The Role of the Intermediary

Section 502 Direct Loan Program's Certified Packaging Process

Presented by the Single Family Housing Direct Loan Division

USDA Rural Development
U.S. DEPARTMENT OF AGRICULTURE

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The purpose of this presentation is to give viewers an understanding of the role of the intermediary in the Section 502 direct loan program's certified loan application packaging process (referred to as the certified packaging process throughout this webinar). Through this presentation, you will be briefly introduced to the certified packaging process and pointed to resources where you can learn more about the process.

The Intermediary's Purpose

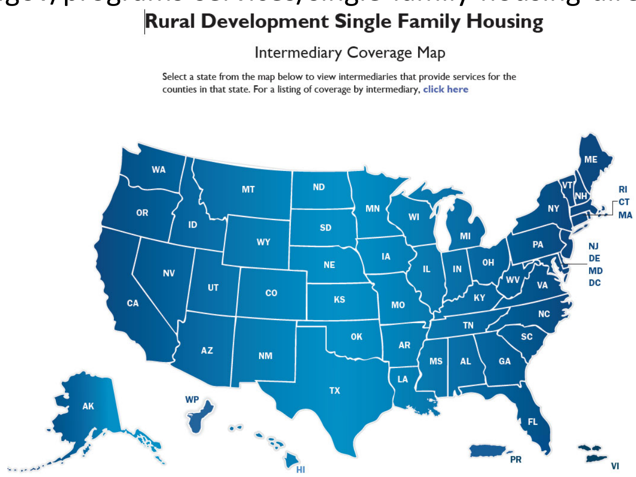
- Quality Assurance
- Technical Assistance
- Marketing/Outreach

Once an eligible entity is approved to serve as an intermediary for the Section 502 Single Family Housing (SFH) direct loan program, a Memorandum of Understanding (MOU) is signed by the intermediary and Rural Development (aka RD or Agency). This document provides general terms and conditions for the packaging process, quality standards, and accountability for all parties to the MOU.

The intermediary has three main purposes: Quality Assurance, Technical Assistance, and Marketing/Outreach. In this presentation, we will review the terms of the MOU and discuss the intermediary's role in the certified packaging process.

Service Area

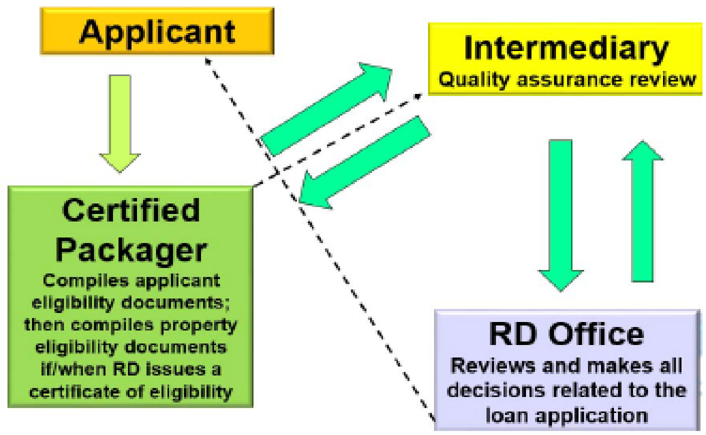
https://www.rd.usda.gov/programs-services/single-family-housing-direct-home-loans



During the application process, an intermediary determines which states and U.S. territories they will serve. Once approved, an intermediary covers the entire state, states, and/or territories as defined in the application and MOU. A state may be served by one or more intermediaries. When a state is covered by an intermediary, certified packagers must submit applications to RD via an intermediary, unless they have requested and are qualified to be considered for a RD State Director approved opt-out. In the event that a state or territory is not covered by an intermediary, application packages may be submitted directly to RD for processing.

The program’s Forms & Resources web page, as identified in this slide, contains an intermediary coverage map which can be used to determine the presence of an intermediary in a given state.

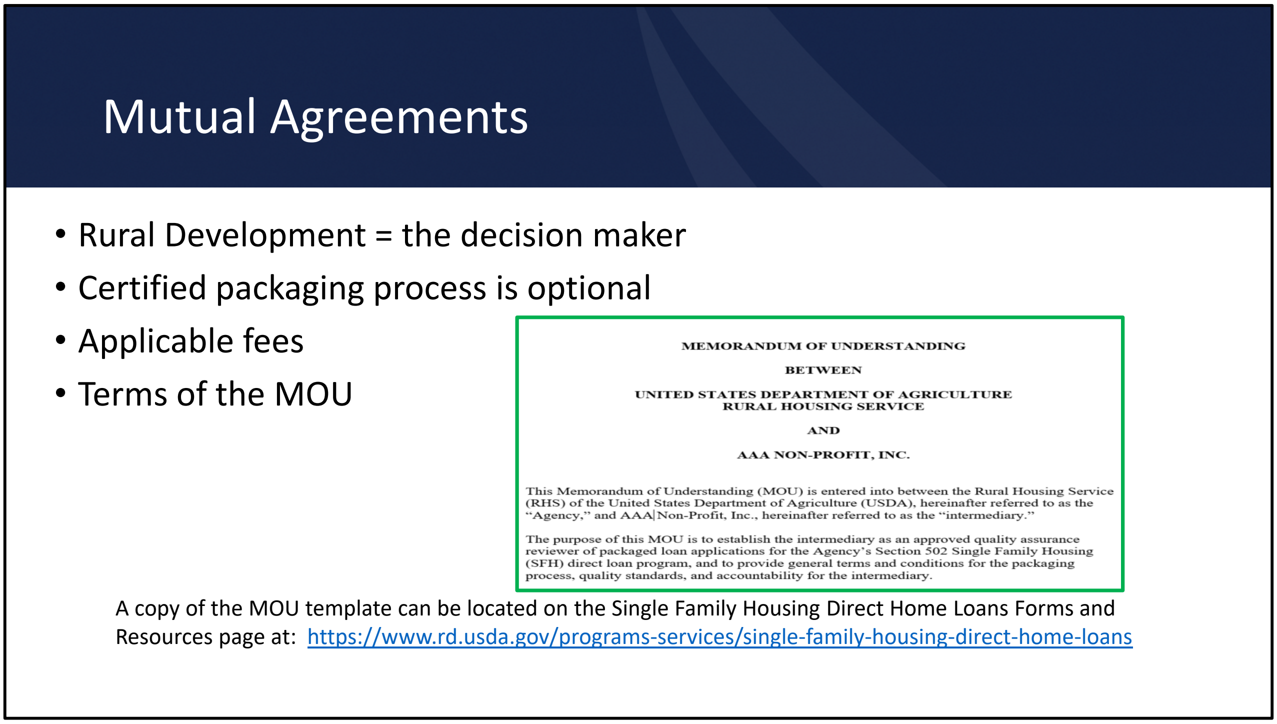
General Requirements



Under the certified packaging process, a certified loan application packager (also referred to as certified packager) and its qualified employer (who when combined with the certified packager are referred to as a certified packaging body) submit applications to the Agency via an intermediary. The intermediary reviews the application and performs a quality assurance review on the packaged loan applications as well as provide supplemental training, technical assistance, and support to certified packaging bodies to promote quality standards and accountability.

RD reviews the application and makes all decisions related to the applicant's eligibility. Once an application is received, RD will communicate with all parties if information is needed or when certain processing stages are completed.

Open dialogue and communication is vital between all parties involved to ensure a smooth process.



The MOU spells out those things which are mutually agreed upon between the Agency and the intermediary. Those include the following items:

- **Rural Development is the decision maker** and is solely responsible for offering and negotiating any loan terms, making eligibility and underwriting decisions, and communicating those decisions with the applicant. The intermediary and certified packaging body do not engage in nor make representations that they can engage in these activities. For example: a packager may tell an applicant that they appear to be a good fit for the 502 program; but cannot tell the applicant that they are eligible for a loan.
- **The certified packaging process is optional.** Applications may be submitted directly to the Agency by an applicant. This is disclosed to the applicant up front and the applicant chooses to work with the packager by signing the disclosure letter found in Handbook-1-3550, Attachment 3-A.
- **Applicable fees.** The parties agree that the intermediary and/or the certified packaging body may charge the applicant a loan application packaging fee (for loans which close), not to exceed the maximum allowable amount specified in HB-1-3550, Chapter 3, Attachment 3-A, in total, to be paid at closing. When the intermediary is directly packaging the application, the fee allowable fee is

decreased and the maximum allowable fee can also be located in Attachment 3-A. It is not the Agency's role to determine how much the applicant will be charged, other than to ensure that it is within the allowable range. The packager and/or intermediary determine the amount of the fee and notify the applicant during the applicant's initial meeting with the certified packager. The disclosure letter which must be signed by the applicant, outlines the amount of the fee which will be charged, as well as that the use of a packager is optional.

  - Note that: Agency regulations allow for Section 502 direct loan funds to be used to pay the packaging fee, provided the applicant has repayment ability, the resulting loan does not exceed the maximum area loan limit, or exceed the appraised value. If the fee cannot be included in the loan, it is considered a closing cost and can be paid in the same way as other closing costs such as: the applicant's own funds, seller contribution, gift funds, and/or affordable housing products.

- The general terms of the MOU include topics such as:
  - The intermediary represents to the Agency that the intermediary and the certified packaging bodies funneling loan application packages through them meet the requirements of the certified packaging process as described in 7 CFR 3550.75, this MOU, and other applicable guidance.
  - The MOU is not a promise to obligate any Federal funds.
  - The intermediary may make a written request to add/remove states from their service area or to voluntarily terminate their agreement to participate as an intermediary.

A copy of the MOU template can be located on the single Family Housing Direct Home Loans Forms and Resources page, using the link shown in the slide.

While not entirely inclusive, this has been a brief discussion of the items to which both parties mutually agree. Next, let's look at the Agency's responsibilities under the terms of the MOU.

Agency Responsibilities

- Intermediary eligibility
- Information on regulations and guidelines
- Agency reviews of intermediary’s operations and actions
- Point of contact
- Lending decisions

Rural Development, as a party to the MOU, has certain responsibilities to oversee the process. These include:

- **Intermediary eligibility**. When an application is received from a nonprofit, public body, or State Housing Finance Agency, the Agency reviews the application to determine whether the intermediary meets all eligibility requirements for participation in the certified packaging process.
- **Information on regulations and guidelines**. The Agency makes all reasonable efforts to provide the intermediary with information concerning laws and guidelines that the intermediary is required to follow to be in compliance with the Agency's SFH direct program. These notifications may come via the GovDelivery system, email notifications, verbally (such as by phone or in person), or through written correspondence.
- **Agency reviews of intermediary’s operations and actions**. The Agency has the right to conduct reviews for the purpose of verifying compliance with the MOU and Agency regulations and guidelines. These reviews may include, but are not limited to: on-site reviews, written requests for information, audits of case files, interviews with certified packaging bodies, managers and staff; review of the intermediary’s records, etc.

- **Point of contact**. Each state served by the MOU designates one Agency point of contact to serve as the main contact for questions.
- **Lending decisions**. As stated previously, lending decisions are expressly limited to Agency staff.

Intermediary Responsibilities

While the Agency is ultimately responsible for oversight of the certified packaging process, the intermediary has defined responsibilities for which they are responsible. These are outlined in the MOU and we will discuss them next…

Staff Training and Certification

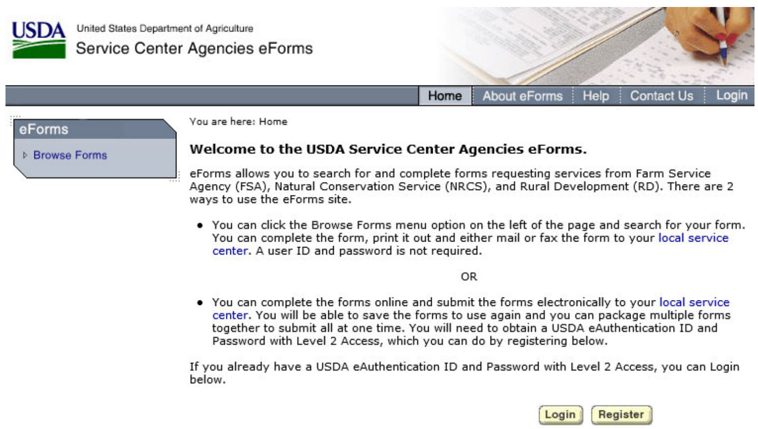
- Staff training
  - Agency approved packaging course
- Certification
  - Successfully pass the corresponding test
  - Maintain documentation

Because the intermediary is providing the quality assurance review of applications submitted to the Agency, it is critical that their staff is trained and certified in the process.

The intermediary must ensure that its quality assurance staff completes an Agency-approved loan application packaging course and successfully passes the corresponding test. Typically, at least some of the staff have done this when an entity is approved to be an intermediary. However, if staff have not completed this or when new staff are hired as part of the quality assurance team, then they must take the class and pass the test, as soon as possible, but within 12 months of being accepted as an intermediary.

The intermediary maintains documentation identifying the staff members who have completed the course/pass the test and may be required to submit reports to the Agency and/or have those records reviewed by the Agency.

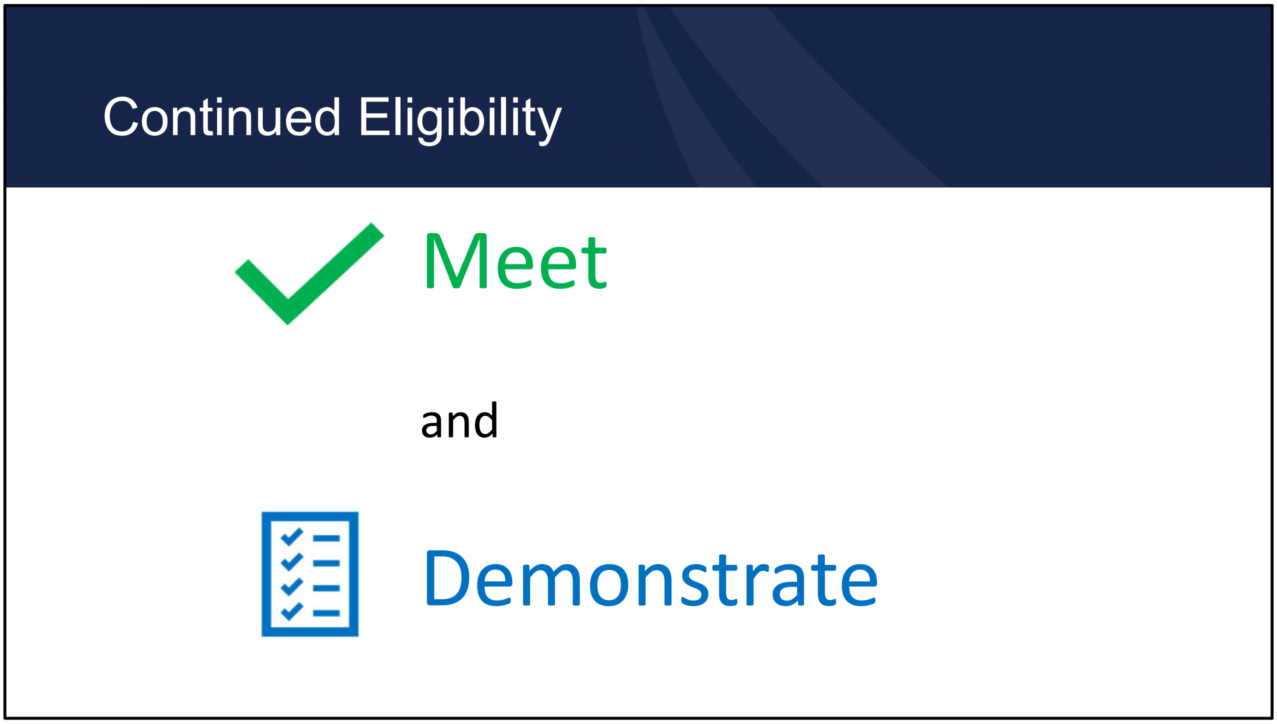
Electronic Submissions



Applications submitted via an intermediary must be sent electronically to the Agency. As of the date of this training, the system in use is called eForms. The intermediary's quality assurance staff must obtain Level 2 eAuthentication identifications which allows them to submit application packages to the Agency. Applications, along with the attachments in accordance with the Agency-approved stacking order, are submitted via the eForms website.

While eForms is the system in use at this time, the MOU does indicate that any systems which supersede eForms in the future, would be used.

Once the Agency has issued a Certificate of Eligibility (COE), the packager/intermediary will assist the applicant with submission of property information which is also sent electronically (such as by email) but is not required at this time to go through eForms.



The intermediary must continuously meet and demonstrate to the Agency's satisfaction that it meets all of the requirements to be an intermediary. These eligibility requirements could be related to such things as:

- **Operations.** The intermediary and its principals must demonstrate financial responsibility, sound business practices, its status as a nonprofit, an affordable housing mission statement, must not be debarred from participating in Federal programs, etc.
- **Employees.** The intermediary must maintain a quality assurance staff that is trained, experienced with packaging, originating, or underwriting affordable housing loans.

Typically the intermediary demonstrates its continued eligibility through annual reporting, though the Agency may request reports more or less frequently.

If the intermediary realizes it no longer meets the eligibility criteria, it should notify the Agency immediately and work with the Agency to rectify the situation or potentially discontinue serving as an intermediary.

The intermediary must immediately notify the Agency in writing if they:

Fail to meet any of the requirements of the certified packaging process, including those in 7 CFR 3550.75 and the terms of this MOU;

Become insolvent;

Are in any type of bankruptcy protection;

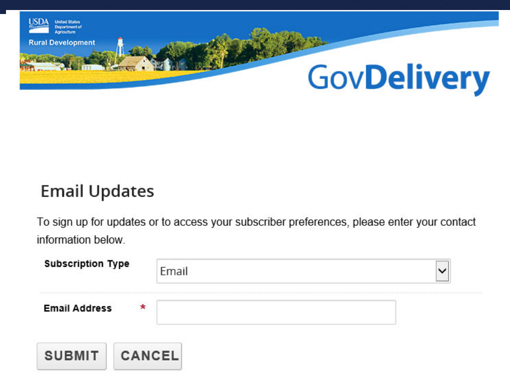
Have taken any action to cease operations, or to discontinue serving in the capacity of an intermediary;

Have changed its name, location, address, tax identification number, or contact person;

Have become delinquent on any Federal debt, or have been debarred, suspended, or sanctioned in connection with its participation in any Federal program or

any applicable state licensing or certification requirement or regulation.

Knowledge of Program Requirements

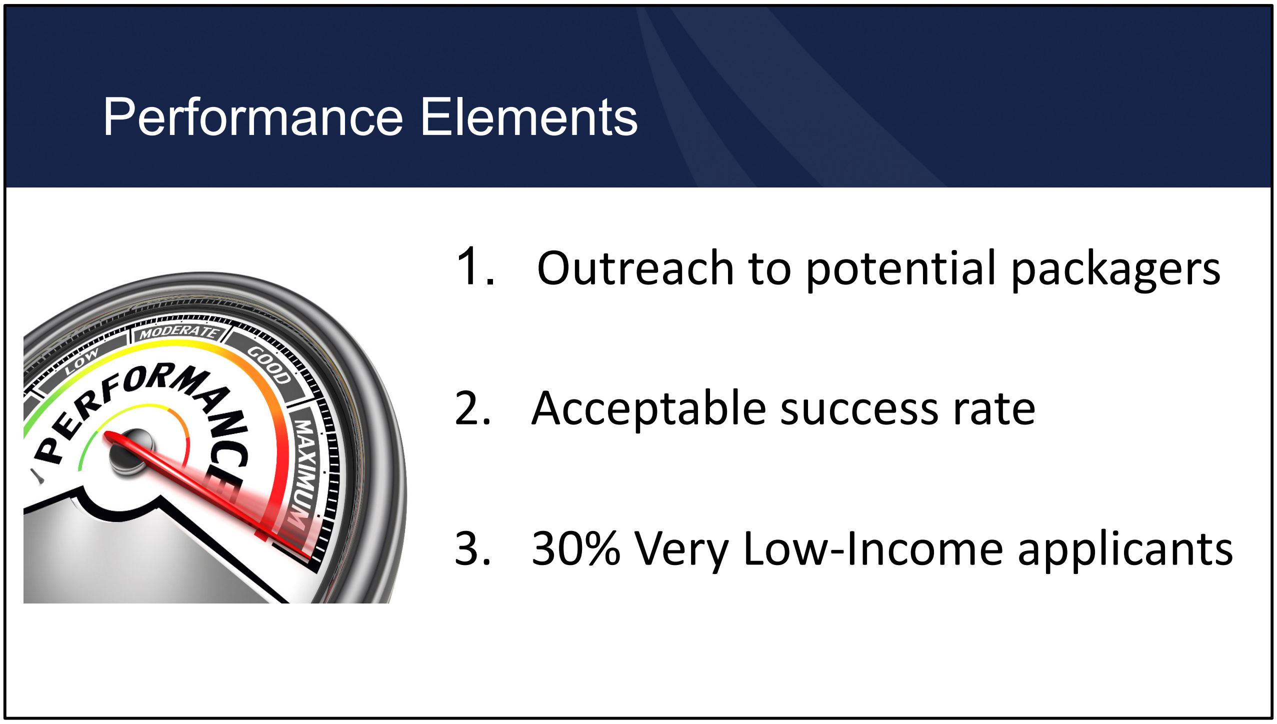


https://public.govdelivery.com/accounts/USDARD/subscriber/new?preferences=true

Once approved, it is the responsibility of the intermediary to keep itself/its staff informed of all program laws and guidelines. This can include laws, guidelines, handbooks, amendments and revisions of program requirements and policies.

The Agency will typically issue notifications regarding changes via the GovDelivery system. Therefore, intermediary staff participating in the program are required to sign up to receive SFH listserv updates from GovDelivery, using the website link as shown on this slide.

Once on the site, enter your email, select the “SFH Direct Loan and Grant Programs” (and other programs of interest) and then click “Submit”.



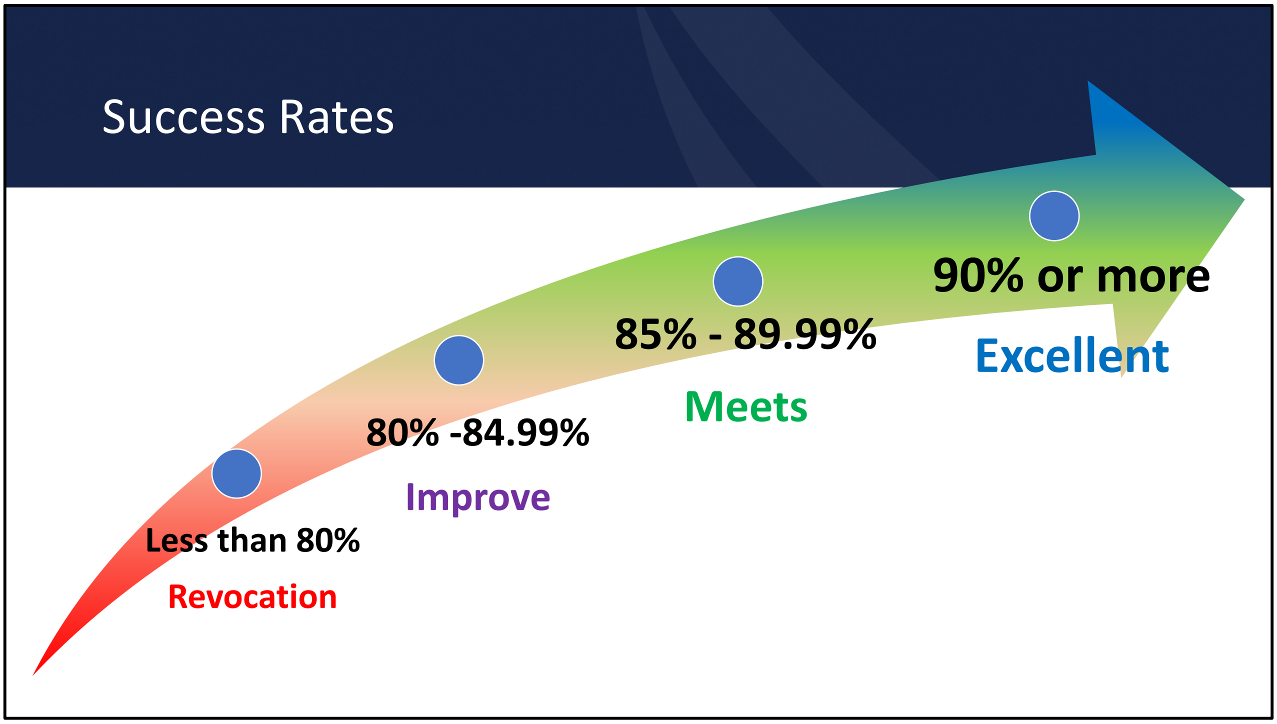
The intermediary must meet minimum performance elements as part of their continued eligibility to serve as an intermediary.

First: The intermediary will outreach to parties that could potentially serve as a certified packaging body. Outreach may be done in a variety of ways, but the intermediary must demonstrate that they are seeking additional parties who may serve as certified packager. This outreach must be in their entire service area. In other words, if an intermediary serves 12 states, they cannot meet this requirement by only conducting outreach in two of those states. Outreach activities must include the entire service area.

Second: Because the intermediary is completing a quality assurance review, it is expected that packaged loan applications funneled through the intermediary will receive a high rate of Agency approval and have a minimal need for additional information to be requested by the Agency. We will discuss the success rate and how this is calculated on the next slide.

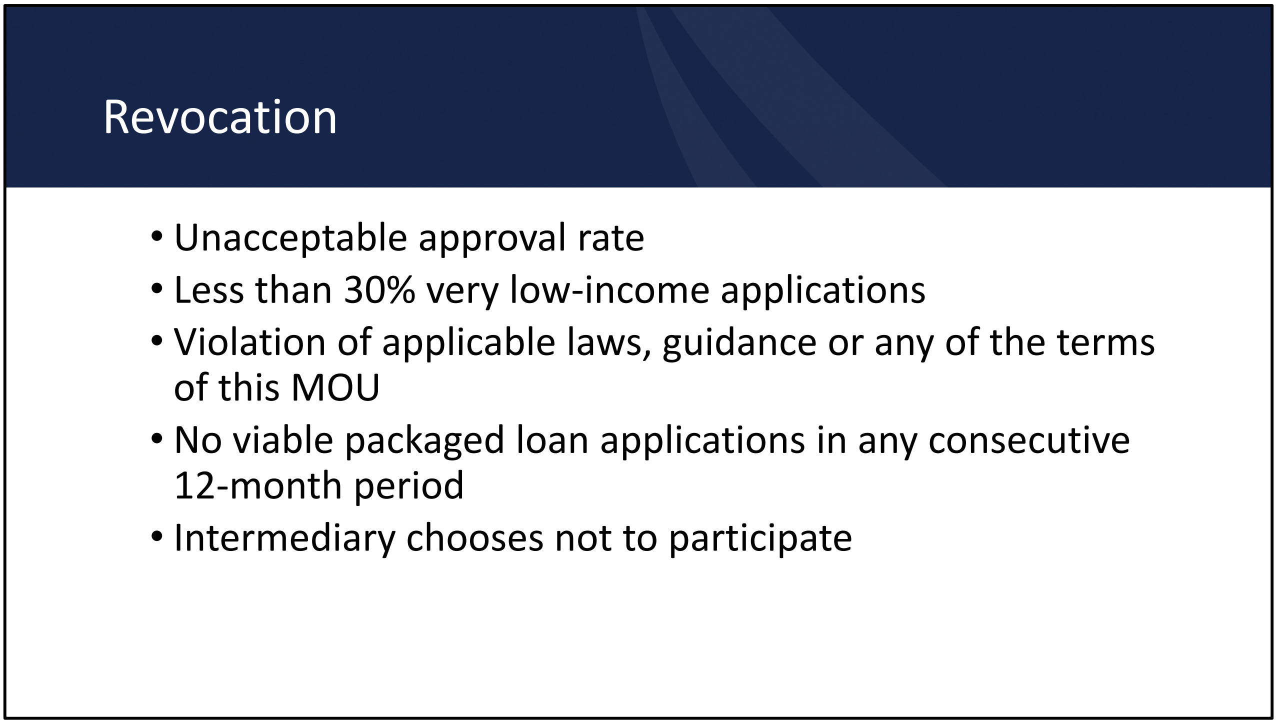
Third: At least 30% of the applications submitted to the Agency must be from very low-income applicants. The Agency is required by law to obligate at least 40% of its funding to very low-income households with the balance to low-income households. Because of this statutory requirement, the intermediary is expected to contribute to the total by submitting at least 30% of its applications from very low-income households. This element is reviewed on a per state basis.

Next, let's review the performance elements and how those are calculated.



As previously stated, because the intermediary is conducting a quality assurance review, it is expected that packaged loan applications funneled through the intermediary will have minimal need for the Agency to request additional information and will receive a high rate of Agency approval. As such, on a per state basis, the following measures of success will be applied to both applications received and closed.

- A success rate less than 80% is considered unacceptable. With this rating, the intermediary is subject to immediate revocation of their approved status.
- With a success rate between 80% - 84.99%, the intermediary is demonstrating that they need to improve. Within the next quarter, they would need to show improvement in their success rate, or face possible revocation.
- The minimally acceptable, or "meets" designation falls within a success rate of 85% - 89.99%.
- And finally – the highest level of rating: Excellent, is achieved with a success rate of 90% or higher.



The designation as an Agency-approved intermediary is subject to revocation by the Agency under any of the following conditions:

- The rate of submitted packaged loan applications that receive RHS approval is below the acceptable limit as determined by the Agency. At this time, the success rate is set at 80% or better, as was discussed in the prior slide.
- The rate of submitted packaged loan applications from very low-income applicants is below the acceptable level as determined by the Agency, which at this time is a 30% rate. That means that at a minimum, 30% of the applications submitted should be from very low-income applicants with the remaining percentage from low-income applicants.
- Violation of applicable laws, guidance or any of the terms of this MOU. The intermediary is subject to the terms of the MOU, as well as agency guidance and laws which govern the entity. For instance, an audit which shows that the intermediary is no longer financially viable or an IRS withdrawal of the nonprofit status could lead to revocation of the intermediary designation.
- No viable packaged loan applications are submitted to the Agency in any consecutive 12-month period. The lack of applications submitted during a 12-month period is indicative that other responsibilities of the intermediary

(such as marketing) are likely not being met.

- The previous bullets dealt with potential reasons why the Agency could revoke the designation as an intermediary. The intermediary may also voluntarily revoke or terminate their status as an intermediary, based on the decision of the entity.

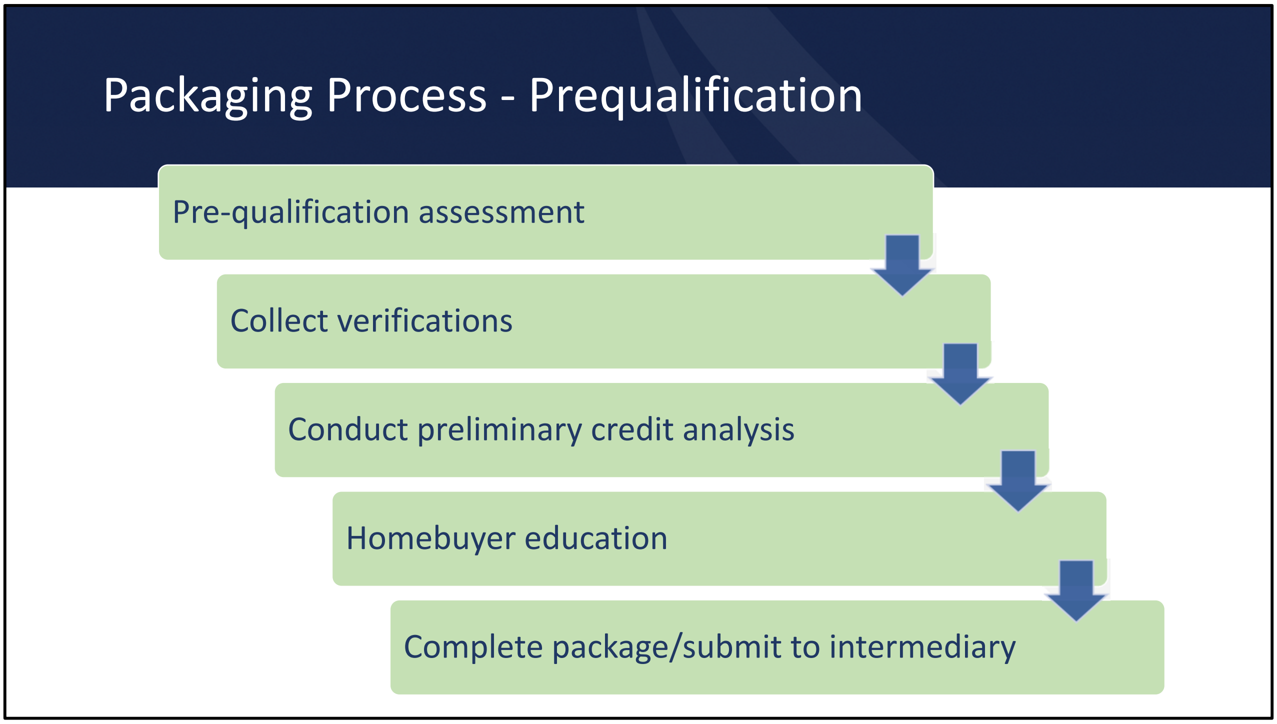
Packaging Process - Notifications

The intermediary will ensure that the following steps are taken by the packager during the loan application packaging process:

- General counseling about the home buying experience
- Information regarding the packaging process:
  - Amount of the fee/how it can be paid
  - Packaging is an optional service
  - Packager cannot guarantee that the loan be approved, funded, or close
  - Disclosure must be in writing and accepted (signed) by the applicant, using Agency approved disclosure format

In accordance with the MOU, the intermediary is responsible to provide oversight and quality assurance reviews for the certified packagers. When an intermediary receives an application package, they must ensure that the packager took the following steps during the packaging process:

- During the certified packager's initial discussion with a potential applicant, the certified packager shall provide them with general counseling about the home buying experience and inform the potential applicant that:
  - The certified packager will charge a fee, including the maximum amount of such fee and the methods by which the fee may be paid;
  - Packaging is an optional service, meaning that the potential applicant has the option of applying for the loan directly with the Agency at no cost; and
  - The packager does not guarantee that the application will be approved or funded by the Agency. Written notification must also be provided (either in person or by mail). The written notification, which requires acknowledgement of receipt, must follow the Agency's required format as provided in Chapter 3 of Handbook-1-3550.



In addition to the notification/disclosure process, the intermediary ensures that the packager conducts a prequalification assessment. The prequalification assessment uses unverified information to evaluate the likelihood that a potential applicant would be program eligible. The intermediary should instruct the packager if the results of the prequalification should be shared with the intermediary for review prior to proceeding with packaging the application.

After a pre-qualification assessment indicates that the potential applicant appears to be eligible for a Section 502 direct loan, the certified packager works with the potential applicant to prepare the loan application package by collecting verification of income and assets, and conducting a preliminary credit analysis that is free of charge to the applicant (or included as part of the allowable packaging fee).

The certified packager also assists applicants who are first-time homebuyers in obtaining homebuyer education that meets the Agency's minimum requirements.

And finally, the certified packager assists the applicant with the completion of the loan application in accordance with Agency requirements, taking care to only submit the items needed by the Agency in order to determine eligibility. The packager should instruct the applicant that a property should not be identified in the application until the COE is issued.

Once the application is complete, the certified packager submits to the intermediary for the quality assurance review.

Quality Assurance Review (QAR) Process

- Ensure that all required application and verification documents have been properly signed, completed and submitted
- Review the packager’s income and repayment calculations to verify that the applicant appears eligible
- Utilize an automated method of documentation delivery, as provided by the Agency

Once the intermediary has received the package, the quality assurance review process begins. The intermediary should:

- Ensure that all required application and verification documents have been properly signed, completed and submitted.
- Review the packager’s income and repayment calculations to verify that the applicant appears eligible.

If the application is incomplete or the intermediary has questions related to the viability of the application, the intermediary will contact the packager to obtain any additional items. Once the application is complete, the intermediary will:

- Utilize an automated method to submit the application. At this time, the eForms system is required for transmission of all packages submitted via an intermediary.

Quality Assurance Procedures

The intermediary will develop and document Quality Assurance Review (QAR) procedures

- Designed to prevent submitting to the Agency incomplete loan applications or loan applications not recommended for approval
- QAR is completed within five business days of receipt

When QAR complete and applicant appears program eligible, the intermediary will send the loan application package to the designated RD Field Office via eForms

When an entity applies to be an intermediary, they must develop and document quality assurance procedures that it will follow during the review of all loan application packages received from the certified packaging body. These processes should:

- Be designed to prevent submitting to the Agency incomplete loan applications or loan applications not recommended for approval.
- Include policies for their staff to complete a review of loan application packages received from the certified packaging body as soon as possible, and no later than within five business days of receipt.
- Identify what steps the QAR staff will take to work with the packager to obtain a complete application.

Once a QAR is completed and the applicant appears program eligible, the intermediary will send the loan application package to the designated RD field office via eForms for processing. Intermediaries should work with the applicable RD State Office to determine which offices have been designated to receive packaged applications.

The quality assurance plan is submitted initially when the intermediary applies. As the intermediary gains experience, the quality assurance plan may need to be amended.

Records

- Applicant
  - Descriptive information
  - Maintain documentation to support processing times, recommendations, etc.
  - Protect Personally Identifiable Information
- Certified packaging body (certified packager + qualified employer)
  - Certified Packager
    - Experience requirements documented in resume
    - Evidence certified packaging class was taken
    - Evidence test was passed successfully
  - Qualified Employer
    - Evidence of good standing in the state(s) of operation
    - Tax exempt/affordable housing mission

The intermediary's records must sufficiently document their activities related to the certified application packaging process.

Records should include but are not limited to:

Applicant information:
The applicant's name, Social Security number, and state where they wish to reside. Evidence related to the application to document processing timeframes, recommendations, etc.

When storing records, remember that the Personally Identifiable Information (or PII) for the applicant should be protected at all times whether it is stored by hard copy or electronically.

Certified packaging body information
The combination of the certified packager and the qualified employer is the certified packaging body.
The certified packager should document their experience requirements in a resume, provide evidence they have taken the certified packaging class, and that they have

successfully passed the corresponding exam.
Records should also be maintained to document the packager's performance. For instance, how many applications were submitted that were incomplete or unviable. What correspondence did the intermediary have with the packager to advise them or any issues with the package, etc.

The qualified employer must provide evidence of good standing in the state(s) or operation, provide evidence that they are a tax exempt nonprofit, and that affordable housing is their mission.

At this time, intermediaries are required to submit an annual report documenting the details of each of the certified packaging bodies with whom they work/have worked. The report is submitted by email to Rural Development National Headquarters at SFHDIRECTPROGRAM@wdc.usda.gov no later than December 31st of each year. It is strongly recommended that this report be maintained and updated throughout the year as certified packaging bodies are added, so that it can be used as a way to easily verify qualifications when application packages are received.

Identification of Certified Packaging Bodies

	A	B	C	D	E	F	G	H	I
1	Qualified Employer (QE) Name		In what state(s) does the QE operate?		Is the QE in good standing in the state(s) of operation?		Is the QE tax exempt?		Is the QE engaged in affordable housing?
2									
3	Packagers employed by this QE								
4	Packager - Last Name	Packager - First Name	Packager's resume confirms experience?	Date identified as part of packaging process	Date by which course/test must be taken	Date test taken	Acceptable test score?	Success rate of approved loans above 80%?	Quality of submitted applications acceptable?
5									
6									

As discussed on the prior slide, the intermediary must identify to the Agency the certified packaging body (i.e. name and contact information of the qualified employer and the name of the certified packager(s)) before a loan application package is funneled through the intermediary. To assist with this process, RD has provided a report format as seen in part, on this slide. The intermediary tracks the qualified employer (QE) information such as state service area – if the QE is in good standing, if the QE is tax exempt and engaged in affordable housing.

The packagers associated with that QE are also identified and their completion of the course/passing the test is documented on this report. Additionally, annually the intermediary indicates if the packager has a success rate above 80% and is submitting complete, quality applications. Because the intermediary is providing the quality assurance reviews (QAR), when the intermediary notices that the packages are not complete or are not closing successfully, they should work with the packager (for instance provide feedback and/or training) to improve their submissions.

The intermediary must also provide a list of certified packaging bodies working through them on the intermediary's website; this list must be updated as changes are made.

Marketing Materials

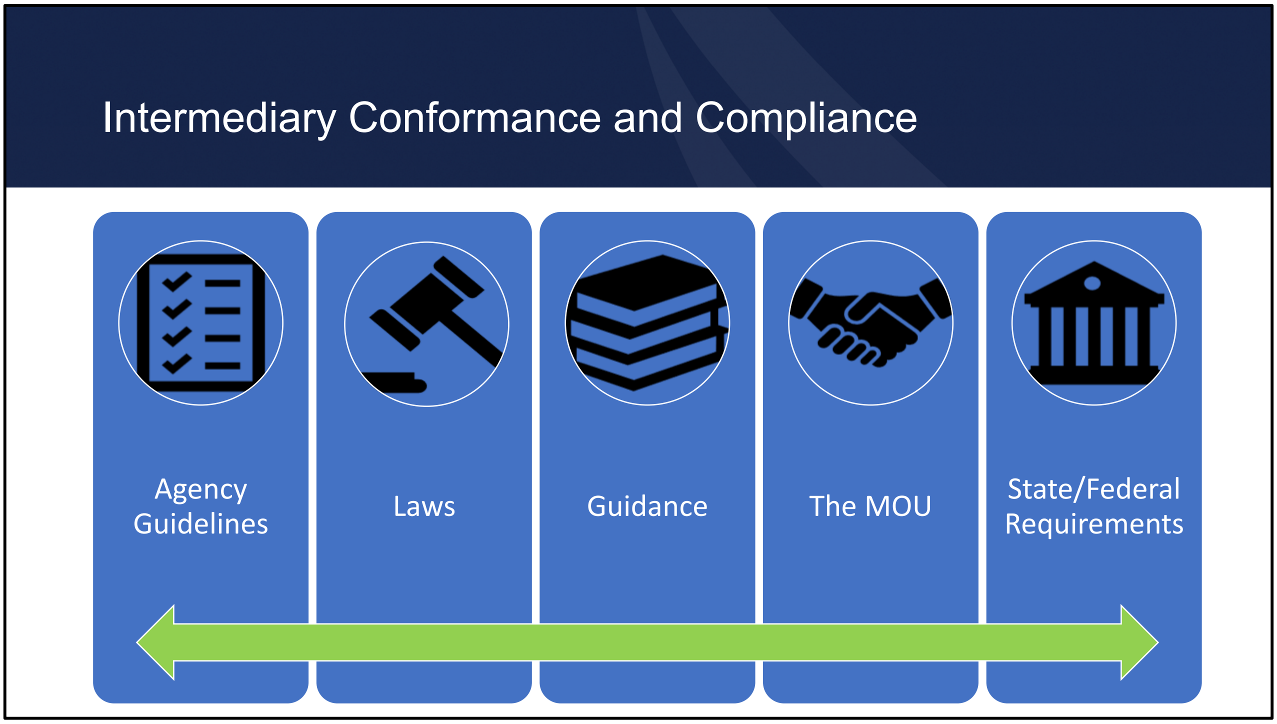
- May be created independent of the Agency
- Agency reserves the right to require alterations to any marketing material to ensure the accuracy of the program information and/or the appropriateness of the message
- USDA logo may not be used

While the intermediary and the certified packaging bodies can prepare certified loan application packaging marketing materials without Agency involvement, the Agency reserves the right to require alterations to any marketing material to ensure the accuracy of the program information and/or the appropriateness of the message. The USDA logo may not be used in any marketing materials of the intermediary, certified packager, or qualified employer.

Financial Interest

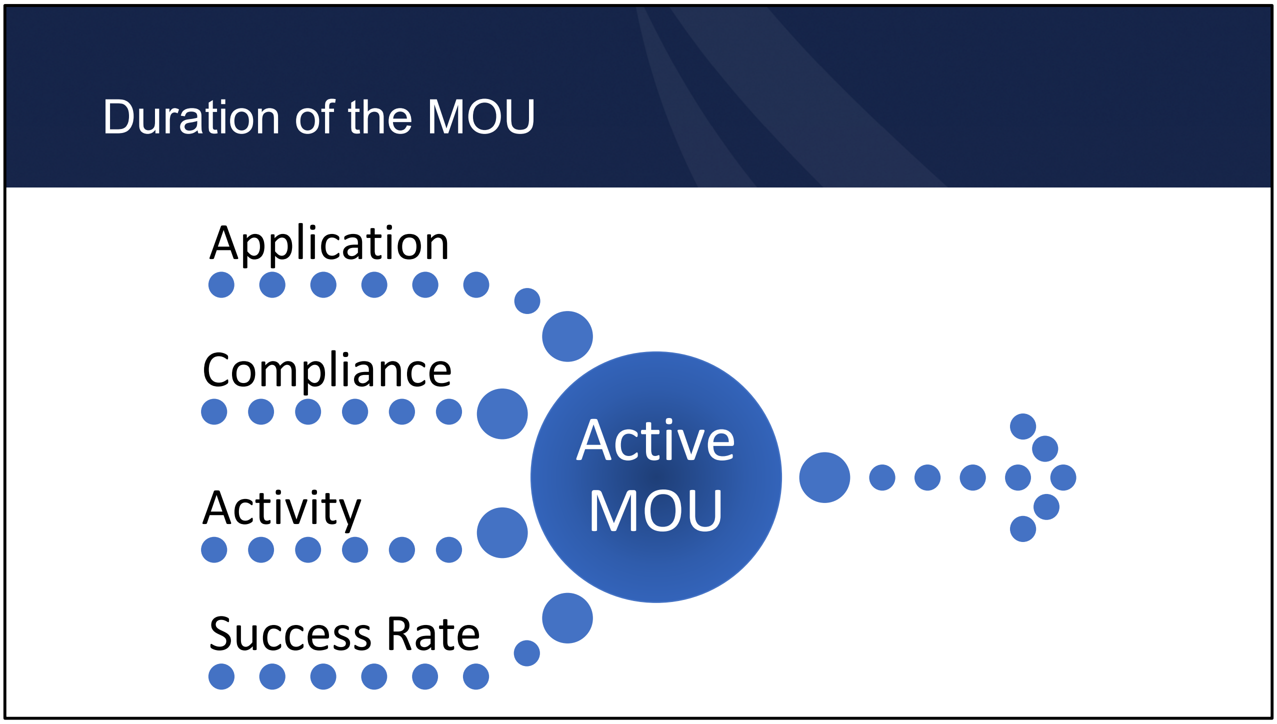
- Disclosure is made with each application
- The intermediary may not be the builder, developer, or seller of the subject home
- Note: An intermediary that is also a Community Development Financial Institution (CDFI) will not be considered noncompliant when CDFI funds are tied to the transaction

Whenever the intermediary submits a loan application to the Agency, the intermediary shall notify the Agency and the applicant if the applicable certified packaging body is the developer of or has a financial interest in the proposed housing project. The intermediary may not be the builder, developer, or seller of the subject home. Note: An intermediary that is also a Community Development Financial Institution (CDFI) will not be considered noncompliant when CDFI funds are tied to the transaction.



The intermediary must conform to all applicable laws and guidance imposed by the Agency under the terms of the MOU, as well as other applicable Federal and State laws, regulations, and guidelines. When this happens, intermediary's execution of its responsibilities flows smoothly and the MOU remains in effect.

However, if at any time the intermediary is found to be in non-compliance with Federal or State law or regulation, Agency guidelines, or terms of the MOU, the Agency reserves the right to take appropriate action.



Once an entity applies and is approved to as an intermediary, the MOU is signed by both parties and becomes effective. Provided that the intermediary complies with requirements, has activity, and an acceptable success rate, the MOU will remain in effect until terminated or superseded by another MOU or agreement between the parties.

The MOU may be terminated voluntarily by the intermediary, or terminated for cause by the Agency if the intermediary does not remain in compliance. Either party may terminate the MOU with written notice to the other party.

In the event of termination, the intermediary shall continue to perform quality reviews on applications received before the date of termination until the Agency or the intermediary transfers those applications to a replacement intermediary acceptable to the Agency, or as otherwise provided by the Agency.

Intermediary Partnership

- Extension of Rural Development
- Quality Assurance Provider
- Affordable Housing = Our shared mission

As we have discussed, the intermediary plays a critical role in the certified loan application packaging process.

By virtue of their outreach and marketing activities, the intermediary acts as an extension of Rural Development, and can reach into areas where the Agency no longer has a physical presence.

The intermediary also provides the quality assurance review for applications submitted by a certified packager, and provides critical feedback to packagers who are new to the process and may initially submit incomplete applications.

With affordable housing as a shared mission, the Agency and intermediary form a partnership which is formalized with the MOU. This partnership has the shared goal of reaching qualified applicants and assisting them to become homeowners.

Rural Development
U.S. DEPARTMENT OF AGRICULTURE

Are you interested in learning more about the
Section 502 Direct Loan Program?
Please contact your applicable RD State Office.
https://www.rd.usda.gov/contact-us/state-offices

Contact information can be found at https://www.rd.usda.gov/contact-us/state-offices.

Finally, please note that the contents of this training are current as of this presentation's revision date. Please refer to Handbook-1-3550 for the most recent program guidance.