



Guaranteed Home Loan Program April 6, 2017

HB 3555 Chapter 5.3: Evaluating Applicant's Cash Reserves

As individuals begin receiving their tax refunds this year please keep in mind that Chapter 5.3 E of USDA Rural Development's 3555 Lender Handbook (see link below) outlines guidance on cash reserves.

When evaluating cash reserves, please use a two-month average monthly balance of liquid assets. This most accurately represents the true value of the account since accounts such as checking often fluctuate significantly during the month from deposit to average monthly balance. The lesser of the two-month average balance or actual balance (as reported on the most recent statement) should be input on the "Assets and Liabilities" page of the agency's Guaranteed Underwriting System (GUS) if used in the underwriting decision.

Or, in lieu of entering assets in GUS, lenders may underwrite the most conservative approach with no consideration of assets on the "Assets and Liabilities" page and underwriting recommendation. Refer to Paragraph 9.3 for documentation standards and examples of calculating the average monthly balance and assets.

Although cash reserves after closing are not required, cash reserves are considered in the risk assessment provided by GUS.

When disclosing the assets of the borrower on the "Assets and Liabilities" page of GUS, lenders need 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 401(k)s, IRAs, etc. may be included in the underwriting analysis up to only 60 percent of the vested value. Funds borrowed against the accounts may be used for loan closing, but are not to be considered as cash reserves. Funds from gifts from any source will not be included in the cash reserves calculation in GUS.

Cash reserves are used for the purpose of qualifying the applicant for a loan. Cash to close remains the lender's responsibility to verify and document that the borrower has sufficient funds to facilitate funding.

Be careful not to overvalue an applicant's assets as this affects the risk assessment provided by GUS and misrepresents the file presented for a conditional commitment for a loan note guarantee.

Last year, 1,905 rural Iowa families and individuals purchased homes through USDA Rural Development's guaranteed home loan program and more than \$200 million is currently available to qualifying households in rural Iowa.

Call (515) 284-4667, email rd-grhia@ia.usda.gov or visit www.rd.usda.gov/ia for more information.

USDA Guaranteed Home Loan Program - Additional Information and Resources

Stay informed of guaranteed home loan program changes by signing up for alerts at https://public.govdelivery.com/accounts/USDARD/subscriber/new?qsp=USDARD_25

USDA Rural Development's current 3555 Lender Handbook can be found at <http://www.rd.usda.gov/publications/regulations-guidelines/handbooks>.

Additional program information and training is available on the Lender Interactive Network Connection (LINC) Training and Resource Library at <https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do>.

###

USDA is an equal opportunity provider, employer and lender.