

January 21, 2016

TO: State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Loan Coordinators,
Area Directors and Specialists

FROM: Tony Hernandez /s/ *Tony Hernandez*
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Rural Refinance Pilot

PURPOSE/INTENDED OUTCOME:

The purpose of this unnumbered letter (UL) is to provide guidance for the Rural Refinance Pilot loan (Pilot). The Pilot is designed to assist existing Section 502 direct or guaranteed loan borrowers to refinance their homes with greater speed and ease. The pilot program is available to borrowers in eligible states where steep home price declines, unemployment, and persistent poverty rates can make refinancing a current mortgage into more affordable terms difficult or impossible. Borrowers in these states can now refinance their homes to secure lower interest rates and lower monthly payments without obtaining a new credit report, new appraisal (except to calculate subsidy recapture for refinancing a direct loan with a guaranteed loan), HUD Handbook minimum property determinations, or property inspections.

A new final rule will be published in the near future establishing the Pilot as a permanent feature of the regulation, found at 7 CFR 3555. When the new final rule becomes effective, this Pilot will be discontinued.

EXPIRATION DATE:
January 31, 2017

FILING INSTRUCTIONS:
Housing Programs

Section 502 Guaranteed Loan Program Rural Refinance Pilot Guidelines:

Brief Pilot Description: The Pilot is available to eligible borrowers who qualify to refinance their current USDA mortgage loans. Under the Pilot program, a lender does not need to submit a new credit report, new appraisal (except to calculate subsidy recapture for refinancing a direct loan with a guaranteed loan), HUD Handbook minimum property determinations, or any additional property inspections. An appraisal may be required for direct loans refinanced into a new guaranteed loan for subsidy recapture calculation purposes.

Eligible States: The following states are eligible for the pilot: Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Michigan, Mississippi, Missouri, Montana, Nevada, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Puerto Rico, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Washington, West Virginia, and Wisconsin.

States not mentioned in this UL are not eligible for the pilot at this time.

Eligible Borrowers: Current Section 502 direct or guaranteed loan borrowers must:

1. Meet current household income eligibility requirements;
2. Reside in an eligible rural area or an area that was eligible at the time of the original loan closing; and,
3. Have made timely mortgage payments for the 12-month period prior to the refinance.

Overview of Rural Refinance Pilot Guidelines:

1. The existing loan must be a Section 502 direct or guaranteed loan.
2. The new interest rate must be a fixed rate which must not exceed that described in 7 CFR Part 3555, Section 3555.104(a).
3. The new term of the refinance loan must be 30 years.
4. Borrowers may be added but not removed (unless deceased or divorced) from the current loan.
5. A Pilot loan may include the principal balance of the loan plus a portion or the full amount of the applicable upfront guarantee fee, accrued interest and eligible loan closing costs. No cash out is permitted to the borrower. Subsidy recapture due for direct loan borrowers is not eligible to be part of the refinance loan. Subsidy recapture must be paid in full by the borrower or subordinated.
6. The current upfront and annual fee applies.
7. The home must remain the borrower's primary residence.
8. A new appraisal, new credit report, HUD Handbook determination and additional property inspections are not required.
9. Direct loan borrowers may require a new appraisal to calculate subsidy recapture that may be due, but it will not be used for loan-to-value purposes. The cost of this appraisal is an eligible loan closing cost. If the direct loan borrower has never received subsidy and the statement of loan balance from the Customer Servicing

Center (CSC) confirms that subsidy was not utilized at any time for the loan, a new appraisal will not be required.

10. Debt-to-income ratio calculations are not required; therefore, debt ratio waiver requests will not be necessary.
11. Pilot loans must be manually underwritten. They cannot be processed through the Guaranteed Underwriting System (GUS).
12. Customary and reasonable closing costs and other fees may be collected from the borrower by the lender. Such charges may not exceed the cost paid by the lender or charged to the lender by the service provider.
13. Origination fees and charges not exceeding those published in the Federal Register by the Consumer Financial Protection Bureau, found in 12 CFR 1026.43(e)(3).
14. All the following documentation is required:
 - a. Form RD 3555-21 "Request for Single Family Housing Loan Guarantee."
 - b. Full income verifications/documentation for all adult household members.
 - c. Uniform Residential Loan Application.
 - d. Evidence of qualified alien status, if applicable.
 - e. FEMA Form 086-0-32. Appropriate flood insurance must be obtained if the property is in a flood zone at the time of the new loan closing, even if the area was not in a flood zone at the time of the original loan closing. A flood elevation survey is not required for this pilot.
 - f. Evidence of previous 12 month mortgage payment history. The lender must secure evidence to document the borrower(s) has paid the loan on time for the previous 12 months. The lender may utilize a Verification of Mortgage obtained from or provided directly by the loan servicer that lists the payment history for each of the previous 12 months. As an alternative, the lender may submit a credit report which reflects a satisfactory mortgage payment history over the past 12 months. If the lender submits a credit report to Rural Development as proof of payment history, only the payment history of the current mortgage will be considered. Credit waivers or explanations for adverse credit that may be present on the report are not required.
15. All other requirements of 7 CFR Part 3555 are applicable.

Instructions to obtain a "Statement of Loan Balance" or payoff/subsidy recapture due for a Section 502 direct loan borrower:

Lenders may determine an applicant has a direct loan when the credit report reflects the mortgage loan creditor as "USDA," or the applicant informs the lender they applied and received their mortgage loan through a USDA Service Center.

SFH direct loans are serviced by the CSC located in St. Louis, MO. When lenders have a direct loan applicant they may make a payoff request to and obtain a "Statement of Loan Balance" letter from the CSC.

Steps for obtaining a “Statement of Loan Balance” letter:

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

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

Rural Development Responsibilities:

1. Deduct the upfront guarantee fee from the total loan amount and enter that figure as the appraised value in GLS.
2. Review the previous 12-month mortgage payment history. If a credit report is submitted, only review the 12-month mortgage payment history. If the mortgage account is currently delinquent or has been reported delinquent in the previous 12 months, the borrower is not eligible. Agency staff should use the “Borrower ID” with GLS Report “*GLSST01: Status of a GRH Loan Account*” to ensure the loan is currently active and not in default.
3. Enter 1 in the “FICO Score” data field when processing a Pilot application in GLS.
4. Enter the repayment income calculation in GLS, but do not include any “Additional Liabilities” amounts. If the new mortgage payment results in ratios above 29 and/or 41 percent, check the box that indicates a debt ratio waiver has been issued by the Agency.
5. On the “Update Application” GLS loan screen under “Agency Information,” select the “Servicing Office” named “Rural Refi Pilot.” In the “Agency Notes” section enter a note to identify this loan as a “Rural Refinance Pilot Loan.” These steps will identify the loan as part of this pilot in the event of a loan review.
6. Once the Agency’s loan closing transaction has processed and a new *Loan Note Guarantee* has been issued, the Finance Office should be notified to terminate the original guarantee. Notifications may be made to the National Finance and Accounting Operations Center, Guaranteed Loan Branch, Attn: FC-350 Box 200011, St. Louis, MO 63120-0011, or via fax at (314) 457-4279.

If you have any questions, please contact Kristina Zehr of the Guaranteed Loan Division at (202)713-8779, or via email: kristina.zehr@wdc.usda.gov. The Single Family Housing Guaranteed Loan Division may also be contacted at (202) 720-1452.