

## **CHAPTER 6: LOAN PURPOSES**

### **7 CFR 3555.101**

#### **6.1 INTRODUCTION**

SFHGLP loan funds can be used to acquire new or existing housing that will be the applicant's principal residence, and, with some restrictions, to pay costs associated with such a purchase. This section describes loan purposes, restrictions, and supplemental loans. 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 an existing or newly built dwelling;
- Repairs and rehabilitation when associated with the purchase of an existing dwelling;
- Reasonable and customary expenses associated with purchasing a dwelling;
- Combination construction to permanent loans including take out loans and acquisition of a site with a new or existing dwelling; and
- Refinancing under specific situations.

##### **A. Acquiring a Site and Dwelling**

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

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## **B. Repairs and Rehabilitation**

When repairs or rehabilitation associated with the purchase of an existing dwelling are included, the lender may request the loan note guarantee prior to work completion. The requirements outlined in Chapter 12 of this Handbook must be 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 guarantee fee, appraisal, surveying, tax monitoring, homeownership education counseling, and other technical services associated with obtaining the loan may also be included.
  - **Reasonable Lender Fees.** Reasonable lender fees, which are 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 may be financed as described in Paragraph 6.3 of this Chapter. 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 paid for with loan funds. Closing costs cannot exceed those charged other applicants by the lender for similar transactions such as FHA-insured or VA-guaranteed first mortgage loans. If the lender does not participate in such programs, the loan closing costs may not exceed those charged other applicants by the lender for a similar program that requires conventional mortgage insurance or a guarantee. 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. Seller contribution limits do not apply to single close construction loans. Closings costs and/or prepaid items paid by the lender through premium pricing are not included in the seller contribution limitation. In addition, closing costs, including lender fees, may not exceed the total loan amount as described in this section under "Reasonable Lender Fees." The
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SFHGLP up-front guarantee fee is not included in the lender fees calculation. The approved lender is responsible to ensure applicable limitations and eligible loan purposes are met.

- **Single Close Construction to Permanent.** 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 PITI) are considered an eligible loan purpose. Seller contribution limits do not apply to single close construction to permanent loans. 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. See section 6 of Chapter 12 for further single close construction guidance.
  - **Design Features or Equipment for Physical Disabilities.** Special design features or permanently installed equipment to accommodate a household member who has a physical disability is an eligible loan purpose. The purchase of personal items for such individuals, such as wheelchairs, is not an eligible loan purpose.
  - **Connection, Assessment and Installment Fees.** Reasonable and customary connection fees, assessments, or the pro rata installment costs for utilities such as water, sewer, electricity, and gas for which the buyer is liable are eligible costs.
  - **Taxes and Escrow Accounts.** A pro rata share of real estate taxes that are due and payable on the property at the time of closing and funds for the establishment of escrow accounts for real estate taxes, hazard and flood insurance premiums, and related costs are eligible costs.
  - **Essential Household Equipment.** Loan funds can be used to pay for essential household equipment such as wall-to-wall carpeting, ovens, ranges, refrigerators, washers, dryers, and heating and cooling equipment 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.
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- **Site Preparation.** Site preparation activities, including grading, foundation plantings, seeding or sod installation, trees, walks, fences, and driveways, are eligible costs.

#### **D. Combination Construction to Permanent Loan.**

Loan funds may be used for take out/interim financing to construct a new dwelling, or to improve an existing dwelling. Loan funds may also 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 further addressed in Chapter 12 of this Handbook.

##### **1. Construction Financing: Take out or interim financing.**

- 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.
  - The first transaction/closing obtains the interim construction financing. The second closing obtains the permanent financing when 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. Documentation could represent a draw and disbursement ledger validating the builder's price to build, cost of the land (if applicable), closing costs and any out-of-pocket expenses (supported by canceled checks, paid receipts for construction costs) paid by the applicants.
  - The construction period is limited to no greater than 12 months. The 12-month period must have occurred directly prior to permanent financing.
  - The borrower must meet credit requirements as outlined in Chapter 10 of this Handbook.
  - New construction documentation (certified plans and specifications, inspections and warranty) must be obtained as outlined in Chapter 12 of this Handbook.
  - The Loan Note Guarantee will be issued when construction is complete and the permanent financing has closed.
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## 2. *Site without a Dwelling*

In the case of loans for a building site without a dwelling, financing is permitted if:

- The debt was incurred for the sole purpose of purchasing the site.
- The applicant is unable to acquire adequate housing without a refinance;
- An eligible dwelling will be constructed on the site prior to issuance of the loan note guarantee.
- The lender is responsible to ensure all costs involved in the construction financing represent an eligible loan purpose in accordance with Section 3555.152(b) and 6.2 of this Chapter. Documentation could represent a draw and disbursement ledger validating the builder's price to build, cost of the land, remaining balance on a lot loan previously purchased with no required seasoning, closing costs and any out-of-pocket expenses (supported by canceled checks, paid receipts for construction costs) paid by the applicants.
- The construction period is limited to 12 months. The 12 month period must have occurred directly prior to permanent financing.
- The borrower must meet credit requirements as outlined in Chapter 10 of this Handbook.
- New construction documentation (certified plans and specifications, inspections and warranty) must be obtained as outlined in Chapter 12 applies.
- This transaction will represent a two-closing transaction with two sets of legal documents.
- A modification may not be used to update the original note.
- The guarantee fee structure for this type of financing will be considered a purchase transaction loan.

### **E. Refinance [7 CFR 3555.101(d)]**

SFHGLP provides the following opportunities to refinance existing Section 502 SFHGLP or direct loan program mortgage debt. Borrowers are not eligible to receive "cash-out" from the refinance transaction. However, non-streamlined and streamlined assist refinance loan applicants may receive reimbursement at settlement for their personal funds advanced for eligible loan purposes that are part of the refinance

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transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of “cash out” to the applicants may occasionally result due to final escrow and interest calculations.

SFHGLP can refinance the USDA portion of a leveraged direct loan. The remaining leveraged portion must be subordinated to the new guaranteed loan or be paid in full. Payoff information for USDA direct loans can be found in Attachment 6-B of this chapter.

Secondary financing such as down payment assist loans or home equity lines of credit cannot be included in a new guarantee refinance loan. These types of financing must be subordinate to the new guaranteed loan or paid in full. SFHGLP cannot refinance mortgage debt that is not guaranteed or insured by USDA.

Unpaid fees, past due interest, and late fees/penalties due 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.

### **1. *Existing Section 502 Direct and Guaranteed Loans***

The intent of the refinance feature of the SFHGLP is to give existing guaranteed and direct borrowers, with satisfactory payment histories, the opportunity to benefit from a lower interest rate and increase their ability to be successful homeowners. The interest rate of the new guaranteed loan must not exceed the interest rate of the existing loan that will be refinanced. Applicants must meet all eligibility requirements as outlined in this Handbook except where noted. Non-performing loans should be considered for appropriate loss mitigation options. A refinance transaction is not a loss mitigation option. Delinquent loans should be reviewed and evaluated with applicable loan servicing and loss mitigation guidelines. A summary table is included in Attachment 6-A of this Chapter.

### **2. *Loan Terms and Conditions for All 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 refinanced.
  - The loan security must include the same property as the original loan. The security property must be owned and occupied by the applicants as their principal residence.
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- Total adjusted annual income for the household cannot exceed the moderate level for the area.
- Properties located in areas since determined by the Agency to be non-rural (ineligible) will remain eligible for a refinance. Lenders may continue to submit loan requests in the Guaranteed Loan System (GUS) with an Ineligible property determination. USDA will correct the property determination during loan review and processing.

**Three refinance options are available:**

**a) Non-streamlined refinance.**

- A new appraisal is required.
  - The maximum loan amount may not exceed the new appraised value, with the exception of the upfront guarantee fee. The following items are eligible to be financed up to the new appraised value: the principal and interest balance of the existing loan, reasonable and customary closing costs, and funds necessary to establish a new tax and insurance escrow account.
  - Direct loan borrowers that owe subsidy recapture have the option of financing or deferring the amount of recapture that is due. If the borrower chooses to finance the subsidy recapture, they may be eligible for a discount on the amount that is due. If the direct borrower elects to defer their recapture or is unable to include this subsidy within the new appraised value, a second lien will apply, and no discount will be available. The upfront guarantee fee may be financed above the new appraised value.
  - Additional borrowers may be added to the new guaranteed loan. Existing borrowers on the current mortgage note may be removed, however, at least one of the original borrowers must be an applicant for the new refinance loan.
  - The existing loan must have closed 12 months prior to request for a refinance and must be current for the 180-day period prior to the Agency's receipt of a Conditional Commitment request.
  - The borrower must meet credit requirements as outlined in Chapter 10 of this Handbook.
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- Monthly housing expense to income ratio may not exceed 29 percent. The monthly total debt to income ratio may not exceed 41 percent. Lenders may request a debt ratio exception when documentation of strong compensating factors in accordance with Chapter 11 of this Handbook are met. A satisfactory payment history for the existing mortgage is a strong compensating factor.
- The Guaranteed Underwriting System (GUS) may be utilized to request a non-streamlined refinance.

**b) Streamlined 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 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 not exceed the original loan amount at the time of purchase, with the exception of the upfront guarantee fee. The following items are eligible to be financed up to the original purchase price: the principal and interest balance of the existing loan and a reasonable fee for re conveyance of the existing USDA mortgage. The upfront guarantee fee may be financed above the original purchase price.
  - Additional borrowers may be added to the new guaranteed loan. Existing borrowers on the current mortgage note may be removed, however, at least one of the original borrowers must remain on the new refinance loan.
  - The existing loan must have closed 12 months prior to request for a refinance and must be current for the 180-day period prior to the Agency's receipt of a Conditional Commitment request.
  - The borrower must meet credit requirements as outlined in Chapter 10 of this Handbook.
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- Monthly housing expense to income ratio may not exceed 29 percent. The monthly total debt to income ratio may not exceed 41 percent. Lenders may request a debt ratio exception when documentation of strong compensating factors in accordance with Chapter 11 of this Handbook is met. A satisfactory payment history for the existing mortgage is a strong compensating factor.
- GUS may be utilized to request a streamlined refinance.

**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, eligible loan closing costs, funds necessary to establish a new tax and insurance escrow account, and the upfront 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 9 of this Handbook.
  - The existing loan must have closed 12 months prior to request for a refinance.
  - The borrower is not required to meet all the credit requirements as outlined in Chapter 10 of this Handbook. The existing mortgage must be paid as agreed for the 12 months prior to application for a streamlined-assist refinance. Lenders may verify mortgage payment history through a Verification of Mortgage obtained directly from the servicing lender or a credit report. If a credit report is ordered to
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determine timely mortgage payments, other credit accounts will not be reviewed.

- Borrowers may be added; however only deceased borrowers may be removed from the loan.
- GUS is unavailable for this product and these loans must be manually underwritten.

### 3. *Loan Application Documentation*

The following items must be addressed or documented in the lender's loan file for the application to be considered complete:

- Uniform Residential Loan Application (URLA).
- Credit report, as applicable.
- Verification of applicant's current employment and income.
- Verification that the total adjusted income for the household does not exceed the current moderate-income level established for the area.
- Underwriting analysis, including applicant's qualifying ratios for the loan being refinanced, as applicable.
- Fully executed Form RD 3555-21, Request for Single Family Housing Loan Guarantee.
- Uniform Residential Appraisal Report (URAR), as applicable.
- Property inspections as outlined in Chapter 12 of this Handbook are not required. However, the lender may require completion of repairs as a condition of loan approval. Expenses related to property inspections and repairs may not be financed into the new loan amount.

### 4. *Submission Process*

- **Lender Requirements:** After underwriting and approving the loan, the application package will be submitted to the Agency for review in accordance with Chapter 15 of this Handbook. The Agency will review applications to determine if all program requirements have been met.
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• **Agency Requirements:** Funding for the refinance type will be requested by the Agency as outlined in Chapter 14 of this Handbook.

- Establish an application in GLS. Streamlined and non-streamlined refinance transactions submitted through GUS will be uploaded to GLS from the USDA Administration page in GUS.
- Code refinances with the appropriate type of assistance code (TOA).
- Obligate funds in GLS and issue a Conditional Commitment to the lender.

**Agency Streamlined-assist refinances** require additional processing steps:

- Deduct the upfront guarantee fee from the total loan amount and enter that figure as the appraised value in GLS.
  - 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.
  - Enter 1 in the “FICO Score” data field when processing a Streamlined-assist application in GLS.
  - 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.
  - If the new Streamlined-assist loan amount exceeds the original loan amount enter the new loan amount into the “Original USDA Purchase Loan Amt.” field in GLS (Loan Purposes section). (This is a system override to allow for the loan amount provisions of the streamlined-assist loans).
  - On the “Update Application” GLS loan screen under “Agency Information,” select the “Servicing Office” named “STREAM-ASSIST REFI”.
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### **5. *Closing Costs and Lender Fees***

The lender may establish charges and fees for the refinance loan, provided they are the same as those they charge other applicants for similar types of transactions. Lenders and the Agency should make every effort to ensure that applicants are not being charged excessive fees as part of the new loan. Discount points are eligible to be financed to permanently “buy-down” the interest rate. In such cases, discount points financed must represent a reduction to the interest rate.

### **6. *Up-Front Guarantee Fee***

The guarantee fee for SFHGLP refinances will be established by the Agency. 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 on the Rural Development website as follows:

<http://www.rd.usda.gov/publications/regulations-guidelines>.

### **7. *Annual Fee***

An annual fee will be charged by the Agency for refinance transactions. The amount of annual fee will be established by the Agency. Refer to Exhibit K of RD Instruction 440.1, available in any Rural Development office or on the Rural Development website as follows:

<http://www.rd.usda.gov/publications/regulations-guidelines>.

### **8. *Loan Note Guarantee Issuance Requirements***

Once the lender has closed the loan, closing documentation must be submitted to the Agency as provided in Chapter 16 of this Handbook. Provided the lender’s loan closing documentation is adequate, and the loan documentation represents the loan was closed in accordance with the terms of the Conditional Commitment, a Loan Note Guarantee will be issued. The Agency will process loan closings for SFHGLP refinance loans using the same procedures for SFHGLP purchase loans. Once the Agency’s loan closing has processed and the new Loan Note Guarantee has been issued, the Agency should notify the Finance Office to terminate the original guarantee due to the loan being refinanced through the SFHGLP. Notifications should be made to the National Finance and Accounting Operations Center, Housing Services Branch, by email at [NFAOC.HSB@STL.USDA.GOV](mailto:NFAOC.HSB@STL.USDA.GOV).

### **9. *Guaranteed Loan System (GLS) Reporting***

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All SFHGLP refinance loans must be coded with the TOA code as referenced in Chapter 14 of this Handbook.

## F. 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. See Chapter 17 of this Handbook for a detailed discussion of transfers and assumptions in the SFHGLP.

### 6.3 PROHIBITED LOAN PURPOSES

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

- **Loan Discount Points.** Loan discount points, other than to reduce the effective interest rate, cannot be financed as part of the loan. Discount points must be reasonable and customary for the area and cannot be more than those charged other applicants for comparable transactions. Loan discount points and loan origination fees must be itemized separately on the settlement statement so that the Agency can accurately identify the amount of the loan used for loan discount points. Loan discount points representing fees other than to reduce the effective interest rate, such as to compensate for a low credit score or low loan amount are ineligible.
  - **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.
  - **Manufactured Homes.** Purchase of an existing manufactured home is not permitted, unless it is a purchase of an existing Rural Development Section 502 direct loan or guarantee, as provided in Section 2 of Chapter 13 of this Handbook.
  - **Lease Payments.** Payment on any lease agreement associated with the proposed real estate transaction is prohibited.
  - **Seller contributions.** Seller or other interested party contributions towards closing costs in excess of six percentage points of the property sale price are prohibited. Closing costs and/or prepaid items paid by the lender by premium pricing are not included in the seller contribution limitation. Fees towards the
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applicant's cost to close such as real estate commission or other typical fees paid by the seller or other interested party under local, state law, or local custom are not considered in the maximum contribution calculation. Lenders are responsible to ensure this requirement is met. This provision does not apply to new construction loans as outlined in 3555.105.

- **Closing costs.** Closing costs, including lender fees, may not exceed three percent of the total loan amount, unless flexibility is provided through guidance published by the CFPB's Ability to Repay and Qualified Mortgage (ATR/QM) standards. The SFHGLP up-front guarantee fee and annual fee is not included in the three percent lender fee calculation. Lenders are responsible to ensure this requirement is met.

#### 6.4 AGENCY REVIEW OF LOAN PURPOSES

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

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## Section 502 Single Family Housing Options to Refinance Direct and Guaranteed Loans

Requirements for all refinance loans			
<ul style="list-style-type: none"> <li>• Current loan must be a 502 direct or guaranteed loan.</li> <li>• 30-year loan term.</li> <li>• Fixed interest rate at or below the current interest rate and must not exceed the maximum limit set forth in 3555.104(a).</li> <li>• Late fees are not eligible to be included in the new loan amount.</li> <li>• Subsidy recapture may be paid or subordinated to the new first lien (direct loans only).</li> <li>• Cash out from collateral equity is not an eligible loan purpose.</li> </ul>	<ul style="list-style-type: none"> <li>• The loan must have closed 12 months prior to loan application for the refinance.</li> <li>• Property must be owner-occupied.</li> <li>• Household must meet applicable adjusted annual household limit.</li> <li>• Properties located in ineligible rural areas remain eligible for refinance.</li> <li>• Only the USDA direct loan portion of a leveraged loan is eligible.</li> <li>• Remaining funds at loan closing that may occur due to final real estate tax and/or insurance calculations may be returned to the borrower at loan closing.</li> </ul>		
Requirement	Non-streamlined	Streamlined	Streamlined-assist
Appraisal	Yes	Only for direct loans that received subsidy to calculate recapture	Only for direct loans that received subsidy to calculate recapture
Maximum Loan Amount, eligible loan costs listed	Cannot exceed new appraised value. <ul style="list-style-type: none"> <li>• Principal &amp; Interest</li> <li>• Closing costs</li> <li>• Funds to establish tax and insurance escrow</li> <li>• Upfront guarantee fee</li> <li>• Subsidy recapture due</li> </ul>	Cannot exceed original loan amount. <ul style="list-style-type: none"> <li>• Principal &amp; Interest</li> <li>• Re-conveyance fee</li> <li>• Upfront guarantee fee</li> </ul>	New loan amount may include: <ul style="list-style-type: none"> <li>• Principal &amp; Interest</li> <li>• Closing costs</li> <li>• Funds to establish tax and insurance escrow</li> <li>• Upfront guarantee fee</li> </ul>
Add/Remove Borrowers (one original borrower must remain)	Yes	Yes	<ul style="list-style-type: none"> <li>• Add borrowers only</li> <li>• No removal of current borrowers Exception: deceased borrowers may be removed</li> </ul>
Credit	<ul style="list-style-type: none"> <li>• Loan paid as agreed 180 days prior to loan request to USDA</li> <li>• Requirements of Chapter</li> </ul>	<ul style="list-style-type: none"> <li>• Loan paid as agreed 180 days prior to loan request to USDA</li> <li>• Requirements of Chapter</li> </ul>	<ul style="list-style-type: none"> <li>• Loan paid as agreed 12 months prior to loan request to USDA</li> </ul>

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<b>Requirement</b>	<b>Non-streamlined</b>	<b>Streamlined</b>	<b>Streamlined-assist</b>
<b>Ratios</b>	<ul style="list-style-type: none"> <li>GUS Accept, no debt ratio waiver required</li> <li>GUS Refer, debt ratio waiver to meet HB Chapter 11</li> </ul>	<ul style="list-style-type: none"> <li>GUS Accept, no debt ratio waiver required</li> <li>GUS Refer, debt ratio waiver to meet HB Chapter 11</li> </ul>	<ul style="list-style-type: none"> <li>No ratio calculation required</li> </ul>
<b>Can GUS be utilized?</b>	Yes	Yes	No
<b>Include subsidy recapture?</b>	Yes, if appraised value supports	No	No
<b>Net tangible benefit required?</b>	No	No	Yes \$50 or greater reduction in new PITI (including annual fee) as compared to current PITI payment
<b>Subordinate "silent" seconds or subsidy recapture due?</b>	Yes	Yes	Yes
<b>Resources</b>			
<p>The following resources are available:</p> <p>7 CFR Part 3555: <a href="https://www.rd.usda.gov/files/3555-1appendix01.pdf">https://www.rd.usda.gov/files/3555-1appendix01.pdf</a></p> <p>HB-1-3555: <a href="https://www.rd.usda.gov/publications/regulations-guidelines/handbooks#hb13555">https://www.rd.usda.gov/publications/regulations-guidelines/handbooks#hb13555</a></p> <p>USDA LINC Training and Resource Library: <a href="https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library">https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library</a></p> <p>Property and Income Eligibility: <a href="http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do">http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do</a></p> <p>List of USDA State Office e-mail boxes to deliver manually underwritten loan files or manual loan closing submissions: <a href="https://usdalinc.sc.egov.usda.gov/docs/rd/sfh/lenderloanclosing/lender/Electronic_Doc_Delivery_Non_GUS_loans.pdf">https://usdalinc.sc.egov.usda.gov/docs/rd/sfh/lenderloanclosing/lender/Electronic_Doc_Delivery_Non_GUS_loans.pdf</a></p> <p>Questions regarding direct loan subsidy recapture may contact the USDA Customer Service Center (CSC):</p>			



1-800-414-1226

**Section 502 Direct and Guaranteed Loan Refinance  
Complete Loan Application Submission**

HB-1-3555, Chapter 15 Attachment 15-A must be utilized to submit complete loan applications to USDA for review. The following is provided as a guide to assist lenders to submit complete refinance applications.

**GUS ACCEPT UW RECOMMENDATION**

Loan Documentation	Non-streamlined	Streamlined	Streamlined-assist
Form RD 3555-21	X	X	Ineligible to be processed in GUS.
Final GUS UW Findings Report	X	X	
Evidence of qualified alien, if applicable	X	X	
Appraisal	X	Only for direct loans that received subsidy to calculate recapture	
Credit report	X	X	
Credit report for Non-purchasing spouse, if applicable	X	X	

**GUS REFER, REFER WITH CAUTION, GUS ACCEPT w/full documentation requirement UW RECOMMENDATIONS, AND MANUALLY UW LOAN**

Loan Documentation	Non-streamlined	Streamlined	Streamlined-assist
Form RD 3555-21	X	X	X
Final GUS UW Findings Report	X	X	N/A

<b>Underwriting analysis</b>	X	X	\$50 net tangible benefit (principal, interest, and annual fee) may be documented on this form or elsewhere in application.
<b>GUS REFER, REFER WITH CAUTION, GUS ACCEPT w/full documentation requirement UW RECOMMENDATIONS, AND MANUALLY UW LOAN (continued)</b>			
<b>Loan Documentation</b>	<b>Non-streamlined</b>	<b>Streamlined</b>	<b>Streamlined-assist</b>
<b>Evidence of qualified alien, if applicable</b>	X	X	X
<b>Appraisal</b>	X	Only for direct loans that received subsidy to calculate recapture	Only for direct loans that received subsidy to calculate recapture
<b>Credit report</b>	X Review credit and verify mortgage payment history.	X Review credit and verify mortgage payment history.	Not required, but credit report may be used to document previous 12 month payment history of mortgage. A Verification of Mortgage completed by the servicing lender is also acceptable. No additional credit review is required.
<b>Credit report for Non-purchasing spouse, if applicable</b>	X	X	N/A
<b>Credit waiver</b>	X If applicable	X If applicable	N/A
<b>Debt ratio waiver</b>	X	X	N/A No debt ratio calculations
<b>Uniform Residential Loan Application</b>	X	X	X
<b>Full Income Documentation for all</b>	X	X	X

adult household members (includes 4506-T as applicable)			
Asset documentation	X If applicable	X If applicable	X If applicable

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### **Refinancing a Section 502 Direct Loan**

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

a. Section 502 Leveraged Loans

The Housing Act of 1949 prohibits the use of SFHGLP refinance funds to refinance Section 502 Leveraged Loans. Leveraged Loans are loans from a non-Rural Development source closed simultaneously with a Section 502 direct loan where the private sector lender takes a first lien while Rural Development obtains a second lien on the same security property. Only the USDA direct loan portion of a leveraged loan is eligible for a guarantee refinance. Refer to 6.2 D of this Chapter.

b. 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 owed at the time of refinance may be deferred if the recapture amount takes a lien position subordinate to the new SFHGLP loan.

Obtaining a “Statement of Loan Balance” letter for direct loan borrowers:

1. Lenders may determine an applicant has a direct loan when the credit report reflects “USDA” 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 National Financial and Accounting Operations Center (NFAOC), formerly known as the Customer Servicing Center (CSC) located in St. Louis, Missouri. 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 specific instructions to the lender regardless of information submitted at the time of payoff request.

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2. 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 NFAOC will not provide payoff quotes verbally or over the phone. The NFAOC 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 NFAOC at (800) 414-1226.

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