

RD AN No. 4635 (1980-D)
April 2, 2012

TO: State Directors
Rural Development

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

FROM: Tammye Treviño *(Signed by Tammye Treviño)*
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Refinancing Single Family Housing Loans
Section 502 Direct and Guaranteed

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide updated instructions regarding the refinance feature of the Single Family Housing Guaranteed Loan Program (SFHGLP). The SFHGLP offers existing Section 502 Direct and Guaranteed loan program borrowers the opportunity to refinance their mortgage with a Section 502 Guaranteed loan. The objective of the refinance feature is to assist responsible homeowners in achieving more favorable terms by transferring their present financing arrangement with a new repayment obligation. Existing Section 502 Direct and Guaranteed borrowers who meet the eligibility requirements of RD Instruction 1980-D, supplemented by this notice, may utilize the refinance feature of the SFHGLP.

EXPIRATION DATE:
March 31, 2013

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

COMPARISON WITH PREVIOUS AN:

This AN replaces AN 4549(1980-D) issued January 19, 2011. This issuance removes the requirement to confirm the property continues to meet HUD Handbooks 4150.2 and 4905.1 as provided in an earlier issue.

IMPLEMENTATION RESPONSIBILITIES:

In accordance with RD Instruction 1980-D, and Section 502(h) of the Housing Act of 1949, the SFHGLP may offer assistance to refinance existing Section 502 Direct and Guaranteed loan program borrowers with Section 502 guaranteed loans. Funding for loan guarantees is achieved with an annual commitment authority from the Agricultural Appropriations Bill authorized by the President.

General Description of Assistance

Refinance transactions should achieve more favorable terms for existing Section 502 Direct and Guaranteed borrowers. The intent of a refinance transaction is to provide borrowers who have a satisfactory payment history the opportunity to benefit from a lower interest rate and increase their ability to be successful homeowners. An approved lender may refinance an existing Section 502 Direct or Guaranteed borrower with a Section 502 Guaranteed loan.

Funds will be made available on a first-come, first-serve basis for refinance requests meeting application and approval criteria outlined in this AN.

Two options for refinancing are available:

Non-streamlined refinance. The non-streamlined refinance option requires an appraisal. Lenders offering the non-streamlined refinance option may include in the loan the principal and interest of the existing loan, closing costs, lender fees and the current guarantee fee to the extent sufficient equity in the property exists, as determined by an appraisal. The appraised value may be exceeded only to the amount financing represents the prevailing guarantee fee. The Guaranteed Underwriting System (GUS) may be utilized when requesting a non-streamlined refinance. This loan is subject to an annual fee, which when computed monthly, the 1/12 portion of the annual fee shall be included in the principal, interest, taxes and insurance (PITI) calculation.

Streamlined refinance. Lenders may offer a streamlined refinance without obtaining a new appraisal. All other costs, documentation and underwriting requirements remain consistent with a purchase guarantee, unless otherwise noted in this AN. With this option, the lender will refinance the principal balance of the existing Section 502 Guaranteed loan. This option is not available for Section 502 Direct loans. The loan amount cannot exceed the principal amount of the existing loan refinanced plus the one time guarantee fee. Accrued interest, closing costs or lender fees cannot be financed with this option. Lenders must manually underwrite this refinance option. GUS may not be

utilized when requesting a streamlined refinance. This loan is subject to an annual fee, which when computed monthly, the 1/12 portion of the annual fee shall be included in the PITI calculation.

Refinance Product Matrix

The attached matrix outlines the refinance features of the SFHGLP. General eligibility, approval and delivery criteria are noted under the Direct and Guaranteed columns of the attached matrix. The matrix is intended to assist all parties involved in offering the refinance feature of the SFHGLP with eligibility, approval and loan note delivery guidance.

Agency Actions

When a request for Loan Note Guarantee is received for a refinance feature of the SFHGLP, Rural Development will take the following actions:

Conditional Commitment for Loan Note Guarantee

- Review the application for completeness and eligibility for the SFHGLP.
- Funding for the refinance type will be requested of national office through the usual channels. Funding requests must identify each individual loan amount. Requests are to be sent to: sfhgld@wdc.usda.gov.
- Form RD 1940-22, “Environmental Checklist for Categorical Exclusions,” is typically not required for a refinance transaction. Use of SFHGLP funds for the sole purpose of refinancing an existing 502 Guaranteed Loan is considered a servicing action and a categorical exclusion under RD Instruction 1940-G, Section 1940.310(e)(2). Refinance transactions are not likely to have the potential to adversely affect environmentally sensitive land uses or resources. However, in extraordinary circumstances, the Agency loan approval official may be aware of an environmentally sensitive situation, such as reports of chemical spills in the area or hazardous material waste sites that have been developed in the community, that may impact the application and require further analysis as prescribed in RD Instruction 1940-G.
- Establish an application in the Guaranteed Loan System (GLS). Non-streamlined refinance transactions developed with the assistance of GUS will be uploaded to GLS from the USDA Administration page in GUS. Stream-lined refinance transactions are not eligible to utilize GUS and must be manually underwritten and submitted.
- Obligate the loan in GLS, provided loan funds are available.
- All SFHGLP refinance loans should be coded with assistance code “**651**” for annual funds on the GLS obligation page.
- **Streamlined refinances** will utilize the original appraised value established in GLS. GLS will require the user to input an amount equal to the amount of refinance transaction (principal plus any additional financed guarantee fee).
- Issue Form RD 1980-18, “Conditional Commitment for Loan Note Guarantee,” when the request results in an approval.

Issuing the Loan Note Guarantee

- The lender must submit loan closing documents to the Agency in accordance with RD Instruction 1980-D, Section 1980.361(a).
- If the provided documentation represents the loan was closed in accordance with the terms of the “Conditional Commitment for Loan Note Guarantee,” a Loan Note Guarantee will be issued.
- The Agency will process loan closings for SFHGLP refinance loans using the same procedures used for SFHGLP purchase loans.
- When the refinance is a guaranteed loan to guaranteed loan, once the Agency’s loan closing has processed and the new *Loan Note Guarantee* has been issued, the Finance Office should be notified to terminate the original guarantee due to the loan being refinanced through the SFHGLP. Notifications should be made to the Finance Office, Guaranteed Loan Branch, and Attn: FC-350, or via fax at (314) 457-4279.

Summary

The Agency should give applicants, with existing SFHGLP loans that are in good standing, every consideration when applying for a SFHGLP refinance loan. SFHGLP refinance loans may not be used as a loss mitigation measure for loans that are presently not performing or for borrowers who are not current on their existing SFHGLP loan. Delinquent SFHGLP loans should be reviewed and evaluated using the loan servicing guidelines currently outlined in RD Instruction 1980-D, Section 1980.370.

Questions regarding this AN may be directed to:

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Michelle Corridon	(804). 287.1595	michelle.corridon@wdc.usda.gov

Attachment

Refinancing Rural Development Mortgages

		Refinancing <i>Guaranteed Loan to Guaranteed Loan</i>	Refinancing <i>Direct Loan to Guaranteed Loan</i>
Lender Eligibility	Eligible Lenders	<ul style="list-style-type: none"> ▪ Any lender who has been approved by Rural Development and holds an active lender agreement (1980-16). ▪ Approved lenders are responsible for the loan underwriting and will be issued the Conditional Commitment if all eligibility requirements are met. ▪ Approved lenders may utilize the services of an agent for processing refinance loans. 	
Types of Refinancing	Processing Types	<ul style="list-style-type: none"> ▪ Streamlined refinance <ul style="list-style-type: none"> • No appraisal, principal only plus guarantee fee ▪ Non-streamlined refinance 	<ul style="list-style-type: none"> ▪ Non-streamlined refinance only
Eligibility and Underwriting	Eligible <u>Existing Loan</u>	<ul style="list-style-type: none"> ▪ Loan must have a Loan Note Guarantee issued to an approved lender. (Form RD 1980-17) ▪ Loan must have been fully documented, underwritten and originated in compliance with RD Instruction 1980-D, supplemented by published Administrative Notices. 	<ul style="list-style-type: none"> ▪ Loan must have an existing Section 502 Direct loan. <u>Ineligible loans:</u> The SFHGLP may not be used to refinance leveraged loans from a non-Rural Development source that was closed simultaneously with a 502 direct loan.

*This summary is intended for reference.
March 2012*

		Refinancing <i>Guaranteed Loan to Guaranteed Loan</i>	Refinancing <i>Direct Loan to Guaranteed Loan</i>
Eligibility and Underwriting	Applicant Eligibility	<ul style="list-style-type: none"> ▪ All applicants that will be a party to the promissory note for the new loan must meet all applicable Agency eligibility regulations to qualify for a refinance loan. ▪ As part of the refinancing transaction, additional borrowers may be added to the new SFHGLP loan. ▪ Existing borrowers may be deleted from the current loan. At least one of the original borrowers must be retained to be a refinance transaction. ▪ All applicants that will be a party to the promissory note for the new loan must meet all eligibility requirements. ▪ Any late mortgage payments within the past 36 months on the existing SFHGLP loan, with emphasis on the most recent 12 month period, must be analyzed and addressed by the lender to determine if any late payments were a disregard for financial obligations, an inability to manage debt, or factors beyond the control of the borrower when considering the underwriting decision. 	

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March 2012*

		Refinancing <i>Guaranteed Loan to Guaranteed Loan</i>	Refinancing <i>Direct Loan to Guaranteed Loan</i>
	Loan Purpose and Limitations	<ul style="list-style-type: none"> ▪ Non-streamlined refinance: The maximum loan amount cannot exceed the present fair market value as supported by an appraisal. A portion of or the full amount of guarantee fee may be financed above the fair market value. The base loan amount may include the balance (principal and accrued interest) of the existing loan to be refinanced, reasonable and customary closing costs, and lender fees, including funds to establish a new tax and insurance escrow account in conjunction with the new loan request. 	<ul style="list-style-type: none"> ▪ Non-streamlined refinance: The maximum loan amount cannot exceed the present fair market value as supported by an appraisal. A portion of or the full amount of guarantee fee may be financed above the fair market value. The base loan amount may include the balance (principal and accrued interest) of the existing loan to be refinanced, reasonable and customary closing costs and lender fees, including funds to establish a new tax and insurance escrow account in conjunction with the new loan request. ▪ Subsidy Recapture. Any recapture amount due may be financed as part of the loan balance. The recapture amount due may be deferred if the lien position is subordinated to the new SFHGLP loan. A 25% discount will be offered if the borrower does not defer recapture.

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Eligibility and Underwriting	Loan Purpose and Limitations. Cont'd	<ul style="list-style-type: none"> ▪ Streamlined refinance: The maximum loan amount cannot exceed the principal balance of the existing loan to be refinanced, <u>plus the guarantee fee.</u> 	<ul style="list-style-type: none"> ▪ Streamlined refinance: Ineligible for direct to guarantee refinancing.
		<ul style="list-style-type: none"> ▪ Cash out refinance transactions are not permitted. ▪ Subordinate financing, such as home equity seconds and down payment assistance “silent” seconds, cannot be included in the new loan amount. Any existing secondary financing must be subordinate to the new first lien. ▪ Applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinance transaction, such as an appraisal fee or credit report fee. ▪ Nominal “cash out” to the applicants may occur at closing typically resulting due to final escrow and interest calculations. This amount, if any, must be applied to a principal reduction of the new loan. ▪ Unpaid fees, such as late fees due the servicer, are not eligible to be included in the new loan amount. ▪ There is no limit placed on the number of refinance loans made to an existing SFHGLP borrower. 	
	Guarantee Fee	<ul style="list-style-type: none"> ▪ The refinance feature is subject to the prevailing guarantee fee for SFHGLP. ▪ Non-streamlined refinance: A portion of or the entire guarantee fee may be financed in excess of market value. ▪ Streamlined refinance: A portion of or the entire guarantee fee may be financed in addition to principal balance. 	<ul style="list-style-type: none"> ▪ The refinance feature is subject to the prevailing guarantee fee for SFHGLP. ▪ Non-streamlined refinance: A portion of or the entire guarantee fee may be financed in excess of market value. ▪ Streamlined refinance: This option is ineligible for this transaction.

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Eligibility and Underwriting	Annual Fee	<ul style="list-style-type: none"> ▪ Conditional Commitments issued on or after October 1, 2011 will be subject the prevailing annual fee.
	Repayment Ratios	<ul style="list-style-type: none"> ▪ The monthly housing expense to income ratio may not exceed 29 percent of repayment income. ▪ The total debt ratio may not exceed 41 percent of repayment income. ▪ Lenders may request a waiver of Rural Development when strong compensating factors are documented. A satisfactory payment history for the existing mortgage is considered a strong compensating factor.
	Term	<ul style="list-style-type: none"> ▪ Term of the new loan will be a 30 year fully amortized fixed rate mortgage.
	Interest Rate	<ul style="list-style-type: none"> ▪ Interest rate of the new loan must be a fixed rate. ▪ The interest rate must be lower than the existing loan to be refinanced. ▪ The interest rate of the new loan is not subject to RD Instruction 1980-D, Section 1980.320. ▪ Funded buy down accounts are not permitted.
	Household Income	<ul style="list-style-type: none"> ▪ Total adjusted income for the household cannot exceed the moderate level for the area as established in RD Instruction 1980-D, Exhibit C.
	Security	<ul style="list-style-type: none"> ▪ Loan security must include the same property as the original loan. ▪ The security property must be owned and occupied by the applicants as their principal residence.
	Rural and Non-Rural Areas	<ul style="list-style-type: none"> ▪ SFHGLP refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made.

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Eligibility and Underwriting	Property Valuation	<ul style="list-style-type: none"> ▪ Non-streamlined refinance: The value of the new mortgage loan request must be supported by a new appraisal. The loan amount cannot exceed the present market value plus the onetime guarantee fee. The new loan amount can include closing costs or lender fees if supported by market value. ▪ Streamlined refinance: The value of the new mortgage loan request can be supported by the original appraisal report obtained in connection with the existing mortgage. The loan amount cannot exceed the principal balance of the existing loan refinanced plus the onetime guarantee fee. The new loan amount cannot include any accrued interest, closing costs or lender fees. 	<ul style="list-style-type: none"> ▪ Non-streamlined refinance: The value of the new mortgage loan request must be supported by a new appraisal. The loan amount cannot exceed the present market value plus the onetime guarantee fee. The new loan amount can include closing costs or lender fees if supported by market value. ▪ Streamlined refinance: Ineligible for this transaction.
	Inspections	<ul style="list-style-type: none"> ▪ No further inspections or repairs required by Rural Development. ▪ Lender may require inspections or repairs. ▪ Expenses related to inspections or repairs may not be financed. 	
	Processing Requirements	<ul style="list-style-type: none"> ▪ The lender will process the refinancing loan package in accordance with RD Instruction 1980-D, except when provided otherwise in this AN. 	

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Eligibility and Underwriting	Closing Costs and Lender Fees	<ul style="list-style-type: none"> ▪ The lender may establish charges and fees for the refinance loan, provided they are the same as those they charge other applicants for similar types of transactions – such as Federal Housing Administration (FHA) or Veterans Affairs (VA). ▪ Examples of reasonable and customary fees and charges: <ul style="list-style-type: none"> • the actual cost of the appraisal, inspection or credit reports; • imposed verification charges; • title examination and title insurance fees; • attorney fees; • settlement and recording and/or courier/wire/notary fees; • real estate taxes for establishing an escrow; • test or treatment fees; • document preparation fees (if prepared by a third party); and • an origination fee. ▪ 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 may be financed in connection with the new loan request when the existing borrower’s adjusted household income is at or below the low income limits, as determined by Exhibit C of RD Instruction 1980-D. Also see: http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do. Select <i>Guaranteed</i> from the navigation menu under <i>Income Limits</i>. ▪ Permissible discount points financed in accordance with section 1980.310(d) of RD Instruction 1980-D will not exceed two percentage points of the loan amount for a non-streamlined refinance. Financed discount points must be used to permanently reduce the interest rate.
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Eligibility and Underwriting	Use of the Guaranteed Underwriting System (GUS)	<ul style="list-style-type: none"> ▪ Non-streamlined refinance: loans may be originated with the assistance of GUS. ▪ Streamlined refinance: loans must be manually underwritten. ▪ Reduced documentation may be submitted for loans receiving an ACCEPT recommendation in GUS as follows: <ul style="list-style-type: none"> • An appraisal report. • Form RD 1980-21, “Request for Single Family Housing Loan Guarantee.” The form should be executed by the lender and borrower(s).
	Document Processing Requirements	<ul style="list-style-type: none"> ▪ The lender will process the refinancing loan package in accordance with RD Instruction 1980-D, except when provided otherwise in this AN. ▪ Form RD 1980-21, “Request for Single Family Housing Loan Guarantee” must be completed and executed by the borrower and the lender and accompany the commitment request. Rural Development accepts a fax, scan or photocopy of this executed form. ▪ Full documentation file as follows: <ul style="list-style-type: none"> • Fully completed and executed mortgage loan application. • Evidence of a qualified alien, as applicable, with the addition of new borrowers. • Current credit report and verification of debt. • Income documentation of household income. • Evidence of the lender’s underwriting analysis addressing repayment ability, credit worthiness and security value. • Evidence of the current market value when the refinance type is <u>non-streamlined refinance</u>. ▪ Submit the fully underwritten file to Rural Development requesting a “Conditional Commitment for Loan Note Guarantee.”

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<p style="text-align: center;">Post Closing Delivery</p>	<p>Obtaining the Loan Note Guarantee</p>	<ul style="list-style-type: none"> ▪ Submit closing documents and the guarantee fee to the Agency in accordance with RD Instruction 1980-D, Section 1980.361(a). ▪ If the provided documentation represents the loan was closed in accordance with the terms of the “Conditional Commitment for Loan Note Guarantee,” a Loan Note Guarantee will be issued. ▪ The Agency will process loan closings for SFHGLP refinance loans using the same procedures used for SFHGLP purchase loans.
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