions that may affect the security value of a property. In certain circumstances, the servicer does not need to obtain Agency approval before consenting to a transaction involving a partial release of the security; however, servicers 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 [7 CFR 3555.255 (B)]

If a servicer 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 servicer 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; or
- The exchange of security property must result in another parcel of property acquired that has value equal to or greater than that being released; or
- 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

In an effort to maintain the current loan to value ratio for the guaranteed loan, all proceeds must be applied in the following order:

1. Pay customary and reasonable costs related to the transaction owed by the borrower.
2. To a prior lien debt, if any.
3. To be used for improvements to the security property. If the funds are to be used for property improvements, the servicer should release the funds as the improvements are completed. The servicer must ensure that the proceeds are used as planned.
4. To be used to repay any delinquency or missed payments.
5. To the outstanding balance to maintain at minimum the current loan to value.
6. If any net proceeds remain and the borrower's post transaction loan to value is no greater than 80%, funds may be released to the borrower.

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3. Program Standards

After the transaction is completed, the security property must meet program standards.

4. Ability to Repay the Loan

The borrower's ability to repay the guaranteed debt must not be jeopardized.

B. Processing a Partial Release Request - Agency

To get Agency approval, the request must be sent to the SFHGLP National Headquarters Servicing Branch at sfhglpservicing@usda.gov. The servicer must send evidence of all completed actions to the Agency for review. At minimum the servicer should provide the Agency with the following:

- The borrower's reason for requesting the servicer 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.
- Determination of the value of the property if a release is processed, taking into consideration any improvements being completed. An appraisal of the security property must 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.
- Plans and specifications, including cost estimates, of any alterations proposed for the remaining property after release.

The approval official will analyze the servicer'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.
- What use or purpose the released property will serve once released.
- The estimated cost of proposed improvements to the remaining property.

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- 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.

- Borrower's ability to repay, including their current delinquency, if any, and the number of missed payments.

Notification of approval/denial will be communicated to the servicer. Any denial must state the reason(s) for denial in detail.

C. Servicer Delegated Approval

If all the following additional conditions are met, servicers are delegated to review and provide a decision to the borrower's request with no review by USDA required for the voluntary or involuntary release of the security:

- The portion of the property being conveyed does not exceed **10**% of the area of the mortgaged property;

- There is no damage to existing structures or other improvements;

- There is no unrepaired damage to sewer, water, or paving;

- Total compensation received for the taking of the property is applied to reduce the unpaid principal balance of the mortgage; and

- The conveyance occurs after the mortgage loan was guaranteed.

D. Processing a Partial Release - Servicer

To process a partial release under the delegation authority described above, the servicer must complete and/or document the following actions. If the servicer eventually files a loss claim, the claim must be accompanied by the servicer's certification that all requirements have been met:

- The borrower's reason for requesting the servicer 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;

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- Confirm the mortgage loan is in good standing, the amount of principal balance owed and the due date of last paid installment;

- 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 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;

- For a sale of 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 status reporting.

17.8 TRANSFER AND ASSUMPTION [7 CFR 3555.256]

Transfers between family members do not require Agency concurrence since the transferee is not required to assume the debt.

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A. Transfer without Assumption

If the borrower transfers the security property and the transferee does not assume the debt, the servicer does not need to seek Agency approval but must simply notify the Servicing Office at rd.so.hsb@usda.gov to withdraw the loan guarantee.

B. Transfer Under Garn-St. Germain

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 as defined by the Garn-St. Germain Depository Institutions Act of 1982:

- 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; or
- 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 servicer will notify the Rural Development Guaranteed Loans Servicing Office at rd.so.hsb@usda.gov of the transfer.
- Rural Development will continue with the guarantee, whether or not the transferee assumes the guaranteed loan.

1. Requirements for an Assumption Under Garn-St. Germain

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The Agency may approve a transfer with an assumption of the outstanding debt if the following conditions are met:

- Transferor must remain liable for the debt; and acknowledge continued liability for the debt in writing.

- The transferee must assume the entire outstanding debt and acquire all the property securing the guaranteed loan balance.

- The priority of the existing lien securing the guaranteed loan must be maintained or improved.

- The use of GUS is unavailable for transfer and assumptions and must be manually submitted and underwritten; however, the documents can be submitted through GUS. A job aid for this type of submission is available in the https://www.rd.usda.gov/resources/usda-linc-training-resource-library in the "Loan Origination" tab.

When a transferee assumes a property with a guaranteed loan through a transfer of title as noted above, the following options are available:

- The transferee may assume the guaranteed loan on the rates and terms contained in the promissory note.

- 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 current market interest rate and term, and the interest rate must not exceed the interest rate on the initial loan as described in HB-1-3555, Chapter 7.

- If the account is past due at the time an assumption agreement is executed, the transferee may be reviewed for loss mitigation and, if eligible, the loan may be modified to bring the account current as described in HB-1-3555, Chapter 18, Attachment A, *The Loss Mitigation Guide*.

- 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.

2. Closing 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. Once the servicer obtains Agency approval, the servicer may proceed with closing

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the transaction. Along with all other required loan closing documents, the servicer must provide the Agency with a copy of the executed assumption agreement. The servicer must process the assumption on a form approved by Fannie Mae, Freddie Mac, HUD, or VA and signed by all parties.

The existing Form RD 35517, *Loan Note Guarantee*, will remain in effect. The servicer should note the date, amount assumed, and name(s) of the assuming party on the original Form RD 3555-17 and provide with all other required loan closing documents. The lender will follow the same procedures as provided in Chapter 16 of this Handbook.

C. Unauthorized Sale or Transfer

If a servicer becomes aware that a borrower has transferred title to a property without the servicer's knowledge and the transfer does not fall under the Garn-St. Germain rule, the servicer must take one of the following actions:

- 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.

D. 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 current market interest rate. The following will apply:

- The debt must not exceed the remaining amount due on the original loan; and
- The term of the loan must not exceed thirty years from the date of the transfer and assumption.

The servicer must request and obtain prior approval for the transfer and submit an explanation of the reasons for the proposed change in rates and terms. Refer to HB-1-3555, Chapter 18 for additional guidance regarding servicing of non-performing loans.

17.9 MINERAL LEASES [7 CFR 3555.255 (a)]

Servicers must obtain approval from the Agency before consenting to the lease of mineral rights.

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A servicer 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 guaranteed 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; and
- Rural Development's environmental requirements are met.

If the proposed activity is likely to decrease the value of the security property, the servicer may consent to the lease under the following conditions:

- The borrower must assign 100 percent of the income from the lease to the servicer;
- Proceeds will be utilized as a principal reduction to the loan; and
- 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 servicer may consent to the lease if:

- The borrower agrees to use any compensation received from the lessee to repair any damage to the site or dwelling; or
- Assign the proceeds to the servicer to reduce the principal balance.

The servicer remains responsible for documenting their approval and oversight of the above activity and borrower request.

17.10 UNAUTHORIZED ASSISTANCE [7 CFR 3555.257]

Refer to HB-1-3555, Chapter 1 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

The servicer is required to employ an experienced and knowledgeable staff, follow accepted industry servicing practices, and maintain a servicing platform that keeps records of all servicing actions. Servicers are fully responsible for complying with this Chapter regardless of any sub-servicing arrangements. Chapter 17 of this Handbook outlines the servicer's responsibility to report to the Agency all loans through Electronic Status Reporting (ESR).

When a loan becomes past due, the servicer must take prompt and aggressive action to help the borrower bring the account current. The servicer should work closely with the borrower to resolve any delinquency as early as possible to prevent further collection activity. In cases where the borrower is unable or unwilling to repay the loan, the servicer must take prompt action to liquidate the loan, either by encouraging the borrower to liquidate voluntarily or through foreclosure.

Section 1 of this Chapter states the minimum actions the servicer is required to take to bring past-due accounts current. Section 2 of this Chapter describes various alternatives to foreclosure that the servicer will pursue, including traditional and streamline servicing actions. Section 3 of this Chapter describes the policy on custodial property requirements. Section 4 describes the requirements within the foreclosure process. Section 5 provides servicers with requirements when a property is 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. Servicer's can locate all servicing related cost and fee schedules on the USDA Training and Resource Library in the Loan Servicing section under Loss Mitigation found at https://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-servicing.

SECTION 1: COLLECTION EFFORTS AND REQUIREMENTS [7 CFR 3555.301]

18.2 OVERVIEW

A goal of the Agency is to provide a borrower the maximum opportunity to remain a successful homeowner and the servicer should approach loan servicing as a preventive as well as a curative action. Prompt counseling and follow-up with a borrower who is late

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with a monthly payment, especially the first payment, is key to enhancing the likelihood of success. The servicer should identify any servicing actions that could aid a borrower who is experiencing repayment problems.

18.3 MINIMUM REQUIREMENTS [7 CFR 3555.301]

When a borrower's account becomes past due, the servicer must, at a minimum, take the collection efforts described below. Each delinquency should be treated individually using 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 and actions may be suspended when restricted by applicable laws.

A. Initial Contact

The servicer must attempt to make verbal or written contact with the borrower on or before the day an account becomes 20 days past due. The servicer must send a letter to the borrower if 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 be taken. At a minimum, the servicer must attempt to 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 obligations.
- A realistic and satisfactory arrangement for curing the default.

B. Notify Credit Repository

The servicer must provide an accurate and complete file of the status of mortgages in its Agency-guaranteed loan portfolio to a minimum of three credit repositories each month with the goal of avoiding disputes that could arise from inaccurate or inconsistent reporting.

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C. Send Certified Letter to the Borrower

Before an account becomes 60 days past due and if there is no payment arrangement in place, the lender must send a certified letter to the borrower requesting an interview for the purpose of resolving the past due account. The letter should emphasize the importance of meeting the debt obligation and explain the negative impact of non-repayment on the borrower's credit history.

The information required at the initial contact should be requested in the certified letter if initial contact was not made successful.

D. Inspect the Property

On or before the day an account becomes 60 days past due and before initiating a liquidation action, the servicer must assess the physical condition of the property, determine occupancy, and take the necessary steps to preserve and protect the property. At minimum the servicer must document the following.:

- Physical Condition and Occupancy – Assess and document the physical condition of the property and determine the occupancy status of the dwelling. This will include identifying any actions essential to protect and preserve the property.
- Abandoned property – The servicer will document the servicing file outlining the abandonment determination using indicators such as property and yard condition, posted "for sale" signs, presence of personal property or vehicles, last known mailing address, or absence of a power meter. The servicer will refer the loan for acceleration within 15 days of the date of the inspection report confirming the property was abandoned. Additional guidance regarding management methods and activities of custodial properties can be found in Section 18.7.A of this Chapter.
- Inspections – The servicer should inspect the mortgaged property at least monthly to verify continued occupancy and ensure the property is being adequately maintained. Exterior inspections are sufficient to make these determinations. If the inspection shows the property is not being adequately maintained or is vacant or abandoned, an attempt to complete an interior inspection should be performed. Inspection records must be retained in the mortgage file and address at a minimum, the condition of the property, occupancy status, any necessary repairs to protect an abandoned property, the date of inspection, and who performed the inspection.

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E. Proceed with Liquidation

Once the account becomes 90 days past due and the borrower has been non-responsive or has declined all available foreclosure prevention options, the servicer must initiate liquidation proceedings considering any applicable notice and waiting period under state law.

18.4 DOCUMENTATION REQUIREMENTS AND PENALTIES [7 CFR 3555.301]

A. Collection Records

The servicer 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 by telephone and/or in-person.
- Dates and documentation of property inspections.
- Date liquidation action was initiated.

B. Grace Period for Completing Collection Action

The servicer 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 servicer takes the required action before the end of the grace period.

C. Penalties for Failure to Fulfill Collection Obligations

If the servicer 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 penalties below for a servicer's failure to take the required collection actions. These penalties are described in greater detail in Chapter 19 and Appendix 8 of this Handbook and include the grace period offered by the Agency as noted in Paragraph 18.4B above.

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- The claim may be denied if the servicer failed to attempt to make any contact with the borrower before the loan was 65 days past due.
- The claim may be denied if the servicer failed to notify the Agency, in accordance with Chapter 17 of this Handbook, when the account was in default.
- Accrued interest for the claim will be reduced by 50% if the servicer failed to attempt to make a first contact with the borrower within 25 days past the due date, but within 65 days past the due date.
- If the servicer fails to order an inspection of the property within 65 days past the due date, the accrued interest will be reduced by ten percent.
- The servicer is required to protect and preserve the property. The loss claim will be reduced by the dollar value of the loss attributable to the servicer's failure to inspect and secure an abandoned property as documented by an appraisal.

SECTION 2: LOSS MITIGATION

[7 CFR 3555.301, 3555.303, 3555.304 and 3555.305]

18.5 LOSS MITIGATION OPTIONS

The servicer will make every possible effort to assist borrowers who are experiencing an involuntary inability to pay their mortgage and show cooperation to resolve default situations using appropriate loss mitigation tools. Loss mitigation options include informal repayment agreements, special forbearance agreements, or loan modifications. Special forbearance agreements and loan modifications should be used when information in the servicing file supports the borrower's ability and willingness to pay. Mortgage Recovery Advance (MRA) can be used to satisfy a borrower's delinquency and bring the borrower current. A voluntary liquidation method such as a pre-foreclosure sale or a deed-in-lieu of foreclosure may be used to protect the Government's interest once the servicer has examined other servicing options and determined the borrower cannot continue with the loan obligation. Traditional loss mitigation options must be exhausted prior to use of Streamline Options. Consideration must be given to all options prior to initiation of liquidation.

The servicer must attempt to obtain information on the borrower's financial condition and make an informed determination of the borrower's ability to repay the arrearage and continue making mortgage payments as scheduled. Details on consideration and processing the below actions are located in the Attachment 18-A, *The Loss Mitigation Guide*:

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- Servicing Early Delinquent Loans
- Informal Repayment Agreement
- Loss mitigation overview
- General policies, procedures and minimum actions that constitute effective loss mitigation techniques
- Special Forbearance
- Loan Modification
- Mortgage Recovery Advance (unrecorded)
- Pre-Foreclosure Sale
- Deed-in-Lieu of Foreclosure
- Servicing plan, checklists; disposition cost benefit analysis
- Reporting – ESR and status of mortgage codes.

All servicers must submit loss mitigation information through USDA LINC https://usdalinc.sc.egov.usda.gov/RHShome.do.

SECTION 3: CUSTODIAL PROPERTY

[7 CFR 3555.306]

18.6 INTRODUCTION

Custodial property is borrower-owned property that is vacant or abandoned and in the possession of the servicer for the purposes of property inspection, preservation, and protection. The Agency holds the servicer accountable for all servicing and property management responsibilities associated with custodial property. This section outlines the requirements for managing these types of properties.

18.7 PROPERTY MANAGEMENT METHODS AND ACTIVITIES [7 CFR 3555.306 (e)]

The servicer and Agency share a common interest to ensure that properties are managed and maintained. The Maximum Property Preservation Allowances outlines the

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maximum allowable costs for property preservation and maintenance and can be located on the USDA Training and Resource Library in the Loan Servicing section under Loss Mitigation found at https://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-servicing. Costs higher than the published amounts for maintenance and preservation may be appropriate in some extenuating circumstances such as very rural areas, extreme neglect, or large amounts of debris. Justification for the higher cost must be documented with color photos and detailed invoices and will be reviewed at the time of the loss claim.

A. Vacant or Abandoned Properties

The servicer may need to take custody of the security property when it has been determined the property is vacant or has been abandoned. The servicer must inspect the property within 30 days of this determination to confirm occupancy and document its condition. When the inspection reveals the property is vacant, the servicer should attempt to locate the borrower to determine the reason for the vacancy and take immediate action to protect the property from vandalism and the elements in accordance with local laws.

Preservation and protection requirements for custodial property are as follows:

- 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. The servicer will maintain adequate documentation to support servicing decisions.

- Take necessary actions 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. The servicer may post a notice with contact information, however, should not post large signs or take other actions that might call attention to the vacant property.

- Determine if any emergency repairs are necessary to adequately preserve and protect the property. Emergency repairs will be completed by the servicer as quickly as possible to avoid property deterioration and does not require prior Agency approval. Servicers will retain documentation of all repairs, including photos of before and after work, for submission with any loss claim.

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- File a claim under the borrower's insurance policy for insurable damage.
- Protect plumbing and other operating systems from freeze damage.
- Remove any interior or exterior debris that poses a health, environmental, fire, or safety hazard. Examples include, but are not limited to, highly flammable chemicals, decaying food, dead animals, broken glass or other sharp objects, and large quantities of paint or paint products.
- Mow lawns, maintain shrubs, and perform snow removal.
- 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 coverage is maintained.

A mortgage may be current or delinquent when a servicer becomes aware a borrower may have abandoned the security property. If the borrower redeems a property, the redemption amount should include all advances including emergency repairs. When an inspection reveals that the property is vacant or abandoned on a delinquent loan and liquidation is not already in process, taking custodial possession should immediately initiate the foreclosure process.

18.8 ENVIRONMENTAL HAZARDS [7 CFR 3555.306(e)]

If environmental issues impact the property's value at the time of liquidation, the servicer must document when and how the hazard developed. 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 allow for costs from any resulting loss in the loss claim calculation.

If it appears that it would be cost effective to determine the lien valueless because of an environmental hazard, the servicer should submit documentation to support this request to the Agency for concurrence via email to guarantee.svc@usda.gov.

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SECTION 4: ACCELERATION AND FORECLOSURE

[7 CFR 3555.306]

18.9 ACCELERATION

When a servicer determines that a borrower is unable or unwilling to meet loan obligations and there is no reasonable prospect of resolving the delinquency the servicer should determine eligibility for streamline options as described below. If the borrower is ineligible for the streamline option or fails to complete the streamline option in any way, the servicer should initiate liquidation proceedings. In all cases, a demand letter should be sent to the borrower within five days of when the borrower missed their third consecutive payment and will 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.

A. Final Offer (Streamline Option)

If the loan meets all the following criteria, the servicer may send a final alternative to foreclosure offer with no documentation required from the borrower. The lender should continue to meet all foreclosure obligations and timelines during this solicitation. If the borrower responds with the initial trial payment, the servicer may place the foreclosure on hold.

- The loan is greater than 90 days past due.
- The loan has an unpaid principal balance of at least $5,000.
- The borrower has made at least 12 mortgage payments since origination.
- The borrower is not currently being reviewed for any loss mitigation.
- The terms below must result in a reduction of the borrower principal and interest payment by at least 10%.

The terms of the streamline option shall be as follows:

- The interest rate may be modified.
- The loan repayment period may be extended in one month increments to the maximum term allowable, not to exceed 480 months.

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- The borrower must demonstrate a willingness and ability to pay by making three consecutive trial payments, all of which must be made in the month they are due.
- Once the trial is complete the borrower must execute a final modification agreement within 60 days of the last trial payment that includes a hardship affidavit attesting that they occupy the property as a principal residence and have suffered a financial hardship that created an involuntary inability to afford the current mortgage payment. This agreement can be sent after two trial payments are received.

Lastly, the borrower will not qualify for a streamline option if any of the following exclusions apply:

- The borrower has had two or more modifications.
- The borrower is in bankruptcy proceedings.
- The borrower is deceased.
- A foreclosure sale is completed or scheduled in the next 60 days.
- A deed-in-lieu/short sale has been completed.
- The borrower is involved in any litigation impacting the loan.
- There are indications of potential fraud.

Any streamline option made to the borrower shall have a 30-day expiration date. If the borrower fails to respond prior to the expiration of the solicitation, the servicer may, at its discretion, extend that offer an additional 30 days. If the borrower fails to respond with an initial trial payment or otherwise fails the trial, the borrower shall be ineligible for any future final offer under this section.

18.10 THE FORECLOSURE PROCESS [7 CFR 3555.306]

A. Initiation of Foreclosure - Referral

The servicer 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. The servicer must exercise due diligence and manage the process by ensuring that all required actions are completed timely.

The Acceptable State Foreclosure Time Frames lists the recommended method of foreclosure and the first public action required by law to initiate foreclosure and can be

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located on the USDA Training and Resource Library in the Loan Servicing section under Loss Mitigation found at https://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-servicing. In states where more than one foreclosure method is available, but only one option is listed, the Agency selects 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 servicer obtains title through a method of foreclosure other than what is recommended. For example, if the recommended foreclosure method is non-judicial, but judicial foreclosures are required to preserve the servicer's right to a deficiency judgment, the servicer may determine 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. Any such decision must be documented and placed in the servicing permanent file.

B. The Foreclosure Sale

Servicers 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 the potential recovery of any deficiency.

- Total Debt – Includes unpaid principal, any advances due from the borrower including any unrecorded mortgage recovery advance, interest accrual through the liquidation process, and other potential costs such as liquidation and real estate owned (REO) expenses.

- Security Value – will be based on the current market value of the property in “as is” condition with a 90-120-day marketing time frame. If security property is inaccessible, the valuation will be based on exterior inspection only. If a significant (20% or more) decline from the value established at loan origination and the pre-foreclosure valuation is evident, the servicer is encouraged to review the value determination in accordance with established quality controls and be prepared to support the decline in value.

- Recovery Potential – consider the borrower’s other assets, ability to pay the deficiency, and other sources of recovery such as insurance claims or pending litigation.

- Foreclosure Bid – the servicer should consider state statutory requirements and the relationship of the outstanding debt and potential REO costs to the market value of the property. 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

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potential recovery from other sources, third-party bidding is encouraged by entering a foreclosure sale bid less than the value of the property. Servicer should use the USDA Individual State Based Bidding Chart, with the goal of avoiding REO and its associated management and disposition costs. This chart can be located on the USDA Training and Resource Library in the Loan Servicing section under Loss Mitigation found at https://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-servicing. The Agency does not need to concur on foreclosure bids.

- Auction Services – servicers are encouraged to use non-affiliated auction companies during the foreclosure process including marketing the property and bidding services. The Agency will reimburse servicers for auction service fees in an amount not exceeding five percent of the property net sales price when the property is sold to a third party. Properties must be marketed for a minimum of 15 days prior to the scheduled sale date and sold for an amount equal to or greater than the "Net Value Bid."

C. Reinstatement of Account

Unless required otherwise by state statute, the servicer may reinstate an accelerated account if the borrower meets all the following conditions:

- Pays the total amount delinquent, including protective advances, accrued interest, any foreclosure related costs, and other expenses incurred by the servicer in a lump sum.
- Has the documented ability to resume scheduled payments on the loan.

18.11 MANAGING THE FORECLOSURE PROCESS [7 CFR 3555.306]

The servicer must manage the foreclosure process so that the property is liquidated in a cost effective, expeditious, and efficient manner. Servicers must respond to a request for documentation from an attorney or trustee within five business days.

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. The Acceptable State Foreclosure Time

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Frames lists the acceptable timeframe to complete a foreclosure by state and can be located on the USDA Training and Resource Library in the Loan Servicing section under Loss Mitigation found at https://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-servicing. These time frames are measured from the first legal action to the foreclosure sale date. The Agency foreclosure time frames start with the date of the first legal action required by law, ends with the foreclosure sale date, and does not include post-sale redemption periods or sale confirmations.

- Redemption Period – since redemption periods may be adjusted under 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 19 of this Handbook for each day that the foreclosure continues past the prescribed time frame unless the servicer presents a valid reason that justifies the delay.
- Processing Delays – servicers must document any delays to the foreclosure timeline when submitting the loss claim package. Acceptable delays can include bankruptcy petitions filed after foreclosure initiation, contested foreclosures, and court scheduling delays or delays in obtaining service.
- Chapter 7 Bankruptcy – Servicers 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 Agency foreclosure time frame plus an automatic 90-day extension to determine if the time frame was met.
- Chapter 13 Bankruptcy – 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 servicer 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 servicer will ensure prompt legal action is taken to resolve. Any delay beyond 90 days from the date the account became 60 days

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delinquent under the terms of the bankruptcy plan must be supported by documentation.

- Prompt Referral – Servicers 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 servicer's loss claim documentation must demonstrate the case was promptly referred to the foreclosure attorney after bankruptcy filing. Any delay beyond 90 days from the date of the bankruptcy release must be supported by documentation. Failure to submit the documentation supporting the extended foreclosure timeframe as described in Chapter 19 of this Handbook will result in denial of additional accrued interest.

B. Acceptable Liquidation Fees and Costs

Agency regulations authorize the reimbursement of actual liquidation fees and costs that are paid by the servicer for liquidated loans that result in a loss to the servicer within the limits of the guarantee. The Acceptable State Liquidation Costs and Fees will be utilized in determining allowable reasonable and customary attorney fees for foreclosure, deed-in-lieu of foreclosure and bankruptcy. These costs and fees can be located on the USDA Training and Resource Library in the Loan Servicing section under Loss Mitigation found at https://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-servicing. Fees higher than the published amounts may be appropriate, in cases such as contested foreclosures, required probate procedures, etc. Any reimbursement of fees over the allowable costs are subject to review 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 servicer 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 servicer 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

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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.

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 servicer is the same as if the attorney firm had performed this function. This is considered an acceptable fee that is eligible for reimbursement.

C. Interrupted Foreclosure Proceedings:

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:

- 75% of the allowable attorney fee and all actual foreclosure costs incurred will be reimbursed.

- In addition, 100% of allowable foreclosure attorney fees and costs incurred after the bankruptcy stay is lifted will be reimbursed if state statute requires that the foreclosure be restarted from the beginning.

- 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 Acceptable State Liquidation Costs and Fees and can be located on the USDA Training and Resource Library in the Loan Servicing section under Loss Mitigation found at https://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-servicing.

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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 Acceptable State Liquidation Costs and Fees referenced above, lists the attorney or trustee fee limits allowed for each Agency 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 servicer obtains title through a method of foreclosure other than what is recommended. However, the Agency must determine whether the foreclosure method chosen by the servicer 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 servicer determines 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. Any such decision must be documented and placed in the servicing permanent file.

18.12 REPORTING REQUIREMENTS

In accordance with Chapter 17 of this Handbook, servicers are required to report to the Agency all accounts monthly through ESR.

Additional guidance regarding EDI reporting may be found online at https://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-servicing

SECTION 5: ASSISTANCE IN NATURAL DISASTERS

[7 CFR 3555.307]

The following provides guidance for servicing accounts when a county, parish or municipality has been identified as a Presidentially Declared Disaster (PDD) area where federal aid in the form of individual assistance is being made available.

18.13 PROPERTY PROTECTION [7 CFR 3555.307(B)]

When a servicer becomes aware that they have properties secured by an Agency guarantee in a PDD they immediately take the following actions:

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- Ascertain the number of affected properties.
- Secure abandoned 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.
- Aid 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 progression of repairs when a deposit of insurance proceeds occurs in lieu of borrowers receiving insurance proceeds for properties.

18.14 SPECIAL RELIEF MEASURES [7 CFR 3555.307(c)]

The servicer must suspend all foreclosure actions for affected borrowers in PDD areas effective for 90 days from the date of declaration unless extended by the Agency. This applies to both the initiation of new foreclosures as well as foreclosures already in process.

To be eligible for a suspension of foreclosure activities the property or the borrower's place of employment must be directly affected by the PDD. During the suspension servicers should consider the following factors to determine the appropriate course of action:

- Evaluate the effects of the disaster.
- 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 the mortgage, any increase in living expenses, the extent of damage, the delinquency status of the mortgage, and the

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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. Forbearance is highly encouraged in disasters. Under forbearance, the servicer can agree to reduce or suspend the borrower's monthly payments for up to 12 months. At the conclusion of the forbearance 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, and borrower financial information at the end of the suspension period should be conducted. If the servicer is not actively engaged in workout options with the borrower(s) and believes suspension beyond the 90-day period is warranted, the servicer must document the reason to extend a hold on all foreclosure actions and retain the documentation in their collection systems. Failure to do so may impact any future loss claim payment.

Servicers may use existing loss mitigation 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. The servicer should take appropriate steps to mitigate the credit impact for a borrower for whom a forbearance or repayment plan is extended due to disaster-related circumstances.

18.15 SPECIAL RELIEF ALTERNATIVES FOR DISASTER ASSISTANCE

In addition to the standard workout options in Attachment 18-A, *The Loss Mitigation Guide*, servicers may offer the following special relief alternatives depending on the borrower's circumstances.

A. Special Relief Alternatives:

Borrowers must meet all the following eligibility criteria:

- The borrower occupies, as their primary residence, the property securing the guaranteed loan.

- The loan was current or less than thirty (30) days past due as of the date the

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applicable PDD was declared.

- The servicer receives verification from the borrower the hardship (employment and/or property) has been resolved.

- The total modified mortgage principal and interest payment is less than or equal to the payment prior to modification.

If the borrower meets the conditions above, the servicer may offer any one of the following options with no financial review:

- Payment Deferral: If the servicer determines the borrower can maintain the current contractual payment including any escrow shortage created by advances during the forbearance period, spread over 60 months, the missed payments may be deferred to the end of the loan term. USDA does not allow any type of balloon payment as part of the guaranteed UPB. Therefore, the term must be extended along with the deferral, thus allowing the borrower to make regular payments until the deferred balance is paid in full. Any interest accrued during the forbearance period should be included in the deferred balance.

- Capitalization of Delinquency and Term Extension: If the servicer determines the borrower can maintain the current contractual payment but cannot manage the additional escrow repayment amount, the servicer may offer a "Cap and Extend Modification" under the following terms:

  - Capitalize the accumulated arrearages and eligible unreimbursed servicer advances, fees, and costs into the modified mortgage balance.

  - Extend term for a total of up to 360 months.

  - Modify the interest rate to no more than 50 basis points greater than the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) Rate for 30-year fixed-rate conforming mortgages (U.S. Average), rounded to the nearest one-eighth of one percentage (0.125%), as of the date a plan is offered to the borrower.

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- Mortgage Recovery Advance: The servicer may utilize a Mortgage Recovery Advance (MRA) to settle the borrower delinquency and bring the borrower current. The MRA is limited to an amount no greater than what is necessary to resolve any accumulated delinquency and unreimbursed servicer advances made during the forbearance and must meet all other requirements as explained in Section 5(J) of the Loss Mitigation Guide found in Attachment 18-A of this Chapter.

18.16 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 servicer 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 servicer and minimize loss to the Agency.

Insurance proceeds will be issued jointly to the servicer and the borrower. If the decision is to use the proceeds to repair the property, the servicer must ensure a licensed contractor is used to complete the repairs. Unless the homeowner qualifies for direct payment of insurance proceeds in accordance with of Chapter 17 of this Handbook, the servicer 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 servicer is responsible for obtaining all lien waivers for work performed.

If the premises have been destroyed, the servicer should compare the unpaid principal balance with the 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.

18.17 DEBT SETTLEMENT REPORTING

Servicers 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

THE LOSS MITIGATION GUIDE

THE LOSS MITIGATION GUIDE

Single Family Housing Guaranteed Loan Program

Effective:

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THE LOSS MITIGATION GUIDE
SINGLE FAMILY HOUSING GUARANTEED LOAN PROGRAM

1. SERVICING EARLY DELINQUENCY LOANS (LESS THAN 90 DAYS PAST DUE)

The purpose of all collection efforts is to bring a delinquent mortgage current in the shortest time possible. Single Family Housing Guaranteed Loan Program (SFHGLP) policy as stated in 7 CFR § 3555 describes minimum servicing requirements to accomplish this objective. The majority of one or two payment delinquencies will be addressed by either voluntary reinstatement by borrowers, or through traditional collection methods outlined in 7 CFR § 3555.

While a loss mitigation program is designed to address serious defaults, any reasonable servicer efforts to cure loans that are past due for 30 days or more contribute to the goal of helping residents in rural areas retain homeownership and reduce the Agency's losses. Thus, effective loss mitigation begins in the early stages of servicing defaulted loans. It is the servicer's responsibility to validate and document the borrower's capacity under the terms of the loss mitigation workout recommendation.

A. EARLY INTERVENTION

To facilitate a successful loss mitigation intervention, the servicer must attempt to make verbal or written contact with the borrower or an authorized representative if the payment is not received by the 20th day after it is due.

Before an account becomes 60 days past due and if there is no contact or payment arrangement in place, the servicer must send a certified letter to the borrower requesting an interview in an effort to resolve the past due account.

The earlier the servicer contacts the delinquent borrower and identifies the cause of the default, the more likely it is that the default will be cured, and the borrower will be able to keep the home. It is critical that the servicer make all decisions in a manner consistent with fair housing and lending principles. Servicers are strongly encouraged to recommend borrowers contact state and/or local agencies for financial assistance.

B. CAUSE OF DEFAULT

The servicer should identify the underlying cause of the delinquency at the earliest stage of borrower contact and determine if the problem is permanent or temporary. A borrower whose ability to support the mortgage debt has been permanently reduced

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through death, divorce, or permanent disability is unlikely to cure the default through a repayment plan. Such a borrower should be evaluated for either a loan modification, which may result in a reduction of the mortgage payment, or a pre-foreclosure sale, which allows a transition to more affordable housing.

A borrower who needs credit, legal, or employment assistance to resolve temporary financial problems should be referred to housing counseling, such as HUD housing counseling at 1-800-569-4287 or HUD's approved housing counseling website, https://apps.hud.gov/offices/hsg/sfh/hcc/hcs.cfm as soon as possible.

C. DEFAULT COUNSELING

A borrower who receives early counseling is much more likely to bring the loan current. Servicers are strongly encouraged to recommend financial counseling to borrowers and establish working relationships with counseling agencies. The servicer should provide HUD's publication 2008-5-FHA, *Save your Home: Tips to Avoid Foreclosure*, rev April 2012 to the borrower, before the account becomes 60 days past due. This may not be feasible, however, if the borrower has filed a bankruptcy petition and, in the opinion of the servicer's legal counsel, providing a copy of the pamphlet would be a violation of the bankruptcy stay. In such cases, the servicer should keep documentation of this fact in the servicing file.

D. INFORMAL REPAYMENT PLANS

An informal repayment plan is a verbal agreement lasting for 3 months or less. Such a plan is the first and best means to ensure that a one- or two-month delinquency does not escalate beyond the borrower's ability to cure. In such a plan, the servicer should carefully review the borrower's financial situation and arrange payment terms that the borrower can realistically keep, and the delinquency can be cured. Informal repayment plans should be documented and retained in the servicing permanent file. If it becomes apparent that an informal repayment plan will not be sufficient to resolve the delinquency, the servicer should refer to section 3, "General" of this guide, to evaluate whether one of the more formal loss mitigation strategies should occur.

E. SALE OF THE PROPERTY

A borrower who does not have the ability to cure the delinquent loan, but who has sufficient equity in the property to satisfy the outstanding debt from a sale proceeds, should be assisted in selling the property. This assistance may include a written agreement that provides a short-term reduction or suspension of payments pending the

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sale of the property. The servicer has full responsibility in assisting the borrower in such a case.

2. LOSS MITIGATION OVERVIEW

SFHGLP servicers have the authority and the responsibility to use effective actions and strategies to assist borrowers to retain their homes, and thus reduce losses to the Agency and the servicer. Because of its ongoing relationship with the borrower, the servicer is in the best position to determine which, if any, loss mitigation strategies are appropriate in each circumstance.

A. SERVICERS LOSS MITIGATION ACTIONS

The servicer must:

- Report a complete and accurate loan-servicing plan to the agency that clearly outlines the approved action via USDA Lender Interactive Network Connection (USDA LINC).
- Consider all reasonable means to address the delinquency at the earliest possible time.
- Use payment or credit scoring tools, if available, to identify high risk borrowers that may need more attention, rather than wait until standard contact dates.
- Inform the borrower(s) of available loss mitigation options and the availability of housing counseling before the end of the second month (60th day) of delinquency. (Ensuring that the borrower receives the HUD publication https://www.hud.gov/sites/dfiles/Housing/documents/RevUpdHmownSuc121518fnl.pdf titled Homeowners Guide to Success, is acceptable, as well as documentation in the servicing and collection notes of conversations with the borrower concerning mitigation options).
- Evaluate each delinquent loan once they become greater than 30 days past due but no later than the 90th day of delinquency to determine which loss mitigation option is appropriate.
- Use loss mitigation whenever feasible to avoid foreclosure.
- Reevaluate each delinquent loan monthly until delinquency is cured or the foreclosure action is complete.
- Report loss mitigation actions through monthly default status reporting using ESR status of mortgage code values.
- Initiate foreclosure within six months (180 days) of default unless a loss

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mitigation option is being pursued and ensure that all actions taken are documented.

- Initiate foreclosure timely on vacant and abandoned properties.
- Retain a complete audit trail showing all loss mitigation actions.

3. GENERAL

This section describes the general policies, recommended procedures, and minimum actions that constitute effective loss mitigation techniques.

A. DEFAULT STATUS OF THE LOAN

Loss mitigation options are intended to provide relief for a borrower who is delinquent or facing imminent default. A default is defined as any loan that has failed to perform under any covenant of the mortgage or deed of trust for 30 days or more A borrower is ‘‘facing imminent default’’ if that borrower is current or less than 30 days past due on the mortgage obligation and is experiencing a significant reduction in income or some other hardship that will prevent the borrower from making the next required payment on the mortgage during the month in which it is due.

Any attempt to deliberately manufacture or misrepresent pertinent facts about a borrower’s financial or other qualifying status may disqualify the borrower from participating in loss mitigation options and result in civil or criminal penalties. If perpetrated by a servicer, such actions may lead to administrative and/or judicial penalties against the servicer.

B. OWNER OCCUPANCY

The borrower must occupy the property as their principal residence to be eligible for loss mitigation retention options. However, loss mitigation disposition options may be considered if the property has been recently vacated due to one of the following, but not limited to, special circumstances:

- Employment transfer
- Natural disaster
- Medical condition

A servicer may make an exception for a non-occupant borrower who is seeking relief through a pre-foreclosure sale (PFS) or DIL when the reason for vacancy was involuntary

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in nature. The servicer maintains the documents justifying such an exception in the servicing file.

C. OTHER ELIGIBILITY FACTORS

The following eligibility restrictions apply in all cases:

- A borrower who has a pending/active bankruptcy may be considered for loss mitigation options; however, the servicer must fully document the borrowers pending plan with items such as, but not limited to, a copy of the proposed/confirmed trustee plan. The servicer must obtain trustee approval prior to loss mitigation plan execution.
- If a servicing agreement, investor guidelines, or applicable law restricts or prohibits compliance with any steps outlined in this guide, the servicer must maintain evidence in the loan file documenting the nature of any deviation from the provided guidance.

D. 90 DAY REVIEW

The servicer evaluates each delinquent SFHGLP loan that it services when monthly installments are due and unpaid for 91 days, and considers all loss mitigation techniques to determine which, if any, are appropriate. To meet this evaluation requirement, the servicer's early involvement in the delinquency is demonstrated by contact with the borrower to gather sufficient information about the borrower's circumstances, intentions, and financial condition. While the servicer cannot be responsible if a borrower fails to respond to repeated contacts, the servicer must clearly document aggressive efforts to reach the borrower within 90 days of the default.

E. CURABLE DEFAULT

When the hardship no longer exists and the borrower is committed to remaining in the home, the servicer should consider reinstatement options in this order:

- Special forbearance
- Loan modification

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F. NON-CURABLE DEFAULT

When the hardships continue to exist, the delinquency is not curable, and the borrower is not committed to remaining in the home, the servicer should consider disposition options in this order:

- Pre-foreclosure sale (PFS)
- Deed-in-lieu of foreclosure (DIL)

G. OPTION PRIORITY

The following waterfall of loss mitigation workout options must be adhered to:

1. Informal Repayment Plan
2. Special Forbearance
3. Loan Modification
4. Pre-Foreclosure Sale
5. Deed-In-Lieu

Whenever possible, the servicer should review the borrower for all loss mitigation options concurrently and if eligible, provide a decision based on the highest available option in the waterfall. In all cases, if a borrower is eligible for both a retention and a pre-foreclosure option, the retention option must be prioritized. If the borrower accepts and then fails a retention option within the first 12 months, they can be offered a pre-foreclosure option based on this evaluation with no further need to document ability/ inability to pay.

In some cases, the waterfall of loss mitigation options may warrant utilizing a disposition workout in-lieu of a retention workout based on the borrower's involuntary inability to pay.

H. MONTHLY EVALUATION

Each month the account remains delinquent, the servicer must reevaluate the status of each loan following the 90-day review and maintains documentation of the evaluations in its servicing or collection system. The evaluation may be as simple as notes in the collection system that the borrower's payments under special forbearance are made as

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agreed. Reports generated by servicing systems that track repayment plans are adequate for documentation purposes.

I. EVALUATING THE BORROWERS FINANCIAL CONDITION

For any loss mitigation option, the servicer must obtain detailed financial information from the borrower. The servicer may ask the borrower to give this information on a form of its choice that collects all the data elements required for loss mitigation.

If the borrower is cooperative, the information may be taken during a telephone interview if it is a complete picture of the borrower's financial information. Regardless of how the financial information is initially obtained, the servicer should request the borrower provide evidence to support the income with current paystubs and/or a profit and loss statement if the borrower is self-employed. The servicer should obtain a credit report to verify debts, and any other forms of verification the servicer deems appropriate.

Once a servicer has the borrower's complete financial information, they should analyze the borrower's current and future ability to meet the monthly mortgage obligation by determining the borrower's repayment ability as follows:

- Determine the borrower's current monthly gross income making necessary adjustments for income fluctuations.
- Calculate the borrower's normal monthly financial obligations including debt service on the mortgage and other credit obligations. Adjust for obligations due over the term of the proposed special forbearance agreement, or in the case of all other options, for a minimum of three months.
- Any child support or alimony obligations should be documented with a court order to determine the monthly obligation.
- Determine the borrowers current Housing to Income (HTI) ratio as well as their total debt (TD) ratio.

All detailed financial information used to determine the borrower's financial capacity must be dated within 90 days from the date of receipt by the servicer. The servicer must communicate a decision to the borrower within 30 days of receiving a complete loss mitigation package.

The servicer must use good business judgment to ensure that the workout option selected reasonably reflects the borrower's ability to pay. A borrower with sufficient income should be asked to cure the debt through a retention option.

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J. INCOME VERIFICATION

Servicers shall document their process in determining each borrower's income scenario. When verifying income of a borrower, servicers should use good business judgment consistent with how they evaluate borrowers when modifying loans held in their own portfolio but at a minimum collect the following:

- **Wage or Salary income:**
  - Paystub(s) not more than 90 days old at time of submission to servicer, that covers at least 4 weeks of earned income.
  - Borrowers most recent W-2 or executed tax returns (can be waived if paystubs document at least 6 months YTD income).
- **Self-Employment Income:**
  - Most recent quarterly or YTD profit and loss statement along with a copy of the most recent executed tax return. Audited financial statements are not required.
- **Other/ Benefit Income:**
  - Bonus, commission, tips, overtime, etc. income must be documented with reliable third-party evidence that such income is consistent and likely to continue.
  - Benefit income including but not limited to social security, disability, public assistance, and Supplemental Nutrition Assistance Program (SNAP) benefits can be considered income for the purpose of loss mitigation. Benefit income must be documented through award letter, exhibits, or benefits statements from the provider or evidence of receipt to the borrower.
- **Non- Taxable Income:**
  - The servicer, at its discretion, may "gross up" income not subject to federal taxes. When grossing up any income, the servicer must document and support the amount of grossed up income and should use the same effective tax rate, not to exceed 25%, for grossing up that the borrower used to calculate the borrower's federal income tax return from the previous year.
  - Excluding documentation from prior years, all financial information must be dated within 90 days from the date of receipt by the servicer.

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K. NON-BORROWER INCOME

Income from a non-borrower who also occupies the property may be used to support payments under all loss mitigation options with the following restrictions:

- Servicers should consult their legal counsel to determine if non-borrower income can be utilized for loss mitigation home retention options since the non-borrower is not on the original mortgage.
- Occupancy of the non-borrower must be fully verified.
- Servicer should conduct a financial review of the entire household income and obligations to determine if there is sufficient income to pay back the arrearages.
- If the Servicer determines the non-borrower household member is required by state law to be included on the modified note, the non-borrower household member must sign all required loss mitigation documentation.

L. DIVORCE / LEGAL SEPARATION

In instances where borrowers are divorced or legally separated, a lender can exclude an obligated borrower when determining eligibility for all loss mitigation options, providing the court has deemed the excluded borrower not responsible for the mortgage. The remaining obligated borrower must provide the fully executed legal document (ex. Divorce Decree) that shows the court's order, as well as an executed Quit Claim if necessary. If documented, the divorced/separated party does not need to sign any required documentation for the purposes of loss mitigation. Any borrower excluded from eligibility requirements is still obligated to the note and is not released from liability.

M. INELIGIBLE BORROWER

If the borrower is not eligible for any loss mitigation alternative based on information secured from the borrower in a telephone interview, the servicer should advise the borrower of the reason(s) and allow the borrower at least seven calendar days to submit additional information that might have an impact upon the servicer's evaluation. The servicer will retain the financial analysis and supporting documentation and make it available for compliance reviews. Collection actions may continue.

N. COMBINED OPTION

Loss mitigation options may be used alone or in combination to resolve an existing default. For example:

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- Pre-foreclosure sale may be combined with a deed-in-lieu provision in case the property does not sell within the time required.
- A servicer may utilize a trial plan with a loan modification when there is any doubt about a borrower's long-term income stability. To reduce the risk of a workout failure, the borrower can demonstrate the ability to support the debt by making at least three-monthly payments at the modified amount before executing a modification.

O. FORECLOSURE

The servicer must consider all feasible loss mitigation options before initiating foreclosure. The servicer must document all options considered and retain such information for Agency review. If the borrower abandons the property, loss mitigation home retention options need not be considered prior to initiating the foreclosure.

P. TIME TO INITIATE ACTION

A servicer must initiate a loss mitigation option or refer to foreclosure within six months of the date of default. This requirement is considered satisfied by any of the following actions.

- The loan is brought current or paid off.
- The borrower executes a special forbearance agreement.
- The loan modification is approved.
- The borrower executes a pre-foreclosure sale or deed in lieu agreement.
- The servicer initiates the first legal action to begin foreclosure.

Q. SERVICER REPORTING

The servicer reports these actions in the month they occur, or if after the monthly cut-off date, in the next reporting cycle using the appropriate ESR status code.

R. EXTENSION REQUESTS

If the servicer initiates a special forbearance or loan modification, but is unable to complete it, the servicer may approve an extension to the timeframe to initiate foreclosure provided the loss mitigation option began prior to the timeframe that foreclosure was to be initiated. To qualify for the extension, the servicer must document evidence that it analyzed the borrower's complete financial situation and evaluated the appropriate loss

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mitigation options. In addition, the servicer reports the loss mitigation initiative using the appropriate ESR status code in the monthly default status report.

The servicer may approve an extension for completing a deed-in-lieu of foreclosure. If the servicer attempts a repayment plan (not special forbearance), the servicer may approve an extension before the timeframe to initiate foreclosure expires and explains why an extension is necessary.

S. OPTION FAILURE

If loss mitigation options fail, the servicer may either resume or initiate foreclosure or initiate another loss mitigation option. Failure occurs under any of the following circumstances:

- The borrower does not perform under the terms of a written special forbearance agreement for 60 days.
- The borrower does not perform under the terms of a trial period used as a condition of loan modification. Servicers must continue to perform outreach efforts to borrowers for other workout alternatives. Borrowers' financial capacity will dictate whether a retention or disposition workout alternative is feasible.
- There is no signed contract of sale within 3 months of a pre-foreclosure sale agreement; or if there is a signed contract of sale, settlement has not occurred within 6 months of the agreement; or the borrower notifies the servicer of withdrawal from the agreement; or the servicer notifies the borrower in writing that it has terminated the agreement for non-compliance.

T. DOCUMENTATION

For each loss claim, the servicer must maintain evidence in its servicing notes and collection history systems of its compliance with loss mitigation guidelines as well as supporting documentation including all communications with the Agency. The servicing notes and collection history systems also must retain evidence of compliance with counseling and other actions on loans that do not result in a loss claim.

U. SERVICING PLAN

The servicer must add a servicing plan in the "Add Loss Mitigation" screen in USDA LINC when a method other than foreclosure is approved to resolve the borrower's delinquency. The servicing plan must be submitted prior to implementing any action with the borrower. For pre-foreclosure sales and deed-in-lieu of foreclosure alternatives,

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the servicer must retain a "Disposition (PFS/DIL) Cost Benefit Analysis" along with the servicing plan.

If the servicer provides the borrower with an option that requires a trial payment, the servicer must enter the trial modification into USDA LINC at the time of approval. When the borrower completes the trial period and executes the final agreement, the servicer must enter the final modification terms into USDA LINC and finalize the modification. If the borrower fails to perform under the trial agreement, the servicer must cancel the trial modification in USDA LINC.

4. SPECIAL FORBEARANCE

A special forbearance agreement is a written plan that may temporarily reduce or suspend payments and/or gradually increase monthly payments in an amount sufficient to repay the arrearage for a short period. A special forbearance agreement may also involve payments for several months followed by a loan modification. The agreement provides the borrower with relief not typically afforded under an informal repayment agreement. Examples of provisions in a special forbearance agreement include a repayment term of four or more months; suspending or reducing payments for one or more months to allow the borrower to recover from the cause of default; or an agreement to allow the borrower to resume making full monthly payments while delaying repayment of the arrearage.

A special forbearance is a plan that involves one of the following:

- Full repayment: Monthly payments in an amount sufficient to repay the arrearage over time, typically less than or equal to six months; or
- Hardship or disaster forbearance: Reduced or suspended monthly payments while the borrower(s) resolves the hardship, such as unemployment, followed by an evaluation for other home preservation options if needed.

The maximum arrearage under a special forbearance plan cannot exceed the equivalent of 12 months delinquency.

A. LOAN ELIGIBILITY

The loan is a minimum of 30 days delinquent, or at risk of imminent default, but not more than 12 payments delinquent and is not in foreclosure when a special forbearance agreement is executed. The servicer may suspend foreclosure, on advice of its legal counsel, subject to the borrower's performance under the terms of the special forbearance agreement, if the suspension is stated in writing in the agreement.

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B. PROPERTY ELIGIBILITY

The servicer must conduct an inspection to verify that the property has no physical conditions that adversely affect either the borrower's continued use or ability to support the debt. Normally a simple curbside inspection is sufficient; however, a borrower will not be able to support payments under a special forbearance plan if the property is in such a deteriorated condition that repairs will exhaust the borrower's monthly resources. The servicer must use good business judgement to determine if an interior inspection should be utilized. The analysis of the borrower's income should consider obvious property maintenance expenses.

The use of good business judgment is imperative. If significant deferred maintenance is a contributing cause of the default, it may be appropriate to provide a period of mortgage forbearance during which specified repairs are completed at the borrower's expense. If the property is in extremely poor physical condition, a special forbearance plan that allows a reduction or suspension of payments must contain a requirement to repair the property.

C. BORROWER ELIGIBILITY

Special forbearance may be offered to a borrower who has recently experienced a verified loss of income or an increase in living expenses. The borrower should be the owner-occupant of the property securing the SFHGLP loan and committed to occupying the property as a primary residence.

D. FINANCIAL ANALYSIS

The servicer's responsibility is to validate and document the borrower's capacity under the terms of the recommendation. The servicer determines that the borrower has the capacity to support the modified monthly payments and bring the loan current under the terms of a forbearance plan. The proposed repayment terms must be consistent with the borrower's ability to pay. The following documentation must be obtained to determine financial capacity of the borrower:

- Letter from borrower outlining their involuntary inability to pay/hardship
- Income Documentation as stated in the overview section
- Credit Report
- Detailed budget

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- Documentation of any other sources of income to be used in evaluation

Excluding documentation from prior years, all financial information must be dated within 90 days from the date of receipt by the servicer. If the servicer's financial analysis determines that the borrower either does not, or will not, have the ability to resume full monthly payments in the near future, special forbearance should not be used. The servicer should then consider other loss mitigation options.

E. UNEMPLOYMENT

When it has been determined that the reason for default is unemployment and the borrower does not have any immediate opportunities for re-employment, SFHGLP extends additional latitude to servicers to mitigate losses.

Servicers have the authority to enter into a forbearance agreement with a borrower who is unemployed or significantly underemployed and seeking re-employment at the time the borrower's financials are being analyzed by the servicer. The term of this forbearance shall be the lessor of 12 months or a term that would not cause the dollar amount of the borrower's delinquency to exceed 12 months of scheduled monthly mortgage payment reduction and, will be contingent upon the servicer's financial analysis of the borrower. As a condition of the forbearance agreement, the borrower must pursue employment during the term of the forbearance agreement. Additionally, the borrower must contact the servicer if their employment status changes.

The servicer is required to verify the borrower's employment status monthly and restructure the forbearance agreement or evaluate the borrower for another option, such as a loan modification, when the borrower's employment status changes. As with SFHGLP's standard forbearance agreement, all of the requirements apply to these special provisions.

F. DOCUMENTATION

The servicer should provide the borrower a written agreement to be signed and returned with the first payment, that clearly defines the term, frequency of payments, and amounts due under the special forbearance plan. The agreement acknowledges previously missed mortgage payments and states that failure to comply with its terms can result in foreclosure. In the absence of a signed agreement, the servicer may accept the borrower's modified payment as acknowledgment of the terms of the forbearance. If the

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borrower fails to provide the servicer with the signed agreement prior to the end of the forbearance, the servicer should document their continued efforts to collect the agreement. There is no maximum length for a special forbearance agreement, and the servicer may allow as much time as is reasonable based on the borrower's repayment ability.

An acceptable agreement should:

- Provide the borrower with relief not available under an informal payment plan.
- Not at any time allow the total arrearage amount to exceed the equivalent of 12 months delinquency.
- Not allow late fees to be charged while the borrower is performing under the terms of a special forbearance agreement.
- Permit allowable foreclosure costs and late fees accrued before the special forbearance agreement is executed to be included as part of the repayment schedule. However, such costs and late fees are collected only after payment of all principal, interest, and escrow advances. The loan is never considered delinquent only because the borrower has not paid late fees or other foreclosure costs.

G. REVIEW AND RENEGOTIATION

The servicer reviews the status of a special forbearance plan each month and takes appropriate action if the borrower is not complying with the terms of the plan. A plan may be renegotiated if the borrower's financial circumstances change; however, under a renegotiated plan, the loan cannot accrue more than 12 months delinquency.

5. LOAN MODIFICATION

A loan modification is a permanent change in one or more of the terms of a loan that results in a payment the borrower can afford and allows the loan to be brought current. Loan modifications may include a change in the interest rate, even below the market rate if necessary and should focus on payment reduction as the primary goal. Loan modifications may include capitalization of the arrearage. Capitalization may also include foreclosure fees and costs that are associated with the current foreclosure action, deficits in tax and insurance accounts, past due annual fees imposed by the servicer, but not late charges or servicers fees.

A modification may be appropriate for a borrower who has experienced a permanent or long-term reduction in income or an increase in expenses, or who has recovered from the

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cause of the default but does not have sufficient income to repay the arrearage through a repayment plan. To qualify for a modification, the borrower has a documented ability to support the monthly mortgage debt after the terms of the loan are modified.

A. LOAN ELIGIBILITY

To modify the loan under loss mitigation:

- The loan must be in default or at risk of imminent default.
- The loan is not in foreclosure at the time the modification is executed; however, a loan removed from foreclosure status may be modified.
- The default is due to a verified loss of income or increase in expenses.

B. PROPERTY ELIGIBILITY

While the modification option does not have a loan-to-value restriction, and an appraisal is not required, the servicer must conduct an inspection to verify that the property has no physical conditions that adversely impact the borrower's continued use or ability to support the debt. Normally a simple curbside inspection is sufficient; however, a borrower will not be able to support payments under a loan modification plan if the property is in such a deteriorated condition that repairs will exhaust the borrower's monthly resources. The servicer must use good business judgement to determine if an interior inspection should be utilized, and if necessary, analysis of the borrower's finances should consider anticipated property maintenance expenses. If the property is in extremely poor physical condition, a modification may not offer a resolution of the default. Costs to complete needed repairs may not be capitalized as part of a modification agreement, and the borrower may not receive any cash from the modification.

C. BORROWER ELIGIBILITY

The current borrower(s) on the existing Rural Development (RD) guaranteed single-family mortgage must be identical to the borrower(s) on the modified mortgage.

The borrower(s) must be facing imminent default or be in default.

The Servicer should not require the borrower to contribute cash to pay down arrearages prior to a loan modification.

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The borrower must be the owner-occupant who is committed to occupying the property as a primary residence. A modification must not be used to bring a loan current before a sale or assumption.

D. FINANCIAL ANALYSIS

To be considered for a loan modification, the borrower must provide detailed financial information to the Servicer.

Servicers may collect financial information from the borrower either in writing or during a telephone interview. Regardless of how the borrower's financial information was secured, the Servicer must independently verify the financial information.

The following documentation must be obtained to determine financial capacity of the borrower:

- Documentation from borrower outlining their involuntary inability to pay/hardship.
- Income documentation as stated in the overview section.
- The borrower's credit report.

The credit report should only be used to validate monthly installment debt, revolving debt, and secondary mortgage debt. A borrower's credit score obtained from any credit repository will not be considered in determining whether a borrower is eligible for loss mitigation.

Questions relating to documentation requirements should be directed to the Servicing Office via email to guarantee.svc@usda.gov.

1. UNDERWRITING GROSS MONTHLY INCOME

Gross monthly income includes the following, with respect to the borrower and any co- borrower(s):

- The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation for personal services.
- For self-employed borrowers, the net income from operation of a farm, business, or profession.
- Interest, dividends, and net income of any kind from real or personal

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property (for example, investment income and rental income).

- Benefit income, including the full amount of periodic payments received from Social Security (may be grossed up to a maximum of 125% of non-taxable income) (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.

- Alimony and/or child support may be used to qualify; however, it is voluntary and if the income renders the borrower ineligible the servicer is allowed to remove and re-evaluate the borrower.

- Income received by the borrower that is reasonably likely to continue.

2. UNDERWRITING BACK-END TOTAL DEBT RATIO

The Back-End ratio (total debt ratio) is the ratio of the borrower's total recurring monthly debts (such as the borrower's monthly mortgage payment (PITI), payments on all installment debts, monthly payments on all junior liens, alimony, child support, car lease payments, aggregate negative net rental income from all investment properties owned, and monthly mortgage payments for second homes) to the borrower's gross monthly income.

The servicer must validate all monthly installment debt, revolving debt, and secondary mortgage debt. This can be accomplished by pulling a credit report for each borrower or a joint report for married co-borrowers. The servicer must also consider any information obtained from the borrower orally or in writing concerning monthly obligations not reported on the credit file and document such obligations accordingly.

E. FORECLOSURE

If the foreclosure process has already begun, the Servicer should not proceed with the foreclosure action until the borrower has been evaluated for all loss mitigation options and, if eligible, an offer to participate in the modification has been made.

F. MODIFICATION PURPOSE

The purpose of a loan modification should be to provide payment relief to the borrower in the form of a reduced payment. When no other payment relief options are available, the Servicer may find it necessary to offer the borrower a modification for which the payment is increased. In cases where an increased payment is necessary, the

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borrower must demonstrate affordability by making at least 3 trial payments prior to execution of the modification.

G. LIEN PRIORITY

The servicer must ensure the first-lien status of the modified mortgage in compliance with any applicable state or Federal laws and regulations.

H. ESCROWS

Servicers are required to escrow for borrowers' real estate taxes and mortgage-related insurance payments.

I. MODIFICATION OPTIONS

The following apply to loan modifications:

- The modification results in a fixed-rate fully amortizing loan.
- The modified interest rate may be increased over the original note but may not exceed the current market interest rate at the time of approval.
- The modification brings the loan current.

The servicer shall calculate the target payment as close as possible to 31% of the verified gross monthly income. Loan Modification options shall be used in the following order to bring the borrowers mortgage payment (PITI) to as close as possible to the target payment.

1. Capitalize all delinquency. Capitalization may include foreclosure fees and costs that are associated with a current foreclosure action, deficits in tax and insurance accounts and past due annual fees imposed by the servicer. Past due homeowner's association dues should be capitalized, if necessary, to protect the first lien position. Servicer late charges and fees cannot be capitalized.
2. Modify interest rate to a level at or below the maximum allowable rate as defined by the Agency. If the maximum allowable interest rate has not been established by the Agency, the servicer should use the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) rate for 30-year fixed rate mortgages plus 50 basis points rounded to the nearest one –eighth of one percent (0.125%).
3. If the target payment is unable to be achieved with rate modification alone, the servicer shall extend the term in one-month increments, up to a maximum of 480 months until one of the following is achieved.
    a. The mortgage payment is at or below the target and the payment has

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been reduced a minimum of ten percent; or

b. The mortgage payment is at or below the target and the term has been extended to the cap of 480 months.

4. Rate and/or Term extension thresholds outline above should be considered maximum allowable modifications. The servicer may establish lower rate and/or term allowable costs based on contractual restrictions.

5. If the targeted monthly mortgage payment still cannot be achieved, the servicer may consider a Mortgage Recovery Advance (MRA) as outlined below in Section 5(J), to reduce the borrowers interest bearing principal, in addition to the rate/term modification to achieve the monthly target payment.

6. If the servicer has exhausted all steps of the waterfall and the target payment is not achieved, however, the borrower's payment (PITI) has been reduced by a minimum of ten percent, the servicer should offer the modification to the borrower(s).

7. If it is determined the borrower cannot be provided with a payment reduction and no other options are available a modification can still be offered, including a limited increase in payment, if the following conditions are met:

   a. The borrowers post modified payment is no greater than 36% of their monthly income.

   b. The borrowers post modified payment has increased no more than 10%.

   c. The modified principal balance may exceed the loan's original principal balance.

   d. The modified principal balance may exceed 100% loan-to-value.

   e. The use of a trial payment to support the borrower's willingness and ability to pay is encouraged for a modification, however, it is not required unless an MRA is utilized as part of the modification. If the servicer should determine a trial payment is the best course of action, they should follow the trial period guidance provided below.

J. MORTGAGE RECOVERY ADVANCE

All new MRAs will not be secured with a note/mortgage in favor of the Agency. Prior MRAs will be referred to as "Legacy MRAs". The maximum amount of the MRA is 30% of the unpaid principal balance at the time of the initial default and shall include

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any principal reduction needed to achieve the target monthly mortgage payment. If the borrower has previously been provided an MRA of any type, they may be considered for an additional MRA providing that the combined amount of MRAs does not exceed the 30% maximum outlined above.

In order to set-up the MRA, the servicer should advance the funds to the borrower’s account by creating a non-interest-bearing recoverable servicing advance as a receivable on the borrower's behalf. This amount should be stated on the monthly mortgage statement along with the principal balance.

To file a claim for reimbursement of a MRA, the servicer must submit a claim to RD within 60 days of the advance being executed by the borrower through his or her signature on the MRA Agreement. When filing the claim for reimbursement with RD, the servicer must upload a copy of the MRA Agreement signed by the borrower(s) using the USDA LINC website. The servicer must also upload a summary of the amount of the funds advanced, including the monthly PITIA and principal curtailment (if applicable), and other account information indicating the borrower's arrearage before the advance. In addition, the servicer should supply the present status of the account as of the date of the advance including evidence the loan has been reinstated; the name, address, and tax ID number for the servicer; and the name, address, and phone number of a contact person for the servicer who can answer questions about the reimbursement request.

The complete claim, including all supporting documents referred to above, must be submitted within 60 days of the execution of the mortgage recovery advance.

All required documentation must be uploaded via USDA LINC for reimbursement.

1. MRA GUIDELINES

No interest will accrue on the MRA. The payment of the MRA is not due until the earliest of (i) the maturity of the modified mortgage, (ii) the borrower transfers title to the property (by sale or by other voluntary or involuntary means), or (iii) a pay-off of the mortgage.

Borrowers are not required to make any monthly or periodic payments on the MRA. However, borrower(s) may voluntarily submit partial payments without incurring any prepayment penalties. Any repayment by the borrower of

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the MRA, whether partial or incomplete, must be remitted back to the agency from the servicer prior to release of the lien.

If the servicer releases the lien without collecting the advance from the borrower, the servicer must reimburse the Agency from their own funds except in cases where the guarantee is terminated due to a loss event such as a Short Sale, Deed in Lieu, or Foreclosure.

For legacy MRAs, the borrower must send payment directly to RD. The applicable payment mailing address information can be found on the Loan Servicing page of the LINC Training and Resource Library, located at https://www.rd.usda.gov/resources/usda-linc-training-resource-library.

K. STAND ALONE MRA

If the servicer determines the borrower is able to make their current contractual payment, the servicer can offer the borrower a stand-alone MRA to cure the delinquency if the following criteria are met:

- The hardship that caused the borrowers involuntary inability to pay has been cured.
- There is no reasonable ability for the borrower to cure the delinquency on their own within 12 months.

If the above conditions are met, the servicer may utilize a MRA to settle the borrower delinquency and return the borrower to a current status. The MRA is limited to an amount no greater than what is necessary to resolve any delinquency and unreimbursed servicer advances made during the delinquency and must meet all other requirements as explained in section 5.K above.

L. TRIAL PAYMENT REQUIREMENTS

Prior to modifying a loan using any type of MRA or a modification in which the borrower's payment increases, the servicer must have the borrower complete a trial period during which the borrower makes the monthly mortgage payment they would make under the modified mortgage.

For borrowers who are in default when a trial payment is initiated, the trial period must be three months in length. The servicer cannot modify the loan unless the

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borrower makes all three modified trial payments in the month in which they are due.

For borrowers facing imminent default when a trial payment is initiated, the trial period must be four months in length. The servicer cannot modify the loan unless the borrower makes all four reduced trial payments in the month in which they are due.

M. STEPS TO ACHIEVE AFFORDABILITY IN ORDER OF PRIORITY

Order	Options	Trial Required
1	Modify Rate	
2	Extend Term	
3	MRA w/ Mod	Y
4	Affordability Check Payment Increase <=10% & HTI <=36%	Y
*	Stand Alone MRA (can be offered at any time if the servicer determines the borrower does not need, or is not eligible for payment reduction)	Y

N. DOCUMENTATION

The servicer ensures that the modification documentation preserves the first lien status of the SFHGLP-guaranteed loan. The servicer will decide in accordance with state law as to whether it is necessary to record the modification agreement in order to maintain the first lien.

O. DISCLOSURES

The servicer complies with any disclosure or notice requirements applicable under

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state or federal law.

P. FAILURE

If the loan becomes delinquent following modification, it shall be treated as a new default and serviced accordingly. Since the servicer maintains the first lien status of the loan subsequent to modification, any amount that is not in the first lien position is not guaranteed by SFHGLP and is not subject to a claim. If the servicer submits a claim, the Agency reserves the right to request documentation (legal or otherwise) establishing the loan's first lien status.

Q. SUBSEQUENT USE

If a loan has been modified within the previous two years, re-default risk is presumed to increase following a subsequent modification. Before granting a modification in this circumstance, the servicer must validate the borrower has experienced a change in circumstances that led to a separate default or imminent default unrelated to the first. Any such decision must be documented and placed in the servicing file. A subsequent modification should be an unusual occurrence, and the cause of the second default should not be related to the original reason for default.

R. LOAN NOTE GUARANTEE

The terms of the SFHGLP Loan Note Guarantee (LNG) may change. The LNG may be extended to coincide with the terms of a loan modification that meets the eligibility criteria as noted in 7 CFR § 3555.303. Any loss on the modified loan is limited to the lessor of either 90% of the original loan amount, or the sum of the first 35% of the loss and 85% of the balance of the loss.

S. SERVICER NOTIFICATION REQUIREMENTS (MODIFICATIONS)

The servicer will upload a copy of the executed loan modification to the borrower file within 30 days of execution and no later than 60 days via USDA LINC. Additionally, the servicer must upload notification that if the modification was not executed by the borrower via USDA LINC.

The agreement should contain the following key data elements:

- Borrower and co-borrower name(s) and ID number(s)
- Effective modification date

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- Modified unpaid principal balance
- Eligible interest and costs capitalized
- Sum of modified principal and capitalized interest and costs
- Interest rate
- Maturity date

T. AGENCY ACTION

The Agency staff processes the loan modification by means of the Guaranteed Loan System (GLS).

6. PRE-FORECLOSURE SALE/DEED-IN-LIEU

The pre-foreclosure sale (PFS) option allows a borrower in default to sell his or her home and use the sale proceeds to satisfy the mortgage debt even if the proceeds are less than the amount owed. This option is appropriate for a borrower whose financial situation requires the sale of the home, but who is unable to do so because the value of the property has declined to less than the amount owed on the mortgage.

A borrower wishing to use the PFS option submits a request to the servicer along with any financial information the servicer requires. The servicer obtains a recent market value appraisal and preliminary title report to determine the feasibility of the PFS. The servicer notifies the borrower whether the request is approved.

The borrower makes a commitment to actively market the property for a period of at least three months, during which time the servicer delays foreclosure action. If the property does not sell, the servicer is encouraged to work with the borrower to determine the eligibility for a deed-in-lieu of foreclosure.

Deed-in-lieu of foreclosure (DIL) is a disposition option in which a borrower voluntarily deeds the collateral property to the servicer in exchange for a release from all obligations under the mortgage. A DIL is usually preferable to foreclosure because it avoids the time and expense of a legal foreclosure action, and the property is generally in better physical condition at acquisition due to the cooperative nature of the transaction.

The servicer may only review a borrower for a DIL prior to a PFS in cases of death, borrower incapacitation or other extreme circumstances. The servicer must use good business judgement when making this determination and retain all appropriate documentation in the servicing file.

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A. LOAN ELIGIBILITY

The loan is in default (delinquent more than 30 days) at the time the pre-foreclosure sale is closed. A servicer may exercise discretion to accept an application from a borrower who is facing imminent default, and if the loan will be in default by the time the pre-foreclosure sale is completed. The servicer documents this decision in the servicing file. Under no circumstances shall PFS be available to borrowers who have voluntarily stopped paying their mortgage despite their continued ability to pay.

B. BORROWER ELIGIBILITY

The PFS option may be extended to a borrower who meets all of the following:

- Is in default or facing imminent default due to a verified increase in living expenses or decrease in income.
- Occupies the property as a primary residence (servicer must document occupancy status).
- Is not eligible for any available retention options.

In addition, borrowers who have failed to perform on an accepted loan modification using USDA guidance may be evaluated for a PFS option.

A non-occupant borrower may be reviewed for a PFS option if it is determined the vacancy was involuntary in nature, such as job loss, mandatory transfer, divorce, death, etc.

C. BORROWERS APPLICATION/DOCUMENTATION

A defaulted borrower or a borrower facing imminent default who expresses interest in a pre-foreclosure sale should be sent a copy of the servicer's PFS criteria. Additionally, the servicer is encouraged to proactively solicit participation by a borrower who is in default or facing imminent default on an SFHGLP first mortgage and who is unable to cure the default.

By signing and returning the application with the required financial information, the borrower should acknowledge receipt of housing counseling, and agree to:

- List the property with a licensed real estate broker unrelated to the borrower (The listing agreement should include a specific cancellation clause in the event the terms of a sale are not acceptable).

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- Make a good faith effort to aggressively market the property.
- Perform all normal property maintenance and repairs until closing of the pre-foreclosure sale.

D. PROPERTY VALUE

The servicer obtains a standard market value appraisal from an appraiser who does not share any interest with the borrower or borrower's agent. The appraisal contains both "As Is" and "As Repaired" values for the property and should be valid for six months. A copy of the appraisal is shared with the homeowner or sales agent, if requested. Appraisals or opinions of value provided by the borrower, or borrower's real estate agent are not acceptable. The servicer reviews the appraisal and satisfies itself that the opinion represents the fair market value of the subject property. The list price of the property must reflect its fair market value. The cost of the appraisal is reimbursable in the loss claim.

E. PROPERTY CONDITION

Properties that have sustained serious damage (from fire, flood, earthquake, tornado, etc.) should not be considered for PFS if the cost of repair exceeds ten percent of the "As Repaired" appraised value until all insurance claims have been resolved. The servicer may exercise discretion to accept or reject a damaged property when the repair costs are less than the ten percent threshold and should document the decision in the servicing file.

Prior to servicing plan submission, servicers must ensure that hazard insurance claims involving property damage are filed and settled expeditiously. All repairs and replacements using the insurance proceeds must be planned, performed, and inspected in accordance with Agency construction requirements and procedures. (7 CFR 3555.252)

F. CONDITION OF TITLE

The property has marketable title. The servicer obtains a title search or preliminary title report to verify that the title is not impaired either with unresolvable title problems or with junior liens that cannot be discharged. If the servicer determines that junior liens and other title issues can be resolved, the borrower's PFS application may be approved, and resolution of the title issues can be pursued concurrent with the marketing effort. When reviewing for a DIL, all junior liens or issues with title must be resolved PRIOR to approval.

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G. FINANCIAL / PROPERTY ANALYSIS

The servicer determines the borrower's present and anticipated financial condition.

The servicer projects the borrower's monthly income and uses good business judgment to determine that the borrower is unable to support the mortgage debt. The servicer may continue with Pre-Foreclosure options, even if the debt is affordable, provided the reason for default requires the borrower to relocate.

The following documentation must be obtained and/or completed in order to determine financial capacity of the borrower:

- Letter from borrower outlining their involuntary inability to pay/hardship.
- Income documentation as stated in the overview section.
- Credit Report; and,
- Detailed budget.

If the borrower has been offered a loss mitigation solution based on full documentation in the last 12 months, the servicer can determine the borrower's ability/inability to support the debt based on the previous evaluation without obtaining new documentation.

All of the following documentation pertaining to the subject property must be obtained:

- Appraisal
- Listing Agreement
- Sales Contract (if applicable)
- Closing Disclosure
- Title Report; and
- All PFS workouts must be accompanied by the "Disposition (PFS/DIL) Cost Benefit Analysis" (Attachment 18-B). Attachment 18-B is an example of the analysis that must be completed for a PFS workout to be considered. Servicers may generate their own version of Attachment 18-B in-lieu of utilizing the example provided.

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H. TIMING OF PFS ACTIONS

The servicer should review for a PFS, commences foreclosure, or initiates another loss mitigation option within six months of the date of default, unless the default is cured earlier.

If the PFS follows a failed special forbearance agreement, the PFS, foreclosure or other option should be initiated within 90 days of the failure.

I. DURATION OF THE PFS PERIOD

The PFS period should be 90 days from the date of approval. The servicer should review the marketing efforts with the borrower each month. After 90 days have passed without a scheduled closing, the servicer should discuss the likelihood of a sale with the real estate broker and decide if a 30-day extension to the PFS is appropriate. Documentation of this decision is retained in the servicing notes.

If the property is under contract at the end of the marketing period, the servicer may extend the PFS period for 60 days, not to exceed a total of six months.

The pre-foreclosure option may also be extended to a borrower that has not received prior approval to participate in the PFS program. A sales contract offer must be validated by an appraisal that is conducted by an appraiser not party to the transaction. The appraisal must support the "as is" property value independent of the current offer.

If a closing of an approved PFS has not occurred within 90 days of the expiration of the PFS period (or six months of the date of default, whichever is later), the servicer should automatically evaluate the borrower for a deed-in-lieu, and if not eligible, commence foreclosure. If the borrower's financial condition has improved significantly to the point that a cure of the delinquency is a viable option, the servicer may undertake a special forbearance agreement or a loan modification. However, the servicer should fully justify this decision in the claim review file and approve the action within the 90-day period.

J. OTHER SERVICER ACTIONS

The servicer is responsible for inspection, protection, and preservation of the property between the 45th day of default and the date it approves the borrower's PFS request. Funds spent for preservation and protection may be reimbursed.

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The servicer must provide any documents deemed pertinent to describe all servicing actions taken.

K. EARLY TERMINATION

The borrower's participation in the PFS option may be terminated at the servicer's discretion, for any of the following reasons:

- Unresolvable title problems;
- Determination that the borrower is not acting in good faith to market the property; or,
- Voluntary withdrawal by the borrower.

L. BORROWER CONSIDERATION

A borrower who successfully sells the property securing the loan using the PFS option is relieved of the mortgage obligation. The borrower shall not be pursued for deficiency judgments by either the servicer or the Agency.

M. NET SALES PROCEEDS

The servicer may approve a sales contract or listing price in which the net sales proceeds are at least 84% of the home's "As-Is" appraised value. "Net Sales Proceeds" is defined as the contract/ listing price less:

- Sales commission of six percent or less.
- Local/State transfer tax stamps and other customary closing costs including the seller's costs for a title search and title insurance.
- Up to $2,500 may be used from sales proceeds for discharge of liens or encumbrances; and,
- Allowable seller concessions must not exceed three percent of the sales price. In cases where Rural Development is guaranteeing a new loan, the seller concessions will be limited to one percent of the purchaser's new mortgage loan amount.

Examples of settlement costs which may not be included in the net sales proceeds calculation are:

- Tax service fees and other property transfer costs normally paid by the buyer

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- Home warranty fees
- Repairs not stipulated in the appraisal
- Survey costs
- Lawyer's fees for representing the seller (apart from conducting the settlement or review of documents)
- Purchaser's down payment, escrow impounds and interim interest
- Purchaser's upfront/monthly mortgage insurance premiums
- Servicer's Title Insurance fee

There can be no hidden terms or special understandings between any of the parties involved in the transaction, i.e., the buyer, seller, appraiser, sales agent, closing agent, and servicer.

The servicer should review the signed Contract for Sale (if available) within five business days of receipt. If no contract is available, the servicer should approve the listing price of the property with the understanding that if an offer is made that meets the terms listed above, the transaction shall be pre-approved with little additional review required. The transaction is an outright sale of the premises. No sale by assumption may be considered, regardless of provisions for release of liability.

N. CLOSING AND POST CLOSING RESPONSIBILITIES

Before the transaction closes, the servicer will provide the closing agent with a list of all amounts payable out of the sale proceeds. Before giving final approval for a closing, the servicer reviews the settlement statement to ensure that it complies with earlier closing cost estimates.

A PFS is reported to national credit bureaus as a "short sale." The servicer is responsible for filing any applicable forms with the IRS and reporting any discharge of indebtedness after a PFS or DIL, in accordance with the Internal Revenue Code.

O. DEED-IN-LIEU

To be considered for a DIL the borrower must fully execute a written DIL agreement that contains all the conditions under which the deed will be accepted including:

- Specific transfer date

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- Notification that there may be income tax consequences because of the DIL
- Acknowledgment that borrowers who comply with all the requirements of the agreement shall not be pursued for deficiency judgments
- A statement describing the general physical condition in which the property will be conveyed demonstrating clean and marketable condition
- Agreement that the borrower will convey the property vacant and free of personal property unless the servicer has approved occupied conveyance
- Itemization of the keys, built-in fixtures, and equipment to be delivered to the servicer on or before the transfer date
- Borrower's agreement to provide evidence that certain utilities, assessments, and homeowner's association dues are paid in full to the transfer date unless otherwise agreed to by the parties

All DIL of foreclosure workouts must be accompanied by the "Disposition (PFS/DIL) Cost Benefit Analysis" (Attachment 18-B). Attachment 18-B is an example of the analysis that must be completed in order for a DIL workout to be considered. Servicers may generate their own version of Attachment 18-B in-lieu of utilizing the example provided.

P. FILING A CLAIM

The loss claim under the loan note guarantee is submitted to the Agency within 45 days after the date of the PFS or DIL closing. The Agency will reimburse the servicer for reasonable and customary costs of the appraisal, title search (if not included in the settlement statement), the allowable percentage of legal fees for a foreclosure postponed pending completion of PFS or DIL, if applicable, and reasonable costs of preservation and protection. Disbursements for taxes, assessments, hazard insurance, and other allowable items payable before the date of the PFS or DIL closing are also reimbursable. The Agency will not pay costs related to the property incurred after the closing date.

The Agency will pay a loss mitigation incentive of $1000 for successfully closing a PFS or $250 for a DIL if all the documentation requirements outlined above are met.

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ATTACHMENT 18-B

Disposition (PFS/DIL) Cost Benefit Analysis (Example)

This worksheet is being provided to demonstrate cost savings to the Government, as described under 7 CFR 3555.305. Voluntary liquidation methods must demonstrate the expected cost to the Government to be the same as or less than the cost of foreclosure. Other methods of liquidation must demonstrate how the proposal will result in savings to the Government. These options are appropriate for borrowers who have experienced a verified, involuntary inability to meet their mortgage obligation. Borrowers that have abandoned their mortgage obligation or strategically defaulted may not be eligible. For further eligibility clarification, please refer to the "The Loss Mitigation Guide." Failure to comply with Agency Regulation, Policies and Guidance may result in a reduction or denial of any future Loss Claim. If you need further assistance, please contact the Servicing Office via email at guarantee.svc@usda.gov.

Voluntary/Other Liquidation Method		Foreclosure Method	
Current Market Value	$180,000.00	Current Market Value	$180,000.00
[1] Gross Sales Price	$172,500.00	[1]Estimated Liquidation Value	$151,200.00
[2] Net Sales Proceeds	$157,482.63		
[3] Actual Net Sales Price %	91.294%		
Unpaid Principal Balance	$203,325.62	Unpaid Principal Balance	$203,325.62
Interest to Settlement Date	$5,622.79	Interest to FC Sale Date	$6,401.16
Escrow Shortage	$900.00	Escrow Shortage	$1,100.00
FC Cost	$1,513.25	FC Cost	$2,731.55
Other Cost	$129.13	Other Cost	$129.13
Total Debt	**$211,490.79**	[2]Estimated REO Marketing Cost	$24,116.00
Less Net Sales Proceeds	$157,482.63	**Total Debt**	**$236,291.86**
		Less Estimated Liquidation Value	$151,200.00
Total Estimated Loss Claim	**$54,008.16**	**Total Estimated Loss Claim**	**$85,091.86**
[1] If no offer is available enter Market Value in lieu of Gross Sales Price. [2] If no offer is available reduce Market Value by Management Acquisition Factor (14.95%) and enter in lieu of Net Sales Proceeds. [3] The result of the Net Sale Price divided by the Current Market Value		*[1]Equal to 84% of the Current Market Value* *[2]Multiply Estimated Liquidation Value by Management Acquisition Factor (15.95%)*	
Cost Savings to the Government:		**$31,083.70**	

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CHAPTER 19: LOSS CLAIMS - COLLECTING ON THE GUARANTEE
[7 CFR 3555.351]

19.1 OVERVIEW

This chapter outlines collecting on the guarantee. It provides a description of allowable costs, the servicer 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.

19.2 LOSS CLAIM COVERAGE

A. Loan Guarantee Limits

The maximum payment that a servicer may collect from the Agency under the Single Family Housing Guaranteed Loan Program (SFHGLP) is the lesser of:

- Ninety percent of the original principal amount 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.

When calculating the maximum loss claim amount, any previously reimbursed Mortgage Recovery Advance (MRA) provided for the loan should be included in the loss.

For example, if the original principal amount (OPA) guaranteed on a loan was $100,000, the maximum loss payment would be $90,000, which is the lesser of:

1. Ninety percent of principal

- OPA is $100,000.
- 90 percent of OPA is $90,000.

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2. One hundred percent of 35 percent and 85 percent of 65 percent

- OPA is $100,000.
- 35 percent of OPA is $35,000.
- 65 percent of OPA is $65,000.
- 85 percent of 65 percent of OPA is $55,250.
- Payment amount is 100 percent of 35 percent of OPA ($35,000) plus 85 percent of 65 percent of OPA ($55,250). This equals $90,250.

The Agency's exposure would be limited to $90,000, which is the lesser of the two loss payment amounts.

If the Agency had previously reimbursed the servicer for a MRA in the amount of $30,000, The maximum exposure on the final loss claim would be $60,000 which is the lesser amount minus the MRA already paid.

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 60 days from the settlement date through the date the loss claim is paid.
- Principal and interest indebtedness on protective advances provided by the servicer to protect the security property.
- Liquidation and disposition costs as outlined in Chapter's 18 and 19 of this Handbook.

C. Reasonable and Customary

Liquidation and disposition costs should be similar to costs the servicer incurs when servicing non-guaranteed loans. Refer to Chapter 18 for further guidance on customary

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costs related to the management and liquidation of acquired properties. Allowable costs could include:

- Appraisal-related costs excluding management fees. Reasonable and customary costs are determined by the Department of Veteran Affairs appraisal fee schedule.

- Securing the property.

- Payment of real estate commissions to sell the property at a maximum of six percent of the sales price unless incentives can be justified or a minimum of $2,000 commission for low value sales.

Costs associated with servicer in-house expenses (e.g. employee salaries, in-house legal fees, travel, Real Estate Owned (REO) management fees and other company expenses) are not allowed.

Allowable liquidation and disposition costs differ for properties sold to a third party from those that remain in the servicer's inventory at payment of the loss claim.

1. Third Party Foreclosure or Pre-Foreclosure Sale.

If the property is sold to a third-party at the foreclosure sale or by a pre-foreclosure sale (PFS), the loss claim will be calculated on the actual sales price. The Agency will reimburse the servicer for actual liquidation expenses plus additional interest for up to 45 days from the PFS closing date or foreclosure sale date. The servicer should file the loss claim within 45 days of funds receipt or in the case of a PFS, the settlement date, otherwise the loss claim may be denied or reduced. Documentation of expenses associated with a loss claim request must be retained in the servicer's permanent file.

2. Acquired by the Servicer at a Foreclosure Sale or by Deed-in-Lieu.

For property acquired by the servicer at the foreclosure sale or by deed-in-lieu, the servicer will order a market value appraisal that is compliant with Uniform Standards of Professional Appraisal Practice (USPAP) standards. If the servicer utilized a qualified appraisal during liquidation and it is dated within six months of the loss claim date, the servicer may reuse the existing appraisal. To estimate holding and disposition costs, a standard acquisition and management resale factor of 15.95% (aka VA Net Value Factor) as established by the Department of Veteran Affairs (VA) of

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the estimated sales price is used. Loss claims for acquired property should be filed by the servicer within 60 days of the foreclosure sale date, acquisition date, or possession of the security property. Loss claims filed beyond this period may be reduced or denied by the Agency.

The servicer 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 before the borrower can be eligible to receive this incentive. A written agreement must be signed by the borrower and retained in the servicing file.

19.3 FILING A LOSS CLAIM

All requests for loss claim payments will be made through an electronic web submission via USDA Lender Interactive Network Connection (USDA LINC) and can be accessed at https://usdalinc.sc.egov.usda.gov/RHShome.do. All information entered into the USDA LINC Loss Claim Administration system must be supported by documentation in the loss claim file. The servicer is responsible for the completeness and accuracy of the loss claim submission.

Information for gaining access to USDA LINC, submitting loss claims, and uploading loss claim documentation can be located in the Loan Servicing section under USDA Loss Claim Administration User Guide found at https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library .

A. Sold to a Third Party or PFS

For property that is sold through PFS or to a third party at the foreclosure sale, the loss claim must be submitted within 45 days from the PFS closing date, foreclosure sale date, or the date the proceeds were received, whichever is later.

B. Acquired by the Servicer at Foreclosure or Deed-in-Lieu

For properties that are acquired by the servicer, the servicer must order an appraisal within 15 days of the foreclosure sale date, acquisition date, or possession of the security property and file the loss claim within 60 days of the foreclosure sale date, acquisition date, or possession of the security property. In cases where a separate legal action is

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necessary to gain possession following a foreclosure, the proceeding should be initiated within 30 calendar days of the foreclosure sale, redemption period, or other prevailing State law affecting acquisition of title. The Agency will determine the value of the property for the basis of the loss claim by utilizing the market value of the security property through the Property Sale Value Calculator (PSVC). The Agency will apply an acquisition and management resale factor to estimate holding and disposition costs, based on the most current VA Management and Acquisition Factor (also known as the VA Net Value Factor), as announced by the VA in a notice published in the Federal Register and found at: https://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp.

C. Market Value Appraisal

The servicer will order an appraisal prepared by a licensed or certified appraiser. The appraisal must comply with USPAP and meet all the following requirements:

- USDA to be named as either the client and/or intended user.
- The intended use is market value for loss mitigation or asset valuation.
- State the highest and best use analysis for the subject property.

The appraiser will use one of the following forms:

- Uniform Residential Appraisal Report (URAR/Fannie Mae Form 1004 or Freddie Mac form 70) ;
- Manufactured Home Appraisal Report (Fannie Mae Form 1004C or Freddie Mac Form 70-B); or
- Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073 or Freddie Mac Form 465).

Along with the above-mentioned appraisal forms, the following should be included:

- Photos documenting the interior inspection are part of the appraisal inspection. The following color photos must be included:
    - All living spaces in the property (i.e. living room, family room, bonus room, dining room/area, etc.)
    - All bedrooms

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- Kitchen
- Bathrooms
- Basement/crawlspace
- Laundry room
- Mechanicals (furnace/air conditioner unit/water heater/electrical panel)
- Attic
- Garage/sheds
- Any/all deferred maintenance items

Appraisals will be in PDF format with color photos upon submission to USDA LINC.

D. The Property Sale Value Calculator

The Agency has developed a Property Sale Value Calculator (PSVC) to determine the estimated sales price for REO loss claims. The model coefficients use data on approximately 94,000 historical loss claims from the program. The Agency updates the model coefficients on a regular basis using actual property sale values acquired through a third-party data provider. The Agency adds historical data to the model every year and re-generates coefficients to ensure historical relationships between variables represent the most recent data available and that the model produces accurate property value estimates.

19.4 CALCULATING NET RECOVERY VALUE

As a part of the loss claim, the Agency will reimburse the servicer for the difference between the loss incurred by the servicer and the net recovery value of the property, within the limits of the guarantee. Net recovery value is the amount the servicer 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 servicer'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 servicer's inventory, the estimated net recovery value is used.

A. Properties Sold at Foreclosure

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When the servicer 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. Acquired Properties

The Agency estimates the net recovery value on unsold REO as the difference between:

- The estimated value of the property based on the PSVC;
- Allowable acquisition and management costs associated with liquidation; and
- VA Net Value Factor.

19.5 AGENCY REVIEW

The Agency will review the loss claim package from the servicer. Loss claim checks or electronic funds transfer (EFT) payments will be issued to the servicer by the Agency within 60 days of the servicer's properly filed loss claim. Agency staff will notify the servicer of any additional documentation required and will note it in the loss claim file.

Once all required information is submitted, the Agency must take the following actions:

- Determine whether the servicer has fulfilled all SFHGLP obligations and if not, whether reduction or denial of the loss claim is warranted.
- Review and approve the loss claim with an Agency designee with appropriate approval authority.
- Advise the servicer of the PSVC (if applicable) used to calculate the loss claim.

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- 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.

- Issue payment.

Payment of the loss claim simultaneously fulfills and terminates the loan note guarantee. A termination notice will be mailed to the designated payee at the time of payment.

A. Reduction or Denial of a Loss Claim

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. The Agency staff will use information provided by the servicer to determine if the loss claim should be adjusted or denied. The Agency must show that any reduction to the servicer's loss claim corresponds with the servicer's action or failure to act. This section provides guidance regarding reduction or denial of a loss claim, and when applicable, the specific penalties attached to those factors. Additional information regarding penalties may be found in Appendix 8 of this Handbook.

B. Calculation and Approval of Loss Payment

Agency staff will review the loss claim and supporting documentation submitted by the servicer. Agency staff will document and create a loss claim payment to the servicer. The Agency's reviewer should contact the servicer if there are questions about the information submitted by the servicer.

C. Loss Claim Payment Process

The Agency will use the following procedures for loss claim processing and disbursement of any loss claim payment.

1. Notification of Loss Payment Amount

The Agency should notify the servicer in writing of the amount to be paid within 60 days of receipt of a properly completed loss claim package. If the loss 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

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provide notification of appeal rights in accordance with Appendix 3 of this Handbook.

2. Payment and Post Payment Activities

Payments for approved loss claims should be distributed within 60 days of receipt of a properly completed loss claim package. Servicers who participate in electronic funds transfer (EFT) should receive payment within 3 working days of loss claim processing. For all other servicers, a check should be generated and distributed within 3 working days of receipt of a properly completed and submitted loss claim.

3. Review and Appeal Rights.

If a loss claim is reduced or denied, the Agency will notify the servicer of review and appeal rights as described in Appendix 3 of this Handbook. If the servicer 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.

4. Supplemental Loss Claims

The agency may allow the servicer to submit one supplemental loss claim in addition to the original loss claim submitted. The supplemental loss claim must be received by the agency within six months from payment date of the initial loss 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 a presidential disaster declaration.

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APPENDIX 1

For the complete 7 CFR Part 3555, refer to the National Archives and Records Administration Electronic Code of Federal Regulations (eCFR) found at https://www.ecfr.gov/current/title7/subtitle-B/chapter-XXXV/part-3555

The eCFR is a web version of the Code of Federal Regulations (CFR) that is updated simultaneously with any published revisions. Please use the link above for the most up to date version of the 7 CFR 3555.

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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: https://forms.sc.egov.usda.gov/eForms/, unless otherwise noted with a link to the form. Select "*Browse Forms"* from the home page and then enter the form number in the applicable field.

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			3, 4, App. 7

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			2, 5, 8, 9, 10, 15
Form RD 1910-5	Request for Verification of Employment	√		9, 11, 15
Form RD 1944-62	Request for Verification of Deposit	√		9, 11, 15
FEMA Flood Certification	Standard Flood Hazard Determination Form https://www.fema.gov/flood-insurance/find-form/underwriting			12, 15, 16
Form RD 1922-15	Administrative Appraisal Review for Single Family Housing		√	2, 12

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Form Number	Form Name	Optional Use by Lender	Agency Use Only	See HB Chapter
RD Instruction 1970 F, Exhibit B, Attachment B 2, (Form)	Template Private Party Notice to Applicant/Lender for Floodplain		√	N/A
RD Instruction 1970-B, Exhibit D (Form)	Environmental Checklist for Categorical Exclusions		√	2
RD Instruction 1970 B, Exhibit C (Form)	Guide to Applicants for Preparing Environmental Reports for Categorical Exclusions		√	N/A

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		√	2, 7, 9,12, 14,15,16
Form RD 3555-18E	Conditional Commitment for Single Family Housing Loan Guarantee (Electronic)		√	2, 12,15, 16

Loan Closing

Form Number	Form Name	Optional Use by Lender	Agency Use Only	See HB Chapter
Form RD 451-2	Schedule of Remittances		√	App. 6
Form RD 3555-11	Lender Record Change			3, 4,17, App. 4
Form RD 3555-17	Loan Note Guarantee		√	2, 10,16
Form RD 3555-17E	Loan Note Guarantee (Electronic)		√	2, 10,16

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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

Instructions Referenced

RD Instruction 1901-E	Civil Rights Compliance Requirements
RD Instruction 1970	Environmental

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APPENDIX 3
REVIEW AND APPEALS

A. Review and Appeal Options

Adverse Agency decisions against a program participant (lender, applicant, or borrower) may be reviewed or appealed by the National Appeals Division (NAD). Adverse decisions include 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. 7 CFR Part 11 provides procedures that both Agency officials and program participants must follow during the review or appeal process. Applicable portions of 7 CFR Part 11 to the Single-Family Housing Guaranteed Loan Program (SFHGLP) can be found later in this appendix. Handbook Letters 1 through 7 are provided to inform program participants of their rights.

Adverse decisions are subject to the following review and appeal procedures:

- **Informal Administrative Review by Agency Decision-Maker**. Program participants (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.** Qualifying adverse decisions 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 ADR prior to a hearing with NAD.

B. Informing Program Participants of Their Rights

Agency decisions that adversely affect a participant require written notification that an informal administrative review with the person who made the decision may be requested. Letters notifying participants of adverse decisions must contain the information needed for the 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 1 through 7 following this appendix are available for guidance and are titled to assist in selecting the correct language for the decision made. Notification of adverse decisions by the Agency will include notification to the lender and the applicant/borrower when declining a request for loan commitment. Adverse decisions regarding loss payments will be directed to the servicer.

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If the decision is appealable, the participant will be informed of their opportunity to seek mediation and/or to request a hearing with NAD using Handbook Letter 1. 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 using Handbook Letter 2. When a participant is denied assistance for both appealable and non-appealable decisions, the Agency will send both Handbook Letters 1 and 2.

The lender will be responsible for notifying the applicant or borrower if the lender declines an applicant or borrower's request. Denial of loan requests or servicing actions by the lender are not subject to review or appeal rights.

C. Adverse Decisions That Cannot Be Appealed

Certain decisions made by the Agency are not appealable and participants can request an informal administrative review. The participant will be informed through Handbook Letter 2 that they may request an informal administrative review for a review of the accuracy of the Agency's determination that the case cannot be appealed. Decisions that cannot be appealed can include:

- Decisions made by parties not employed by the Agency;
- Refusal to request an administrative waiver;
- Decisions made in accordance with statute (such as rural area designations); and
- Denial of loan commitment due to lack of program funds.

D. Informal Administrative Review

The purpose of the informal administrative review is to reiterate the Agency's reasons for the adverse decision, provide a forum for the participant response, and obtain any additional information to support the participant request.

- The written request for an informal administrative review must be provided to NAD within 15 days of the date of the Agency's letter notifying the participant of the adverse decision.
- The informal administrative review can be conducted by telephone, webinar, or a face-to-face meeting with the decision maker or their representative. The Agency will determine the meeting format.

- The review of the decision must be completed within 45 days of the request. The Director of Origination and Processing Division (OPD) may require that

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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.

- All documentation will be retained in the electronic customer file (ECF).

The participant may skip an informal administrative review and, if applicable, request mediation and/or an appeal. In doing so, the participant automatically waives their rights to an informal administrative review.

E. Mediation

Adverse decisions which are appealable to NAD also require that the participant have the opportunity to seek mediation prior to having a hearing with NAD. The purpose of mediation is to resolve disputes using a neutral mediator. A mediator's role is to summarize each party's perception of the issues and offer procedural suggestions on a resolution which may lead to a mutual resolution of the adverse decision. The Agency will not use the services of an arbitrator. An arbitrator resolves disputes through hearing both parties and renders a binding decision. Participants may skip mediation and request an appeal to NAD.

Requests for Mediation

After receiving Handbook Letters 1 or 3 of this appendix, a participant may request mediation services. Upon receipt of the participant's request for mediation, Handbook Letter 4 of this appendix is sent to the participant to begin the process.

Cost of Mediation

Costs associated with mediation should be shared equally between the Agency and the participant. The selection of a mediator will be based on the most economically viable alternative to both the Agency and participant. If Agency administrative funds are exhausted, the Agency will notify the participant that mediation can proceed but the cost of mediation will be absorbed fully by the participant. The Agency should ensure that all participants requesting mediation are treated consistently and pay the same percentage of the cost toward this service. The Agency 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

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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 supported by grants provided by USDA and a list of mediation providers is available at USDA Farm Service Agency Home Page (usda.gov). In States with a USDA funded mediation program, participants who are provided appeal rights can be referred to the USDA funded mediation program.

Mediation in States with a Community-Based Mediation Center (CBMC)

A CBMC is a nonprofit, public entity operating under the guidance of a governing board. They provide an alternative to the judicial system using trained mediators and are an option when a USDA funded State mediation program is unavailable. The State ADR Coordinator should establish a source list of CBMCs and 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, the State ADR coordinator is responsible for maintaining a list of mediation service providers. The list will contain the approximate cost of each service provider, if known. The Agency may handle the list of mediation sources as follows:

- The mediator list will be maintained alphabetically, and sources selected in sequential order to ensure that mediation providers receive an evenly balanced number of referrals. In the case where mediators have a wide range of costs, an emphasis will be placed on the lowest cost provider.

- The Agency 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 using Handbook Letter 4.

- The participant must provide the name of a mediation provider within 10 days, or the request will be withdrawn. Handbook Letter 7 will be used to notify the participant the withdrawal of the mediation request.

- Handbook letter 5 will be used to refer the case to the mediator.

- Withdrawal or cancellation of mediation does not extinguish the participant's right to an appeal with NAD.

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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 timeframe and all parties agree to an extended timeline.

- The mediator will conduct a teleconference between the parties prior to accepting a case to determine the potential success of mediation. The Agency will not refuse to participate in mediation if requested to do so by the participant.

- Mediation occurs prior to having a hearing with NAD and stops the clock on the 30-day period during which a participant may request and appeal to NAD.

- Following mediation, any days remaining 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. Hearing dates for participants who request mediation after filing an appeal must be selected within 45 days of the conclusion of mediation.

Mediation on cases involving the Servicing Office

Mediation on decisions made by the Servicing Office will be coordinated through with the OPD and the State Office ADR coordinator. When a participant receives Handbook Letters 1 or 3 of this appendix as a result of an adverse decision made by the Servicing Office, the participant is referred to the Director of OPD to initiate mediation. Upon receipt of a participant's request, the Agency will send Handbook Letters 4, 5, or 7 of this appendix, as applicable. A copy will be provided to the Single Family Housing Appeals Coordinator in the Servicing Office. When Handbook Letter 5 is sent to the service provider, the Agency contact will be the Servicing Office. While the OPD coordinates this service, the Servicing Office 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 a copy of the adverse decision and a brief statement describing why the participant believes the decision is wrong.

- The Agency 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 participant.

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- The participant may choose a face-to-face hearing in the participant's state of residence, teleconference, or webinar. The Agency will provide a field office based employee to attend the hearing and represent the Agency. In the case of a loan servicing appeal, the Director of OPD and the Servicing Office Single Family Housing Appeals Coordinator will work cooperatively to support to the field office representative to adequately represent the Agency in the case.

- NAD will notify the participant and Agency of the final determination.

- If NAD reverses the Agency's decision, the next 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 of the case by the Director of NAD.

- All documentation will be entered into ECF.

- See 7 CFR Part 11 of this appendix for more guidance on Director Reviews and other information regarding appeals.

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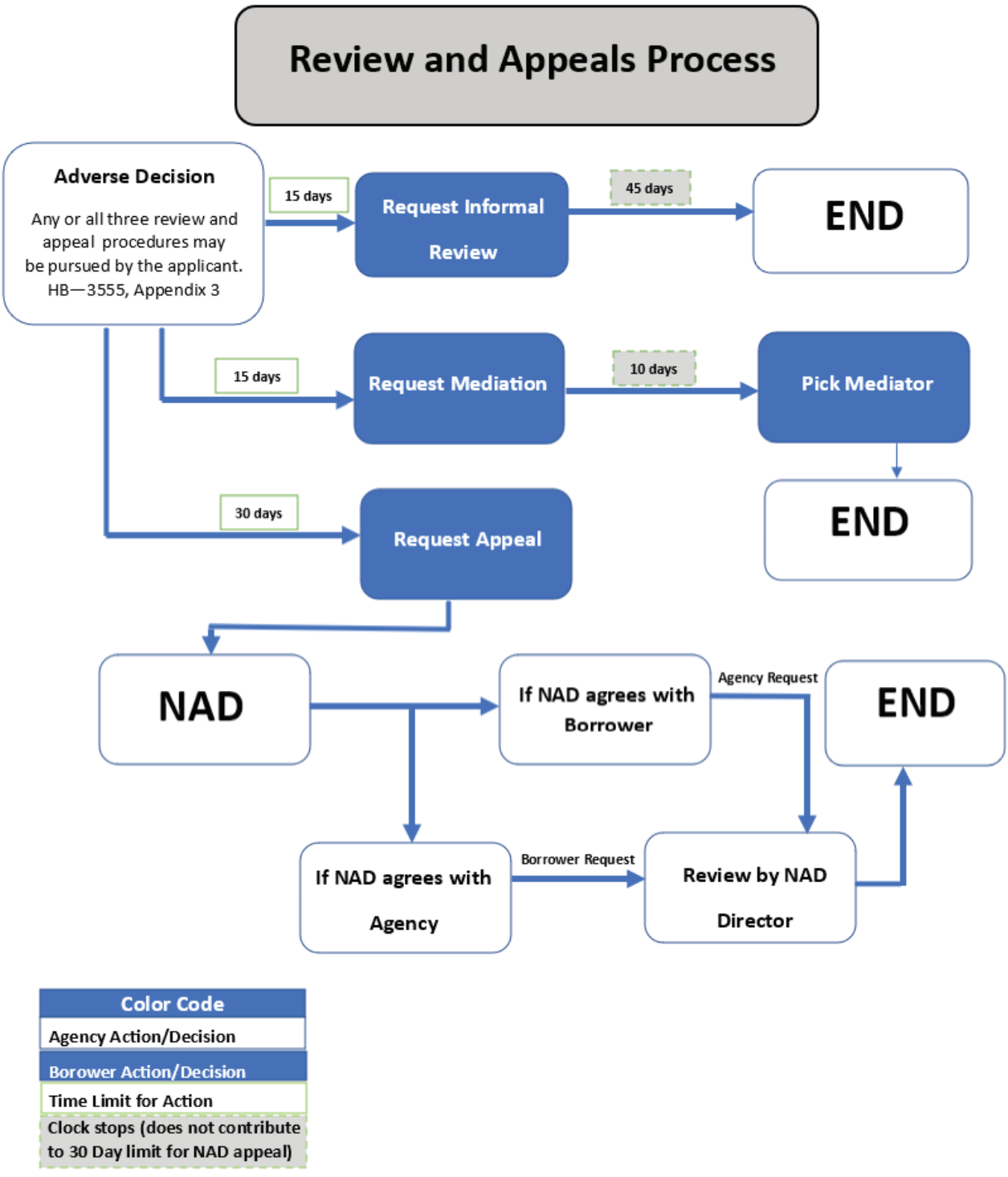

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EQUAL CREDIT OPPORTUNITY ACT

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, webinar, 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, contact the Director of Origination and Processing Division (OPD) listed below.

[*Director of Origination and Processing Division]*

There may be a cost for mediation, if so, Rural Development will 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 may 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 Director of Origination and Processing Division and **must be postmarked no later than 30 days from the date of the attached letter**. Once you request mediation, the 30-day period to request an appeal hearing (described in Option 3) is postponed but does not waive your right to an appeal.

Once you have requested mediation, the Director of Origination and Processing Division 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. There are three alternatives for mediation providers:

1. USDA-funded state mediation program
2. Community Based Mediation Centers, or
3. Other mediation providers you recommend, subject to Agency's approval.

Once a mediation service provider has been identified, you will have **10 days to contact the mediator,** and you will be advised directly by the mediation source if they can mediate your case. You will have 45 days to complete mediation. 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.

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, 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 Director of Origination and Processing Division at:

[Director of Origination and Processing Division Address]

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You may alternatively select to file your appeal electronically through the NAD website. You can set up a NAD efile account and then follow the prompts to request an appeal electronically. Your request for an appeal must be made no later than 30 days from the date you received the attached letter. To file an appeal online go to the following internet address:

https://www.usda.gov/oha/nad/appeals

You, or your representative or counsel, may contact the OPD anytime during regular office hours to request copies of the Agency's record relevant to this adverse decision. Electronic images or 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. 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 option, contact the Director of Origination and Processing Division (OPD) listed below:

[Director of Origination and Processing Division]

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 Director of Origination and Processing Division (OPD) 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 2) but does not waive your right to an appeal.

Once you have requested mediation, the Director of Origination and Processing Division will advise

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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. There are three alternatives for mediation providers:

1. USDA-funded state mediation program,

2. Community Based Mediation Centers, or

3. Other mediation provider you recommend, subject to the Agency's approval.

Once a mediation service provider has been identified, you will have 10 days to contact the mediator, and you will be directly asked if they can mediate your case. You will have 45 days to complete the mediation. 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.

Mediation does not take the place of, or limit your rights to, an appeal to the National Appeals Division (NAD); however, a NAD appeal hearing would take place only after mediation.

Option 2 - Request an Appeal

You may skip mediation and request an appeal hearing. In doing so, you will automatically waive your right to an informal meeting. ***There is no cost for an appeal hearing***. Your request for an appeal must be made no later than 30 days from the date of the original Agency's adverse decision letter. If you choose Option 1, an NAD appeal hearing would take place only after mediation as long as there are days remaining from the original 30 days to request an appeal. You must immediately contact the NAD. To request an appeal hearing, you must write the NAD Assistant Director for your region as 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 original adverse decision letter. A copy of your request must also be sent to the Director of Origination and Processing Division at the following address:

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[Director of Origination and Processing Division Address]

You may alternatively select to file your appeal electronically through the NAD website. You can set up a NAD efile account and then follow the prompts to request an appeal electronically. Your request for an appeal must be made no later than 30 days from the date you received the original adverse decision letter. To file an appeal online go to the following internet address:

https://www.usda.gov/oha/nad/appeals

You, or your representative or counsel, may contact the OPD anytime during regular office hours to request copies of the Agency's record relevant to this adverse decision. Electronic images or 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 ASSIGNMENT OF THEIR CASE TO:

A USDA-FUNDED STATE MEDIATION PROGRAM OR:

A COMMUNITY-BASED MEDIATION CENTER OR:

CERTIFIED MEDIATION PROVIDER FOR MEDIATION

TO: [CUSTOMER]

FROM: DIRECTOR, ORIGINATION AND PROCESSING DIVISION

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

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they can mediate the issues in your case. You will 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.

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HANDBOOK LETTER 5

ATTACHMENT FOR ASSIGNMENT BY RURAL DEVELOPMENT/USDA OF A CUSTOMER MEDIATION REQUEST TO A MEDIATION SERVICES PROVIDER

TO: [*Mediation Service Provider*]

FROM: Director, Origination and Processing Division

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 Origination and Processing Division. You should contact this office for further information on the case.

[*Agency contact: program, individual, address phone and e-mail*]

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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 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 Director of Origination and Processing Division:

[*Director, Origination and Processing Division 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.

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Attachments (2): Adverse decision letter
Customer's request for mediation

CC: The Servicing Office Single Family Housing Appeals Coordinator

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HANDBOOK LETTER 6

ATTACHMENT FOR NOTIFYING CUSTOMERS OF UNRESOLVED RESULT OF THE MEDIATION OF THE ADVERSE

TO: [*CUSTOMER*]

FROM: [*Director, Origination and Processing Division*]

SUBJECT: Unresolved Result of the Requested Mediation

Your request for mediation has been completed. We regret 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*]

Guidance documents lack the force and effect of law, unless expressly authorized by statute or incorporated into a contract. USDA may not cite, use, or rely on any guidance that is not available through their guidance portal, except to establish historical facts.

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 the OPD anytime during regular office hours to request copies of the Agency's record relevant to this adverse decision. Electronic images or 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 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: The Servicing Office, Single Family Housing Appeals Coordinator

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HANDBOOK LETTER 7

ATTACHMENT FOR NOTIFYING CUSTOMERS OF EXPIRATION OF THE 10 DAYS TO SELECT A MEDIATION SERVICES PROVIDER

TO: [*Customer*]

FROM: [*Director, Origination and Processing Division*]

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 as 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*]

Guidance documents lack the force and effect of law, unless expressly authorized by statute or incorporated into a contract. USDA may not cite, use, or rely on any guidance that is not available through their guidance portal, except to establish historical facts.

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 Director of Origination and Processing Division:

[*Director of Origination and Processing Division Address*]

You may alternatively select to file your appeal electronically through the NAD website. You can set up a NAD efile account and then follow the prompts to request an appeal electronically. Your request for an appeal must be made no later than 30 days from the date you received the attached letter. To file an appeal online go to the following internet address:

https://www.usda.gov/oha/nad/appeals

You, or your representative or counsel, may contact the OPD anytime during regular office hours to request copies of the Agency's record relevant to this adverse decision. Electronic images or 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: The Servicing Office, Single Family Housing Appeals 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.).

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§ 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

(13) Any successor agency to the above-named agencies, and any other agency or office of the Department which the Secretary may designate.

Guidance documents lack the force and effect of law, unless expressly authorized by statute or incorporated into a contract. USDA may not cite, use, or rely on any guidance that is not available through their guidance portal, except to establish historical facts.

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.

Guidance documents lack the force and effect of law, unless expressly authorized by statute or incorporated into a contract. USDA may not cite, use, or rely on any guidance that is not available through their guidance portal, except to establish historical facts.

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.

Guidance documents lack the force and effect of law, unless expressly authorized by statute or incorporated into a contract. USDA may not cite, use, or rely on any guidance that is not available through their guidance portal, except to establish historical facts.

§ 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).

Guidance documents lack the force and effect of law, unless expressly authorized by statute or incorporated into a contract. USDA may not cite, use, or rely on any guidance that is not available through their guidance portal, except to establish historical facts.

(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.

Guidance documents lack the force and effect of law, unless expressly authorized by statute or incorporated into a contract. USDA may not cite, use, or rely on any guidance that is not available through their guidance portal, except to establish historical facts.

(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. If 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-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.

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(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 CONTACT INFORMATION

RURAL DEVELOPMENT	CONTACT INFORMATION
Rural Development Website • Includes National, State Offices and SFHGLP Contacts.	Click the link below: https://www.rd.usda.gov/programs-services/single-family-housing-programs/single-family-housing-guaranteed-loan-program
Housing and Community Facilities Programs	Administrator Rural Development National Office 1400 Independence Avenue SW Room 5014, Mail Stop 0701 Washington, DC 20250-0701
SFHGLP National Headquarters	Rural Development National Office-Headquarters 1400 Independence Avenue SW Room 5133, Mail Stop 0784 Washington, DC 20250-0784
Single Family Housing Guaranteed Loan Divisions **Origination and Processing** • Process Conditional Commitments and Issue Loan Note Guarantees **Quality Assurance & Lender Oversight** • Provide Program Quality Assurance and Lender Oversight **Policy & Program Management** • Provide Program Guidance and Issuance of Rules/Regulations **System & Implementation Management** • Analyze, Evaluate, Monitor and Manage the Effectiveness of SFHGLP Systems	Click the link below for SFHGLP Contact List: https://www.rd.usda.gov/resources/usda-linc-training-resource-library Click on SFHGLP Contact List

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RURAL DEVELOPMENT	CONTACT INFORMATION
Business Center Servicing Office Guaranteed Loan Division **Single Family Housing Servicing Branch** • Electronic Reporting System (default and portfolio) • Guaranteed Underwriting System Agreements • Lender Loan Closing Agreements and Guarantee Fees • Annual Fee Collection • Transfer of Servicing Form RD 3555-11 • Security Administration for GLS LINC • Servicing and Default Management Support • Loss Mitigation Quality Reviews and Lender/Servicer Oversight • Loss Mitigation Exceptions • Mortgage Recovery Advance (MRA) Payoff Requests **Single Family Housing Claims Branch** • Loss Claims and Lender Support • Post Liquidation Policies and Procedures • Lender Program Servicing Training and Coordination	Click the link below for Servicing Contact Information: https://www.rd.usda.gov/sites/default/files/RD-SFH-GRHServicingContacts.pdf
Consolidated Help Desk Support Center • Guaranteed Underwriting System • E-Authentication Questions • Guaranteed Loan System (internal to Agency)	Email: rd.hd@usda.gov Telephone: 800-457-3642 Select option 2 at 1st menu item (USDA Applications); then select option 2 at the 2nd menu item (RD)

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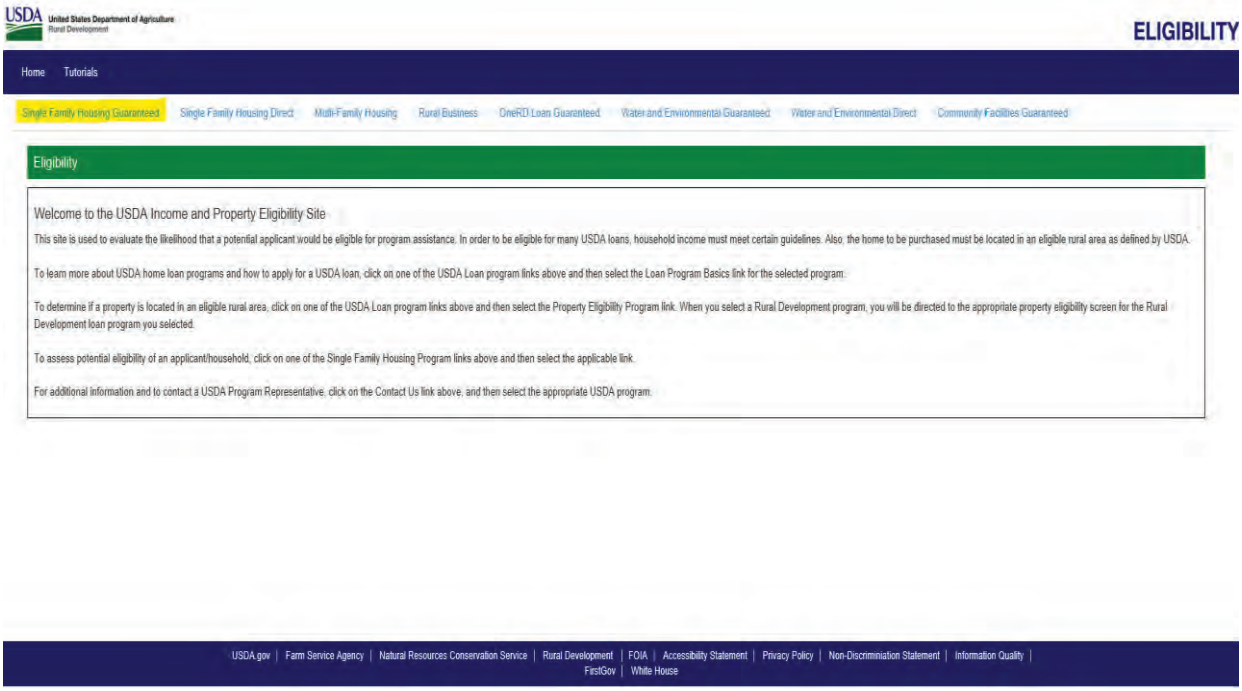
APPENDIX 5
INCOME LIMITS

The following USDA Income and Property Eligibility site is used to determine eligibility for USDA home loan programs. To determine income eligibility, visit 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>

1. From the Single Family Housing Guaranteed Eligibility navigation menu on the top of the page, select “Income Limits” to obtain a listing of all states’ income limits.

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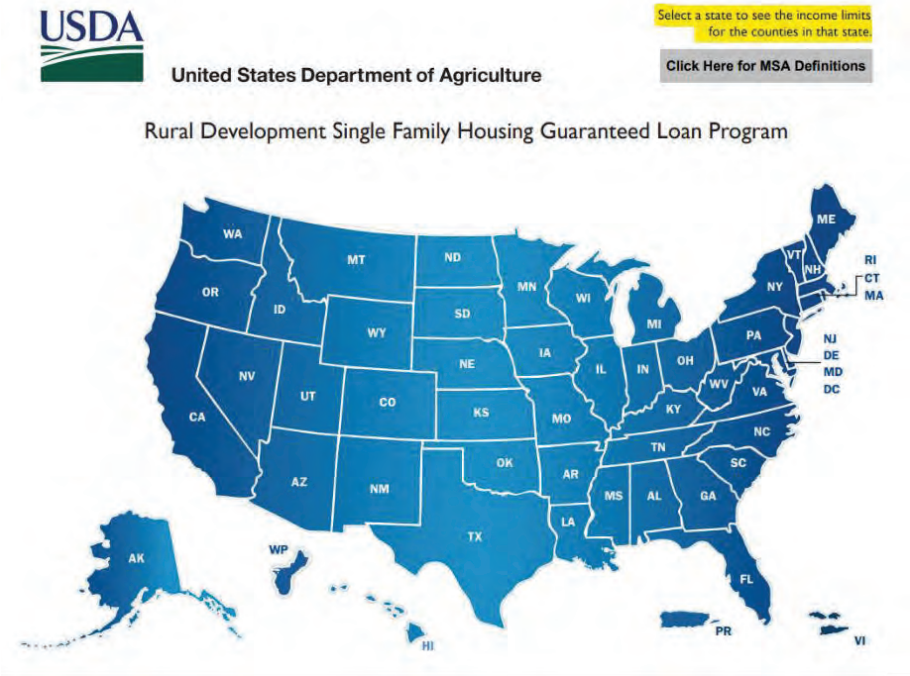
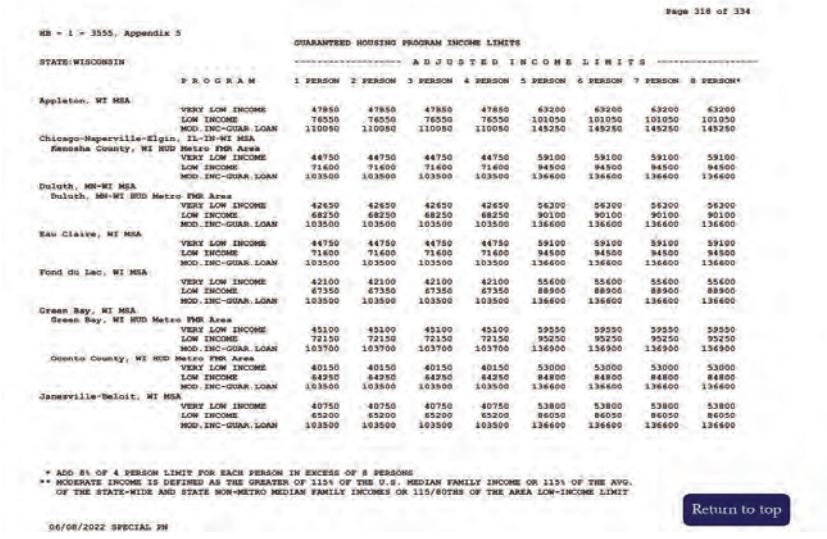
2. Select the state.



3. Once a state is selected, the income limits utilizing this method will display all counties within the selected state, by number of persons in the household.

4. Some counties that are contained within a Metropolitan Statistical Area (MSA) will be listed under the MSA.



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GUARANTEED HOUSING PROGRAM INCOME LIMITS

STATE:WISCONSIN — ADJUSTED INCOME LIMITS

PROGRAM	1 PERSON	2 PERSON	3 PERSON	4 PERSON	5 PERSON	6 PERSON	7 PERSON	8 PERSON*
Appleton, WI MSA								
VERY LOW INCOME	47850	47850	47850	47850	63200	63200	63200	63200
LOW INCOME	76550	76550	76550	76550	101050	101050	101050	101050
MOD.INC-GUAR.LOAN	110050	110050	110050	110050	145250	145250	145250	145250
Chicago-Naperville-Elgin, IL-IN-WI MSA								
Kenosha County, WI HUD Metro FMR Area								
VERY LOW INCOME	44750	44750	44750	44750	59100	59100	59100	59100
LOW INCOME	71600	71600	71600	71600	94500	94500	94500	94500
MOD.INC-GUAR.LOAN	103500	103500	103500	103500	136600	136600	136600	136600
Duluth, MN-WI MSA								
Duluth, MN-WI HUD Metro FMR Area								
VERY LOW INCOME	42650	42650	42650	42650	56300	56300	56300	56300
LOW INCOME	68250	68250	68250	68250	90100	90100	90100	90100
MOD.INC-GUAR.LOAN	103500	103500	103500	103500	136600	136600	136600	136600
Eau Claire, WI MSA								
VERY LOW INCOME	44750	44750	44750	44750	59100	59100	59100	59100
LOW INCOME	71600	71600	71600	71600	94500	94500	94500	94500
MOD.INC-GUAR.LOAN	103500	103500	103500	103500	136600	136600	136600	136600
Fond du Lac, WI MSA								
VERY LOW INCOME	42100	42100	42100	42100	55600	55600	55600	55600
LOW INCOME	67350	67350	67350	67350	88900	88900	88900	88900
MOD.INC-GUAR.LOAN	103500	103500	103500	103500	136600	136600	136600	136600
Green Bay, WI MSA								
Green Bay, WI HUD Metro FMR Area								
VERY LOW INCOME	45100	45100	45100	45100	59550	59550	59550	59550
LOW INCOME	72150	72150	72150	72150	95250	95250	95250	95250
MOD.INC-GUAR.LOAN	103700	103700	103700	103700	136900	136900	136900	136900
Oconto County, WI HUD Metro FMR Area								
VERY LOW INCOME	40150	40150	40150	40150	53000	53000	53000	53000
LOW INCOME	64250	64250	64250	64250	84800	84800	84800	84800
MOD.INC-GUAR.LOAN	103500	103500	103500	103500	136600	136600	136600	136600
Janesville-Beloit, WI MSA								
VERY LOW INCOME	40750	40750	40750	40750	53800	53800	53800	53800
LOW INCOME	65200	65200	65200	65200	86050	86050	86050	86050
MOD.INC-GUAR.LOAN	103500	103500	103500	103500	136600	136600	136600	136600

* ADD 8% OF 4 PERSON LIMIT FOR EACH PERSON IN EXCESS OF 8 PERSONS
** MODERATE INCOME IS DEFINED AS THE GREATER OF 115% OF THE U.S. MEDIAN FAMILY INCOME OR 115% OF THE AVG. OF THE STATE-WIDE AND STATE NON-METRO MEDIAN FAMILY INCOMES OR 115/80THS OF THE AREA LOW-INCOME LIMIT

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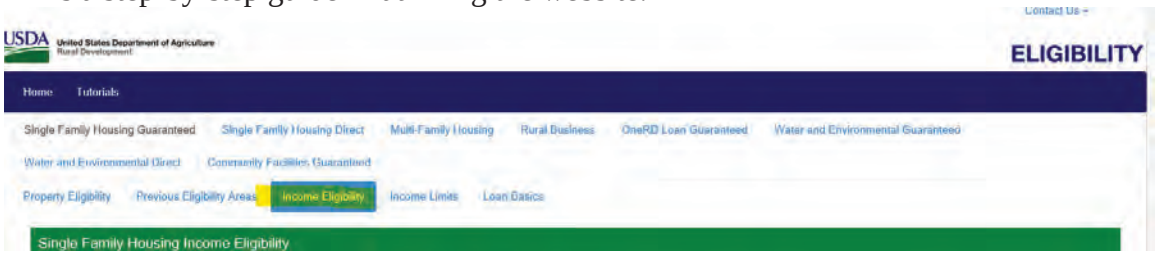
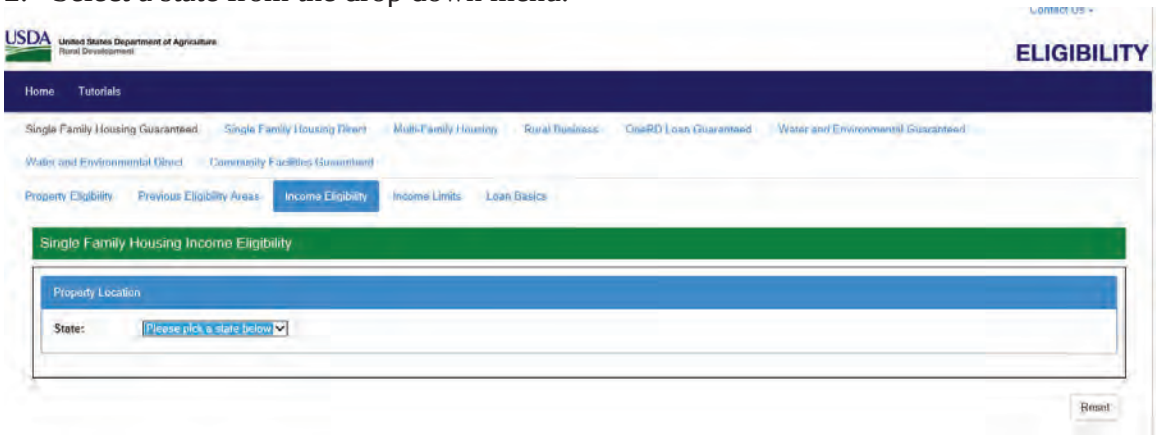
5. If no selection of state is made by the user, the user may utlize the right screen navigational tool to scroll by page through all states.

To determine the eligibility of an individual or applicant/household:

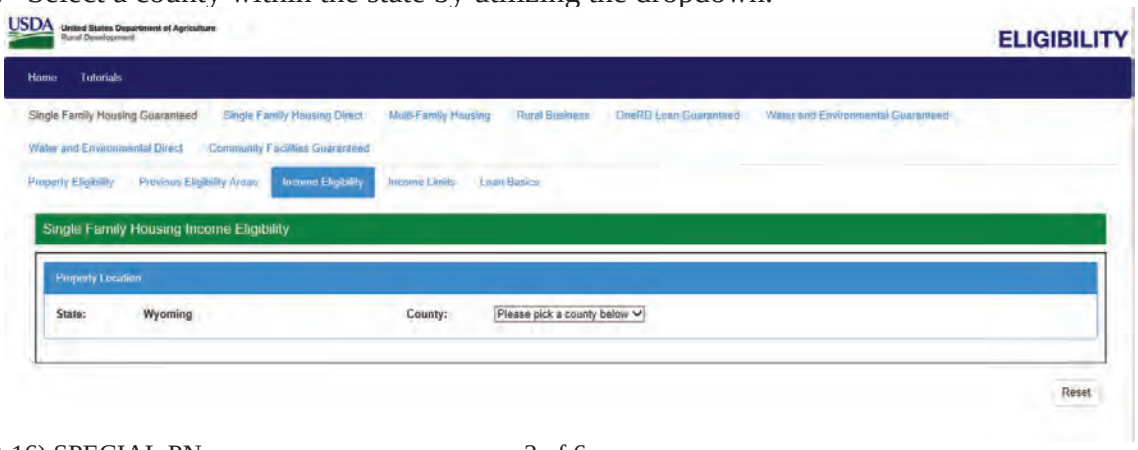
1. From the Single Family Housing Guaranteed Eligibility navigation menu on the top of the page, select “Income Eligibility” from the Eligibility navigation menu. The following is a step-by-step guide in utilizing the website.



2. Select a state from the drop down menu.



3. Select a county within the state by utilizing the dropdown.



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4. Complete information on household members.

   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.

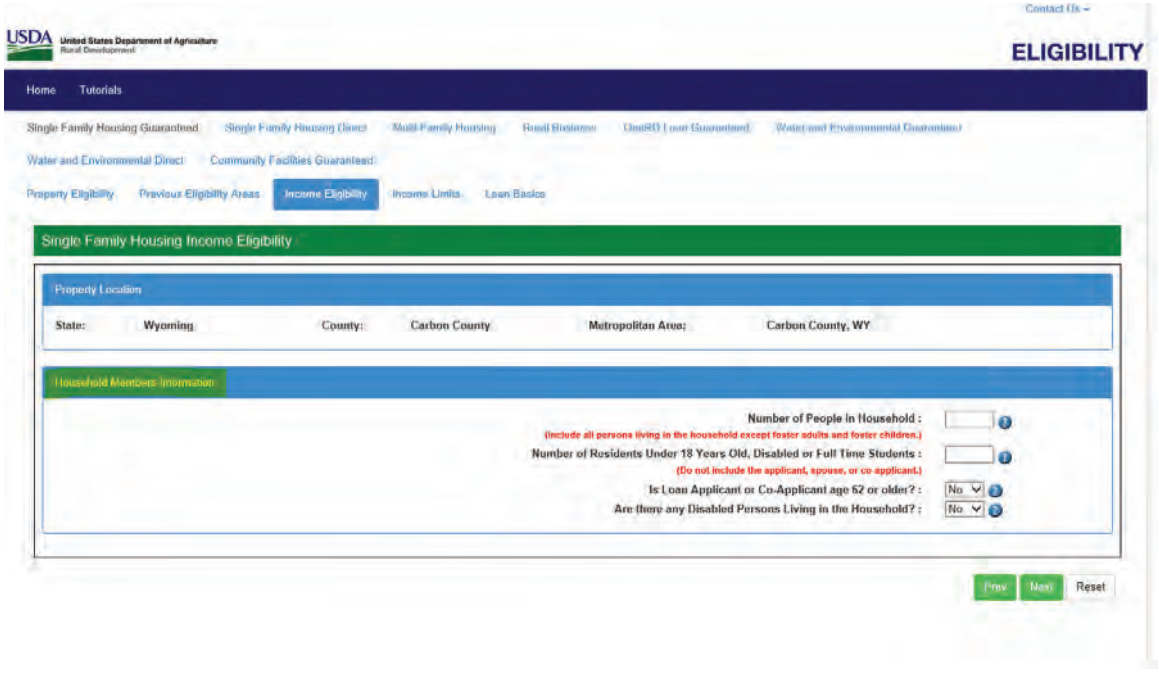
   - Enter the total number of people in the household.

   - 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 the 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.

5. Select "Next."



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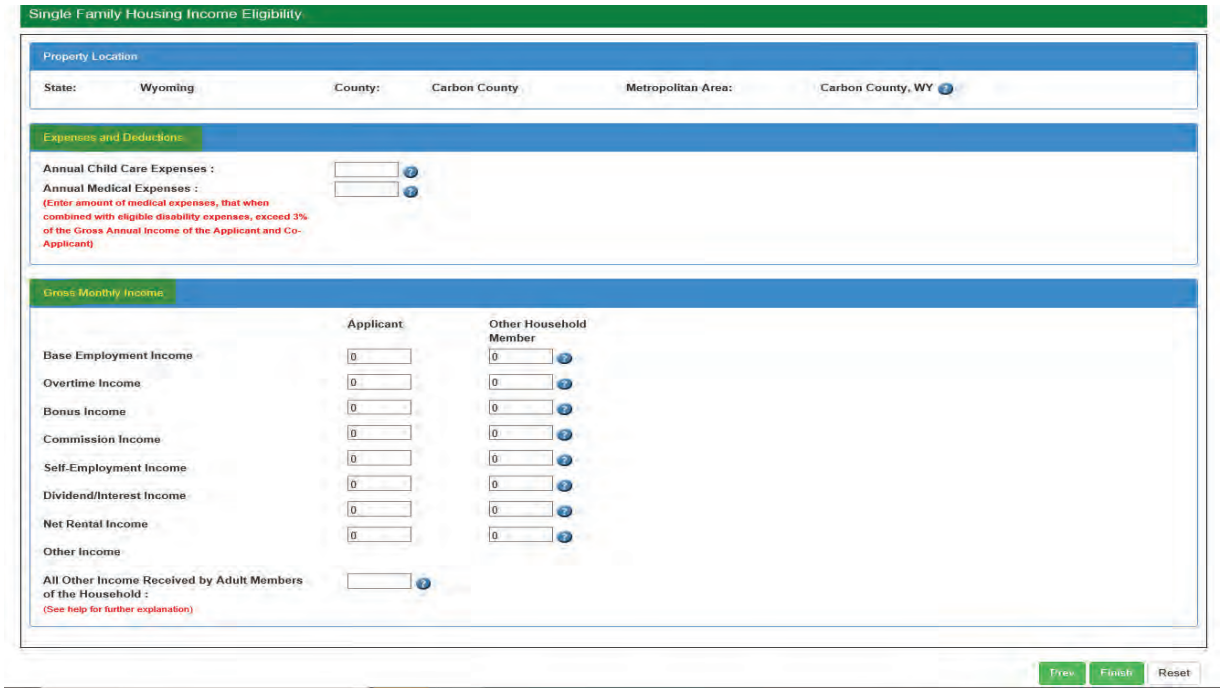
6. Complete the “Expenses and Deductions” portion of the page. Available data fields will appear based upon the responses provided on the “Household Member Information” page.

7. Complete the “Gross Monthly Income” section for all adult household members, regardless if a household member is a party to the note.

8. Select “Finish” to complete the calculation of program eligible income.



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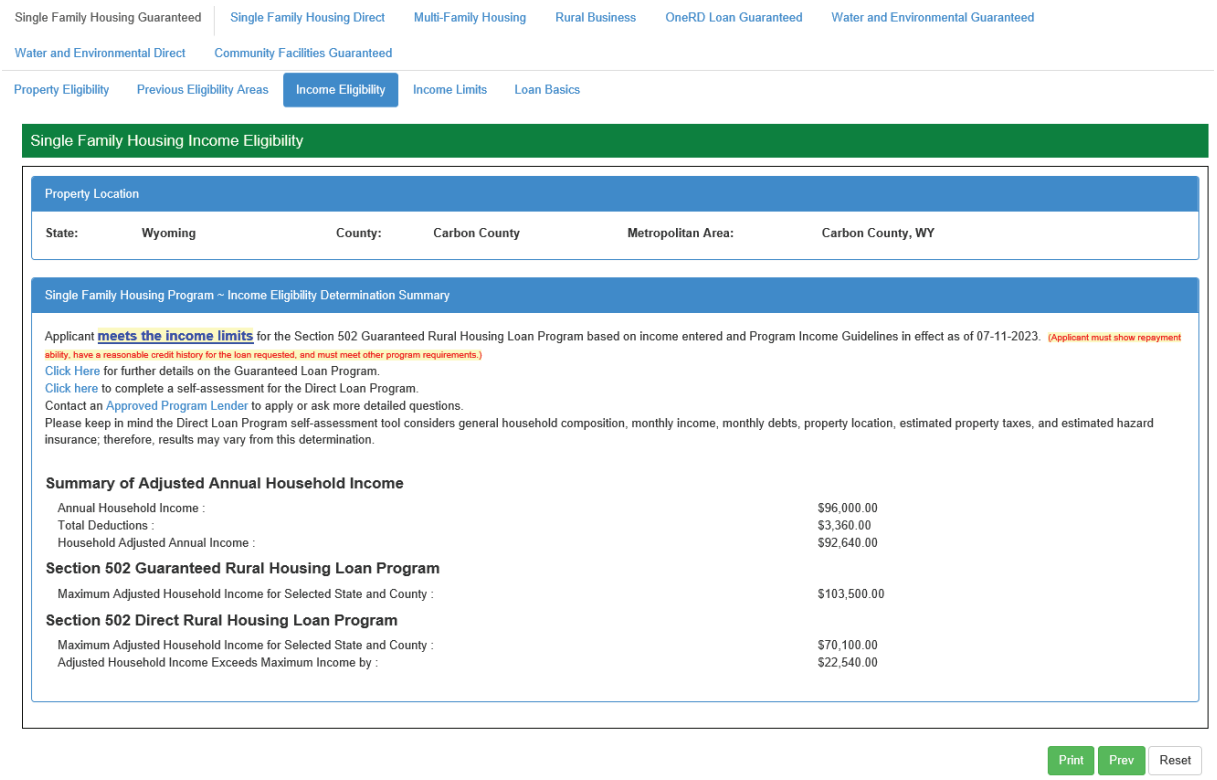
9. An “Income Eligibility Determination Summary” will display.

10. The summary will outline the applicant’s eligibility for the Guaranteed Rural Housing Loan Program and the Section 502 Direct Rural Housing Loan Program.



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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.

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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*."

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,

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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 National Finance and Accounting Operation Center (NFAOC) 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.

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

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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
- 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

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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* 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

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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 NFAOC.

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 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

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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.

- 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.

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- 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.

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:

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- 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 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:

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- 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

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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 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.

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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.

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.

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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 Miscellaneous Collection Code 35. *Form RD 3555-87, "Shared Equity Payment"* will be forwarded to NFAOC 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.

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- **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.**apital 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 NFAOC 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.

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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

CREDIT ALERT INTERACTIVE VOICE RESPONSE SYSTEM (CAIVRS)

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 and approved private lenders acting on the Government's behalf to access a database of delinquent Federal borrowers for the purpose of pre-screening applicants for credit worthiness for federal assistance.

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.

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.

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Code requirements.

ACCESS TO CAIVRS

A. CAIVRS Access through GUS

Through a business to government agreement, an interface with CAIVRS occurs once adequate information is complete. GUS will automatically obtain a CAIVRS number once the "Borrower Information" page of GUS is complete and saved. When the lender opens the "Assets and Liabilities" page of GUS, the results of the CAIVRS request will be displayed in the "CAIVRS Information" section. A new CAIVRS result number will display for each borrower.

Possible Results Codes of A CAIVRS Request

"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 Guaranteed Loans – when an FHA insured loan is in default and a claim is paid.

"C" A "claim" has been paid 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 either on Title II or Title I. Title I is for mobile homes or home improvement.

When a "claim" has been paid then HUD/FHA gets title back and HUD/FHA sells the property as a HUD-Repo.

PLEASE NOTE: There are "C" codes in CAIVRS for the Loss Mitigation Program. HUD refers to these as "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 the first stages of foreclosure via the mortgage company (if the loan is brought current then it can be reinstated).

"J" Judgments – via the Department of Justice (these can be for the Department of Education Guarantee Loans, child support, and a few FHA-insured loans if the

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borrower was an investor).

If GUS automatically retrieves a CAIVRS response, the CAIVRS response cannot be revised/overridden. If an applicant that will be a party to the loan does not receive a clear "A" CAIVRS response, the lender must obtain evidence of an "A" CAIVRS response outside of GUS. This documentation must be uploaded as part of a complete loan application submission.

For manually submitted loans, the lender must obtain and document the CAIVRS response in GUS and include this evidence in a complete loan submission to USDA. Regardless of the submission type, the lender must confirm that all parties to the note have obtained a clear "A" CAIVRS response.

B. Access to CAIVRS outside of GUS

FHA approved lenders may use their FHA Connection User ID to access CAIVRS.

Non-FHA Lenders

Each non-FHA lender must request at least one Application Coordinator User ID and a Standard User ID for each individual's use.

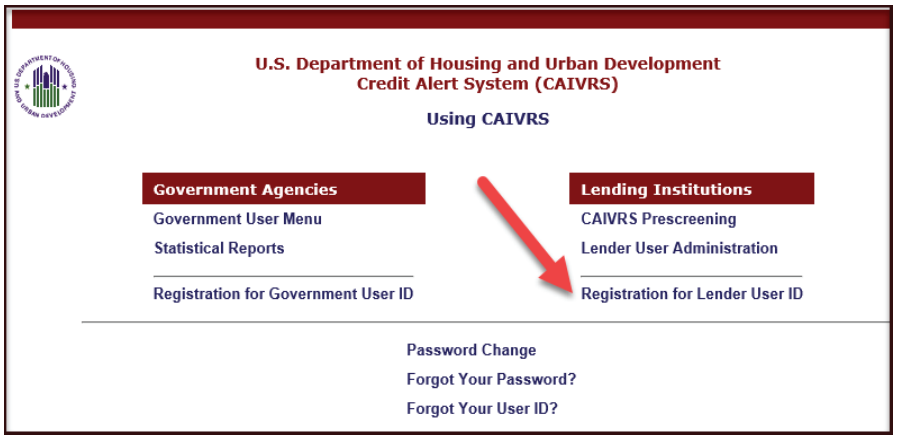
- Non-FHA lenders new to the Single Family Housing Guaranteed Loan Program (SFHGLP) that have not yet made a SFHGLP loan, must request CAIVRS access from the Servicing Office guaranteed loan branch in St. Louis prior to completing the steps below. This may be requested at:

  E-Mail Address: RD.SO.HSB@usda.gov
  Telephone Number: (314) 457-4192
  Toll Free Telephone Number: (877) 636-3789

- Non-FHA Lenders currently participating in the Single Family Housing Guaranteed Loan Program (SFHGLP) that have previously participated in the SFHGLP can request CAIVRS access from HUD's Internet site at https://entp.hud.gov/caivrs/public/home.html.

Once access is granted, register as Application Coordinator or Standard User by Selecting "*Registering Lender User ID*" from the main menu.

Guidance documents lack the force and effect of law, unless expressly authorized by statute or incorporated into a contract. USDA may not cite, use, or rely on any guidance that is not available through their guidance portal, except to establish historical facts.



Register for Application Coordinator ID:

- To apply for an Application Coordinator 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.
- Select ***USDA – Rural Development*** for the Agency. 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.
- 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.

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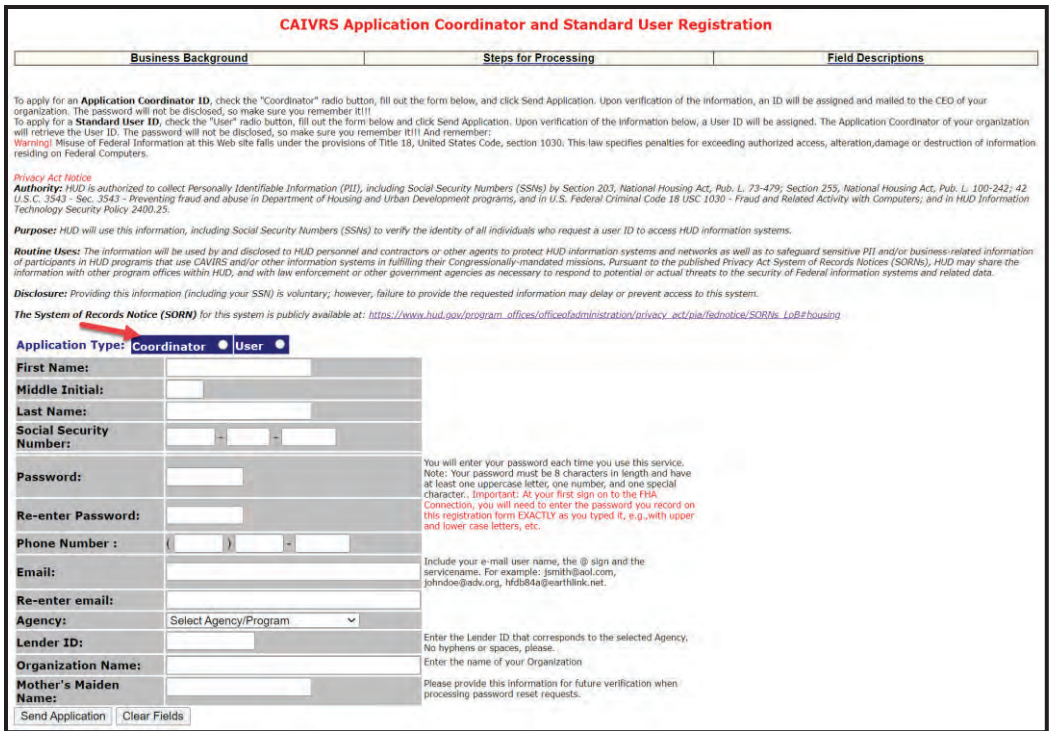


CAIVRS Application Coordinator and Standard User Registration

Business Background | Steps for Processing | Field Descriptions

To apply for an **Application Coordinator ID**, check the "Coordinator" radio button, fill out the form below, and click Send Application. Upon verification of the information, an ID will be assigned and mailed to the CEO of your organization. The password will not be disclosed, so make sure you remember it!!!
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, so make sure you remember it!!! And remember:
Warning! Misuse of Federal Information at this Web site falls under the provisions of Title 18, United States Code, section 1030. This law specifies penalties for exceeding authorized access, alteration,damage or destruction of information residing on Federal Computers.

Privacy Act Notice
Authority: *HUD is authorized to collect Personally Identifiable Information (PII), including Social Security Numbers (SSNs) by Section 203, National Housing Act, Pub. L. 73-479; Section 255, National Housing Act, Pub. L. 100-242; 42 U.S.C. 3543 - Sec. 3543 - Preventing fraud and abuse in Department of Housing and Urban Development programs, and in U.S. Federal Criminal Code 18 USC 1030 - Fraud and Related Activity with Computers; and in HUD Information Technology Security Policy 2400.25.*

Purpose: *HUD will use this information, including Social Security Numbers (SSNs) to verify the identity of all individuals who request a user ID to access HUD information systems.*

Routine Uses: *The information will be used by and disclosed to HUD personnel and contractors or other agents to protect HUD information systems and networks as well as to safeguard sensitive PII and/or business-related information of participants in HUD programs that use CAVIRS and/or other information systems in fulfilling their Congressionally-mandated missions. Pursuant to the published Privacy Act System of Records Notices (SORNs), HUD may share the information with other program offices within HUD, and with law enforcement or other government agencies as necessary to respond to potential or actual threats to the security of Federal information systems and related data.*

Disclosure: *Providing this information (including your SSN) is voluntary; however, failure to provide the requested information may delay or prevent access to this system.*

The System of Records Notice (SORN) *for this system is publicly available at: https://www.hud.gov/program_offices/officeofadministration/privacy_act/pia/fednotice/SORNs_LoB#housing*

Application Type: Coordinator ● User ●

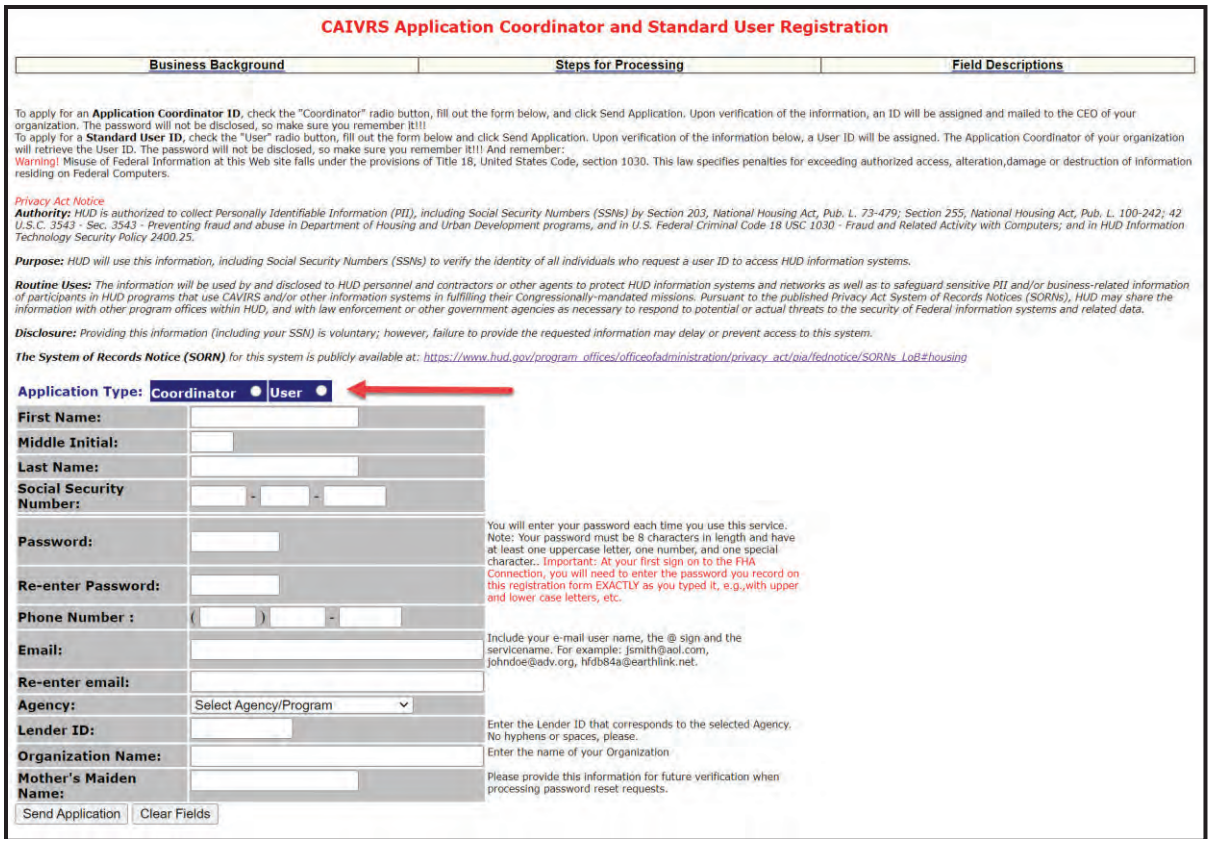
First Name:	
Middle Initial:	
Last Name:	
Social Security Number:	- -
Password:	You will enter your password each time you use this service. Note: Your password must be 8 characters in length and have at least one uppercase letter, one number, and one special character., Important: At your first sign on to the FHA Connection, you will need to enter the password you record on this registration form EXACTLY as you typed it, e.g.,with upper and lower case letters, etc.
Re-enter Password:	
Phone Number :	( ) -
Email:	Include your e-mail user name, the @ sign and the servicename. For example: jsmith@aol.com, johndoe@adv.org, hfdb84a@earthlink.net.
Re-enter email:	
Agency:	Select Agency/Program
Lender ID:	Enter the Lender ID that corresponds to the selected Agency. No hyphens or spaces, please.
Organization Name:	Enter the name of your Organization
Mother's Maiden Name:	Please provide this information for future verification when processing password reset requests.

Send Application | Clear Fields

Registering as a Standard User:

- 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.

Guidance documents lack the force and effect of law, unless expressly authorized by statute or incorporated into a contract. USDA may not cite, use, or rely on any guidance that is not available through their guidance portal, except to establish historical facts.



CAIVRS Application Coordinator and Standard User Registration

Business Background	Steps for Processing	Field Descriptions

To apply for an **Application Coordinator ID**, check the "Coordinator" radio button, fill out the form below, and click Send Application. Upon verification of the information, an ID will be assigned and mailed to the CEO of your organization. The password will not be disclosed, so make sure you remember it!!!
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, so make sure you remember it!!! And remember:
Warning! Misuse of Federal Information at this Web site falls under the provisions of Title 18, United States Code, section 1030. This law specifies penalties for exceeding authorized access, alteration,damage or destruction of information residing on Federal Computers.

Privacy Act Notice
Authority: *HUD is authorized to collect Personally Identifiable Information (PII), including Social Security Numbers (SSNs) by Section 203, National Housing Act, Pub. L. 73-479; Section 255, National Housing Act, Pub. L. 100-242; 42 U.S.C. 3543 - Sec. 3543 - Preventing fraud and abuse in Department of Housing and Urban Development programs, and in U.S. Federal Criminal Code 18 USC 1030 - Fraud and Related Activity with Computers; and in HUD Information Technology Security Policy 2400.25.*

Purpose: *HUD will use this information, including Social Security Numbers (SSNs) to verify the identity of all individuals who request a user ID to access HUD information systems.*

Routine Uses: *The information will be used by and disclosed to HUD personnel and contractors or other agents to protect HUD information systems and networks as well as to safeguard sensitive PII and/or business-related information of participants in HUD programs that use CAVIRS and/or other information systems in fulfilling their Congressionally-mandated missions. Pursuant to the published Privacy Act System of Records Notices (SORNs), HUD may share the information with other program offices within HUD, and with law enforcement or other government agencies as necessary to respond to potential or actual threats to the security of Federal information systems and related data.*

Disclosure: *Providing this information (including your SSN) is voluntary; however, failure to provide the requested information may delay or prevent access to this system.*

The System of Records Notice (SORN) *for this system is publicly available at: https://www.hud.gov/program_offices/officeofadministration/privacy_act/pia/fednotice/SORNs_LoB#housing*

Application Type: Coordinator ● User ●

First Name:		
Middle Initial:		
Last Name:		
Social Security Number:	( ) - -	
Password:		You will enter your password each time you use this service. Note: Your password must be 8 characters in length and have at least one uppercase letter, one number, and one special character.. Important: At your first sign on to the FHA Connection, you will need to enter the password you record on this registration form EXACTLY as you typed it, e.g.,with upper and lower case letters, etc.
Re-enter Password:		
Phone Number :	( ) -	
Email:		Include your e-mail user name, the @ sign and the servicename. For example: jsmith@aol.com, johndoe@adv.org, hfdb84a@earthlink.net.
Re-enter email:		
Agency:	Select Agency/Program	
Lender ID:		Enter the Lender ID that corresponds to the selected Agency. No hyphens or spaces, please.
Organization Name:		Enter the name of your Organization
Mother's Maiden Name:		Please provide this information for future verification when processing password reset requests.

Send Application | Clear Fields

- After clicking *Send Application* on the CAIVRS Application Coordinator or Standard User Registration form, the user is notified by email if the processing was successfully completed or if there are errors that need to be corrected before processing can be completed. Help guides are available to assist with questions.

- Upon verification of the information, an ID will be assigned and e-mailed. The password will not be disclosed, so ensure users remember it.

- After successful submission, the following screen will appear.

NOTE: Displayed as an Example only – Coordinator

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CAIVRS Coordinator Registration Results

Business Background | Steps for Processing | Field Descriptions

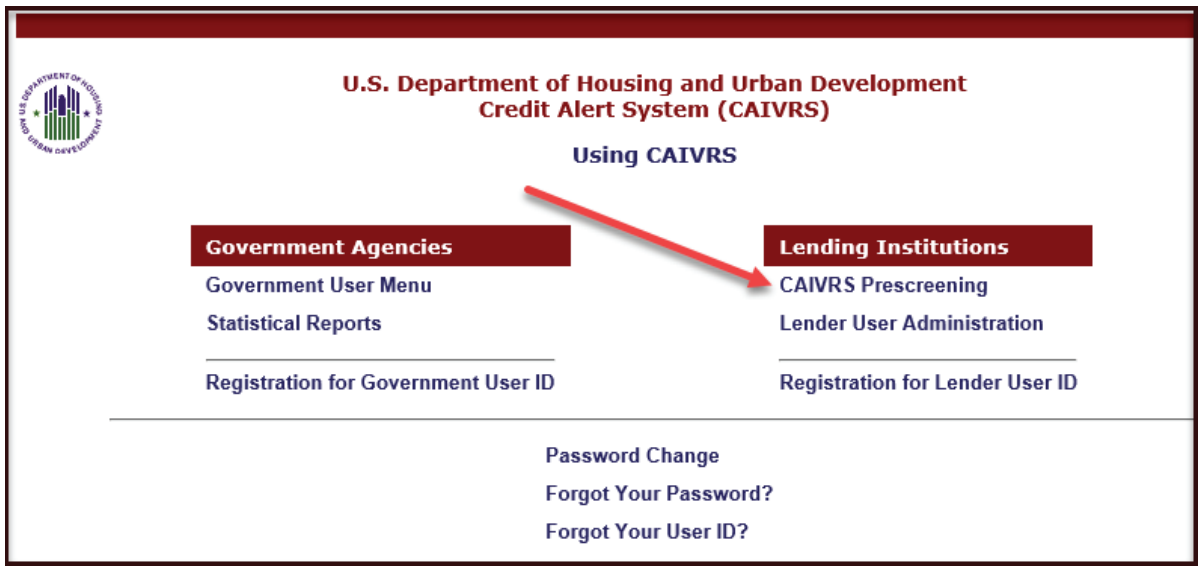
Message: CAIVRS COORDINATOR REGISTRATION ACCEPTED FOR FURTHER PROCESSING

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

Obtaining a CAIVRS Authorization:

When CAIVRS is obtained outside of GUS, a printout of the result must be placed in the lender's permanent file and a copy submitted to the Agency.

1. Once the user receives access capabilities, at the same website, the user selects "*CAIVRS Prescreening*" under the "Lending Institutions" menu to obtain a CAIVRS number for borrower(s).



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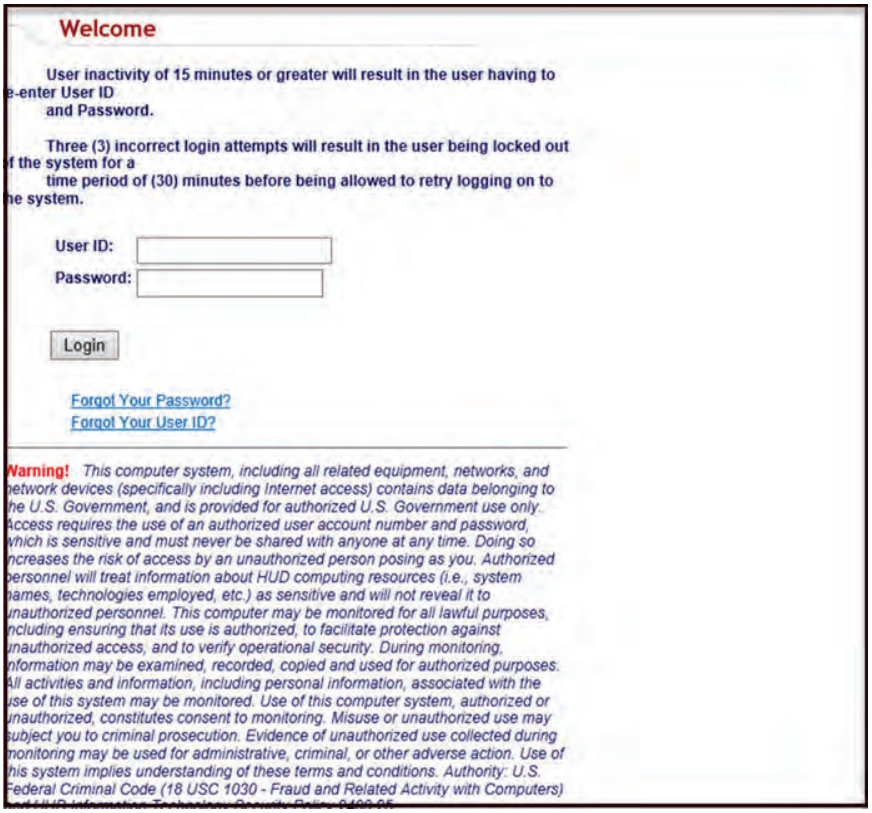
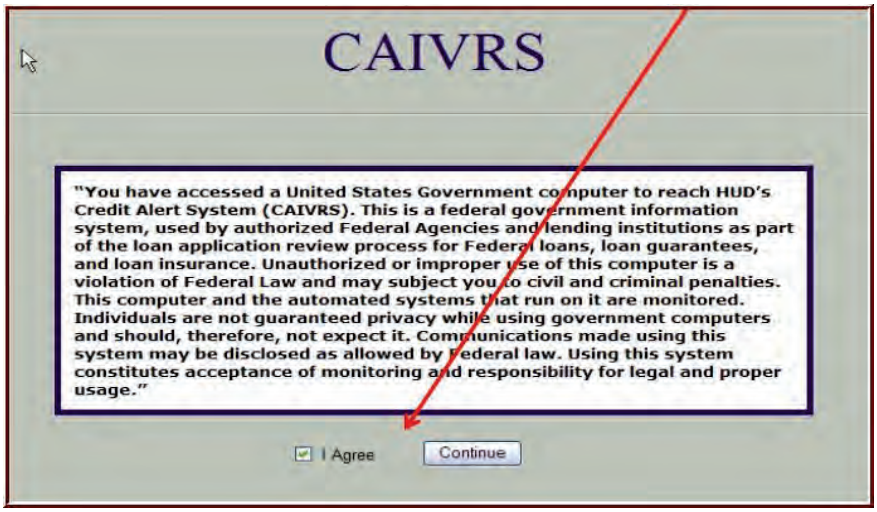
2. Enter your username and password. Click “Login” to continue.



3. Review CAIVRS message. Check “I Agree” and then click “Continue.”

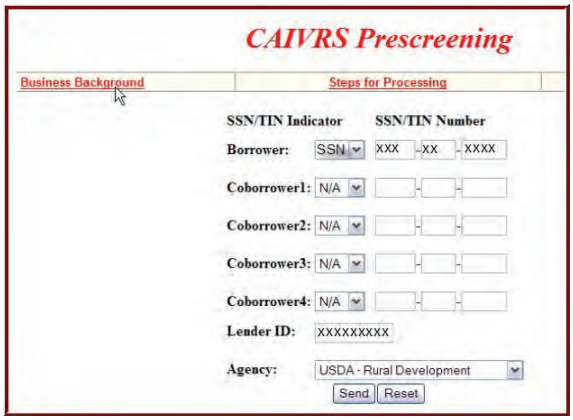


Guidance documents lack the force and effect of law, unless expressly authorized by statute or incorporated into a contract. USDA may not cite, use, or rely on any guidance that is not available through their guidance portal, except to establish historical facts.

NOTE: Password expires every 21 days. If your password is about to expire, you may get this pop-up screen before or after the initial login screen. It is suggested that you have a reminder to change your password every 20 days to avoid being locked out.

4. At the "*CAIVRS Prescreening*" page enter the following:

   - Borrower's social security number;
   - "*Lender ID*"; and
   - Choose "*USDA – Rural Development*" as the Agency and click "*Send*". TIN numbers for borrowers are not allowed.



5. A CAIVRS number will be issued upon successful submission.

If assistance is needed, the lender may email the CAIVRS Administrator at caivrs_admin@hud.gov.

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APPENDIX 8
PENALTIES

1. Claim for Unallowable Expenses

The servicer's loss claim request should reflect only allowable expenses. If the Agency's review of the servicer'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 60 days of acquisition;
- Interest accrued after allowable foreclosure time frame;
- Late fees;
- In-house servicer 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-C of Chapter 18.

2. Failure to Adhere to Required Collection Procedures

The servicer 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 servicer's claim if the servicer 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 Chapter 18 of this Handbook.

- If the servicer fails to attempt to make any contact with the borrower within 65 days past due, the claim may be denied.
- If the servicer fails to provide timely and accurate Electronic Status Reporting (ESR) including when the account is in default, the claim may be reduced or denied.

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- If the servicer does not initiate contact with the borrower within 25 days past due but makes contact within 65 days past due, accrued interest may be reduced by 50 percent.

- If the servicer fails to inspect the property within 65 days past due, but no loss results, the accrued interest may be reduced by 10 percent.

- If the servicer 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 servicer's failure to secure property, as documented in an appraisal. If a loss has not been documented by an appraisal, the claim may be denied.

3. Failure to Adhere to Required Foreclosure Time Frames

The servicer is responsible for foreclosing on the property within the time frames detailed in Attachment 18-B of Chapter 18. If the servicer fails to do so, the Agency may reduce the claim by the amount of any interest accrued beyond the allowable foreclosure time line.

4. Failure to Adhere to Servicing Guidelines

Although the Agency does not service loans, there are servicing requirements that lenders must follow. If the Agency determines that the loan was not serviced in accordance with Agency requirements, the Agency may take any action up to and including reduction or denial of claim, terminating the loan note guarantee, or the requiring the servicing lender to indemnify the Agency if a loss claim is paid.

5. Failure to File a Loss Claim Accurately and Within Required Timelines

The servicer is responsible for filing a timely and accurate loss claim. If the servicer fails to meet agency required timelines when filing claims, the Agency may reduce any additional interest paid from the allowable days to zero.

6. Failure to Ensure That All Applicable Property Standards Were Met

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 and determine if the originating lender is subject to indemnification in accordance with 7 CFR §3555.108(d).

7. Failure to Maintain the Property

Servicers are responsible for ensuring that properties securing guaranteed loans are adequately maintained throughout the life of the loan. Servicers are responsible for

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making protective advances to protect the security property at any point necessary during the life of the loan determining occupancy status, and 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 servicer's failure to act and may deduct that amount from the loss claim.

8. Failure to Dispose of the Property for an Appropriate Amount

The servicer is responsible for ensuring that when property is liquidated, either voluntarily or through foreclosure, it is sold for an amount supported by an appraisal and is acceptable to the Agency. Chapter 18 outlines the minimum requirements for meeting the Agency's price expectations in various disposition scenarios. If the servicer fails to dispose of a property at an appropriate price, the Agency may reduce the loss claim by the difference between the sale price and the price that should have been obtained.

9. Failure to Obtain Required Security

The servicer is responsible for obtaining the needed security for the loan. If the borrower becomes delinquent on the loan and it is shown that the servicer failed to obtain all required security, the loss claim will be denied in accordance with 7 CFR §3555.108(c).

10. Failure to Maintain the Required Security

If the servicer fails to make a needed protective advance in accordance with 7 CFR §3555.302(b), the claim will be reduced by the cost of repairing damage caused by failure to act.

If the servicer 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 servicer's failure can be documented, the claim must be reduced by 10 percent.

If damage attributable to the servicer'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.

11. 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.

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In very unusual circumstances, it is possible that a borrower might use some portion of the loan funds for an unauthorized purpose without the servicer'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.

12. Commission of, or Failure to, Report Knowledge of Fraud

If a lender or servicer commits fraud or fails to report fraud about which the lender or servicer knew, or should have known, the Agency will deny the loss claim.

13. Failure to Carry Out Established Monitoring Guidelines for Real Estate tax and Hazard Insurance Premium

If the servicer fails to carry out established monitoring guidelines for real estate tax and hazard insurance premium, the Agency may revoke servicer approval.

14. Sale of Loan to Non-Approved Servicer or Other Party

If the loan is sold to a party not approved to participate in the SFHGLP, the loan note guarantee will be considered invalid for the non-approved lender.

15. Failure to Adhere to Underwriting Guidelines

Although the Agency does not underwrite loans, there are underwriting requirements that 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.

16. ***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.

17. 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.

18. Failure to Adhere to Agency Standards for Handling Bankruptcy

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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.

19. Property with Environmental Issues at Time of Liquidation

If the property's value at the time of liquidation is affected by environmental issues, the servicer must document how the hazard developed and became known. If the servicer 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 9
UNNUMBERED LETTERS AND STATE SUPPLEMENTS

In accordance with RD Instruction 2006-B, all unnumbered letters and State issuances must be submitted to the National Office for either prior approval or post approval.

Appendix 9 may serve as a placeholder for unnumbered letters and State issuances if a paper 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 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: **(continued American Indian restricted lands)**

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	(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	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.
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.

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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 negotiation 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.
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 marketplace.
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.

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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.
AU	See “Automated Underwriting."
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)	Also known as a comparable sale report. Online databases are used to try to match up similar properties to provide the range of sales prices that have been historically 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."
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

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	• **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.
BPO	See "broker price opinion."
basis point	One one-hundredth of one percent. Used to describe changes in yield on debt instruments, including mortgages.
BOV	Broker opinion of value. See "broker price opinion."
borrower	An individual obligated to repay the loan guaranteed under the Guaranteed Rural Housing loan program.
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."
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.

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case file	A file established for each application to contain all documents used for loan origination.
cash flow	Money left from gross income after all expenses, both operating and debt service, have been deducted.
certificate of foreclosure	(Connecticut Only) A document found on the land records which is evidence that a foreclosure has been completed and the mortgage 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.

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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.”
Closing Disclosure	A form that provides final details about the mortgage loan prior to the closing or settlement date. It includes the loan terms, projected monthly payments, and the amount of fees and other costs related to finalizing the real-estate transaction. The lender must provide the borrower with the Closing Disclosure at least 3 business days prior to loan consummation. This form replaced the HUD-1 Settlement Statement.
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.
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.

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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	Sales concessions influence the price paid for real estate and 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.
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

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condominium project	A real estate project in which each owner has 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.
confirmation hearing (bankruptcy)	A legal proceeding where the debtor's proposed Chapter 13 plan is reviewed and either approved or denied by the Bankruptcy Judge.
confirmation hearing (foreclosure)	A legal proceeding 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."
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 affect 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 exception	A consideration of mitigating circumstance to establish the intent for good credit. See Chapters 5, 10, and 11 of this Handbook.
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."
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.

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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.
debenture rate	The 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 FRB: H.15 Release--Selected Interest Rates--Historical Data (federalreserve.gov)
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 for 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.
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 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.

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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.
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 negative difference between the balance outstanding on 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. **(Delinquency continued)** 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.

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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.
Department of Veteran Affairs	A department of the Executive branch of the government responsible for the implementation and administration to provide veterans benefits and services.
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."
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 is 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.
down payment	The amount of cash a borrower may need to pay 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.
draw schedule	A detailed schedule of payments agreed to by the borrower, Agency, and contractor under which the contractor will receive payments for work completed.

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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."
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:

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	(1) 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 (2) 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 (3) 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 determining adjusted income, even though the surviving members may not meet the definition of elderly family on their own, provided: • They occupied the dwelling with the deceased family member at the time of the death; • 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 • 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)	An electronic communication method that provides standards for exchanging data via any electronic means.
electronic status reporting (ESR)	A business process of exchanging standardized information by computer application-to-computer application between private industry and Rural Housing Services (RHS). This exchange is accomplished by accessing the USDA **(electronic status reporting (ESR) continued)** LINC Electronic Status Reporting web pages and includes the utilization of standardized EDI transaction sets.
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 (ER)	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.

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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.
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.
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 (FED).”
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.”
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 if necessary to achieve the targeted mortgage payment to income ratio.
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 way debts may be collected.

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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 and was provided or omitted for the purposes of obtaining assistance for which the recipient was not eligible.
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 .

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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.
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

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	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.
fee simple ownership	A form of ownership under which the owner has absolute title to a piece of property.
FHA	See "Federal Housing Administration."
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.
field office	An office that delivers services on Agency programs to the public.

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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 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).
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: (1) The lien is acceptable to private institutional first-mortgage investors in the area where the mortgaged premises are located, and (2) 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.
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: (1) No ownership interest in a principal residence during the three-year period ending on the date of loan closing; or (2) 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. (3) 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: (4) Unmarried or legally separated; and (5) Has custody or joint custody of one or more children or is pregnant.

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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."
forbearance	The act of refraining from taking legal action even though 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.

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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 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.
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 after 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."

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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) 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, State, or local government institutions
guarantee fee	The fee paid by the lender to the government for its guarantee. This is sometimes referred to as an insurance fee or upfront 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	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

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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 that allows 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.
Housing Act of 1949, as amended	The Act which provides the authority for the single-family housing programs. It is codified at 42 U.S.C. 1471, et seq.

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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	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. This form was replaced with the “Closing Disclosure.”
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 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 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.
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.

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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 plans.
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.
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

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	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), or the Federal Reserve Banks (FRB) and "un-supervised lenders" (those not 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.
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

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	the property to a third party 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.
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."

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loan approval official	An Agency employee who has the authority to approve loans.
Loan Estimate	A form that provides a loan applicant with important information, including the estimated interest rate, monthly payment, and total closing costs for the loan being requested. The lender must provide the applicant with a Loan Estimate within three business days of receiving a complete application that identifies the property and loan amount requested.
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.
LoanServ	The mainframe-based computer application that is used by the Field Office to electronically communicate with, and transmit information to the Servicing Office, and by the Servicing Office to service and track a borrower's loan.
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.

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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.
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 limit developed in consultation with HUD under 42 U.S.C 1437a(b)(2)(D).
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.
mark to market	The process whereby the book value or collateral value of the security is adjusted to reflect current market value.
market approach to value	In appraisal, a market value estimate of property based on actual prices paid in similar market transactions.

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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.
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

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	consist of towns and cities instead of counties, otherwise the rules are similar.
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.
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.
MIP	See "mortgage insurance premium."
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."

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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.
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 used to enhance repayment ability.
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 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.
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 (MRA)	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:

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	(1) arrearages not to exceed 12 months of principal, interest, taxes, and insurance; (2) legal fees and foreclosure costs related to a cancelled foreclosure action; and (3) 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.
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.
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 formal request that the case be dismissed prior to the trial.
motion to strike	A formal 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.

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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."
National Office or National Headquarters	The headquarters of the Agency located in Washington, DC where the Administrator's office and the national policy-making staff are located.
negligent misrepresentation	A failure of consideration or false representation 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 (NRV)	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 existing dwelling that is less than one year old and has never been occupied.
NOFA	See "Notice of Fund Availability."

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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.”
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 the General Counsel (OGC)	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.

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Office of Inspector General (OIG)	An agency 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
OGC	See “Office of the General Counsel.”
OIG	See “Office of Inspector General.”
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.”
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.

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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 oneself, 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.
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.

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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.
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 can 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.”

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preservation costs	Costs associated with securing and preserving a custodial or REO property. Examples include changing locks, debris removal, and winterization.
primary residence	See “principal residence.”
prime rate	The interest rate which banks charge to their preferred customers. It tends to be the yardstick for general trends in interest rates.
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 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 that meets the requirements 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.
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.

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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.
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.

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	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** 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 a 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.
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."

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real estate owned (REO)	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 on property due and payable to government entities. The taxes are based on relative value of 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.
reamortization agreement	An instrument executed by the borrower which may establish the permanent loan in a construction-to-permanent loan type. Agreement could also be known as a modification agreement.
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 to rid the property of that encumbrance.
redemption right	See "right of redemption."
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."

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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 can 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.
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

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	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	• Open country or any town, village, city, or place, including the immediate adjacent densely settled area, which is not part of or associated with an urban area and which: o Has a population not in excess of 2,500 inhabitants; or o Has a population in excess of 2,500 but not in excess of 10,000 if it is rural in character; or o Has a population in excess of 10,000 but not in excess of 20,000, and- ▪ Is not contained within a Metropolitan Statistical Area (MSA); and ▪ Has a serious lack of mortgage credit for lower and moderate-income families as determined by the Secretary of Agriculture and the Secretary of Housing and Urban Development. • Any area classified as ‘‘rural’’ or a ‘‘rural area’’ 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’’ at any time during the period beginning January 1, 2000, and ending December 31, 2010, shall continue to be so 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.
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 Closing Disclosure.
sales price	Amount REO property sold to third party. See contract price from Closing Disclosure.
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	An entity that 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.

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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.
seller concessions	Contributions made by a seller to offset the buyer's cost. See "concessions".
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.
Servicing Office	Formerly known as the Customer Service Center. The Agency branch located in St. Louis, Missouri, that is responsible for servicing Section 502 and 504 loans
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 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" and "Closing Disclosure."
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 (SSCRA)	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

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	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.
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.
statute of limitations	State law identifying the time limit within which a lawsuit can be brought under law.
statutory law	Law created by legislative enactment.
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.

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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.
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 based on 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 lawsuit 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.

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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	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."
trading partner	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	A transfer of a property securing a guaranteed loan with an assumption of the outstanding debt to a 3rd party. 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 about interest rates.

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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)	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.
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.

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usury	Taking or contracting for a rate of interest greater than permitted by law for a loan.
VA	See "Department of Veteran Affairs "
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 limit developed in consultation with HUD under 42 U.S.C 1437a(b)(2)(D).
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.
veteran's 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: (1) April 6, 1917 through March 31, 1921; (2) December 7, 1941 through December 31, 1946; (3) June 27, 1950 through January 31, 1955; (4) A period of more than 180 days, any part of which occurred after January 31, 1955, but on or before May 7, 1975; or (5) During the period beginning August 2, 1990, and ending the date prescribed by Presidential Proclamation or law. (6) During any other period as described by Presidential proclamation or law.

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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.
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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ACRONYMS USED IN THIS HANDBOOK

ACRONYM	DEFINITION
AAA	American Association of Arbitrators
ATR/AQM	Ability to Repay and Qualified Mortgage Rule
ADR	Alternative Dispute Resolution
AQB	Appraisal Qualification Board
ARM	Adjustable Rate Mortgage
AUS	Automated Underwriting System
BPO	Brokers Price Opinion
CAIVRS	Credit Alert Interactive Voice Response System
CBMC	Community-Based Mediation Center
CBRA	Coastal Barrier Resources Act
CD	Certificate of Deposit
CFPB	Consumer Financial Protection Bureau
CFR	Code of Federal Regulations
CIS	Citizenship and Immigration Services
COA	Class of Admission
CRA	Community Reinvestment Act
DCIA	Debt Collection Improvement Act

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DIL	Deed-In-Lieu
DHS	Department of Homeland Security
DOE	Department of Education
DOJ	Department of Justice
ECOA	Equal Credit Opportunity Act
EDI	Electronic Data Interchange
ENR	Estimated Net Recovery
EPLS	Excluded Parties List System
FCB	Fiscal Control Branch
FCL	Foreclosure
FCS	Farm Credit System
FDIC	Federal Deposit Insurance Corporation
FEMA	Federal Emergency Management Agency
FSA	Farm Services Agency
GLB	Guaranteed Loan Branch
GLS	Guaranteed Loan System
GRH	Guaranteed Rural Housing
GUS	Guaranteed Underwriting System
HMDA	Home Mortgage Disclosure Act
HOA	Homeowners Association
HUD	Department of Housing and Urban Development

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ID	Identification
INA	Immigration and Nationality Act
IRA	Individual Retirement Account
IRS	Internal Revenue Service
LTV	Loan-to-Value
MMCR	Multi-Merged Credit Report
MSA	Metropolitan Statistical Area
NAD	National Appeals Division
NCUA	National Credit Union Administration
NFAOC	National Finance and Accounting Operations Center
NFIP	National Flood Insurance Program
NTMCR	Non-Traditional Mortgage Credit Report
OCC	Office of the Comptroller of the Currency
OPA	Original Principal Amount
PDF	Portable Data File
PFGMH	Permanent Foundations Guide for Manufactured Housing
PFCS	Program Funds Control System
PFS	Pre-Foreclosure Sale
P&L	Profit-and-Loss Statement
PITI	Principal Interest Taxes and Insurance
PMI	Private Mortgage Insurance

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PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act of 1996
PUD	Planned Unit Development
QC	Quality Control
REO	Real Estate Owned
RESPA	Real Estate Settlement Procedures Act
RHS	Rural Housing Service
RMCR	Residential Mortgage Credit Report
SAM	System for Award Management
SAVE	Systematic Alien Verification for Entitlements
SBA	Small Business Administration
SFHA	Special Flood Hazard Area
SFHGLP	Single Family Housing Guaranteed Loan Program
SOW	Statement of Work
SSN	Social Security Number
TANF	Temporary Assistance for Needy Families
TD	Total Debt
TDD	Telecommunications Device for the Deaf
TOTAL	Technology Open to Approved Lenders
TPO	Third Party Originator
UAD	Uniform Appraisal Dataset
URLA	Uniform Residential Loan Application

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URAR	Uniform Residential Appraisal Report
USDA	U.S. Department of Agriculture
USPAP	Uniform Standards of Professional Appraisal Practice
VA	Department of Veterans Affairs
FHLB	Federal Home Loan Bank
FSA	Farm Services Agency
GLB	Guaranteed Loan Branch
GLS	Guaranteed Loan System
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USDA	U.S. Department of Agriculture
USPAP	Uniform Standards of Professional Appraisal Practice
VA	Department of Veterans Affairs
FHA	Federal Housing Administration
FICA	Federal Insurance Contribution Act
FMHCSS	Federal Manufactured Home Construction and Safety Standards
FRCA	Fair Credit Reporting Act

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