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CHAPTER 1: GENERAL PROGRAM REQUIREMENTS

1.1 WELCOME TO THE HANDBOOK

This handbook provides Agency staff and lenders participating in the Single Family Housing Guaranteed Loan Program (SFHGLP) with the tools needed to originate, underwrite, and service guaranteed loans efficiently and effectively. Its goal is to help Agency staff and lenders administer the SFHGLP smoothly while ensuring that the program’s basic legal and administrative requirements are met. The handbook describes:

- Loan origination, underwriting, servicing, and liquidation policies and procedures;
- The role of the Agency and participating lenders in program administration; and
- Practices that will help ensure efficient and effective program administration.

The guidance provided by this handbook is intended to be consistent with all applicable laws, Executive Orders, and departmental regulations, including other Agency regulations. Nothing contained in this handbook should be construed to supersede, rescind, or otherwise amend such laws, Executive Orders, and regulations.

SECTION 1: INTRODUCTION TO THE HANDBOOK

1.2 USING THIS HANDBOOK

The handbook is organized to allow the reader to look up information on specific topics easily. There is a detailed Table of Contents that provides a guide to finding particular topics. In addition, several graphic tools and conventions have been used to make information easier to find and understand.

A. Citations

- **Regulatory citations.** The regulation for the SFHGLP is provided in 7 CFR Part 3555 and the text of that regulation is provided in Appendix 1. To assist readers locate the regulatory authority for procedures described here, references to this regulation appear in italicized brackets, for example: [7 CFR 3555.55]. Other regulations or Rural Development instructions are simply referenced.
• **Cross References.** Topics discussed in more than one place in the handbook are cross-referenced to help the reader find other related information more easily.

• **Form references.** Agency form names are shown in italics. All forms referenced in this handbook can be found in Appendix 2.

B. **Attachments and Appendices**

• **Glossary and acronym lists.** Key words and terms are defined in the glossary. A list of acronyms and their definitions is also provided. The glossary and acronym lists can be found before the appendices.

• **Attachments.** Attachments at the end of each chapter contain technical information that is specific to the topics covered in the chapter. Attachments are referenced in sequence using the chapter number and an attachment letter. For example, Attachment 4-A is the first attachment in Chapter 4.

• **Appendices.** Appendices at the end of handbook include forms and other reference materials that relate to multiple chapters.

C. **Terminology**

The SFHGLP has a centralized delivery platform under the Origination and Processing Division (OPD). Servicing operations are located at the National Financial and Accounting Operations Center (NFAOC). This handbook uses certain standard terminology to provide consistency.

• **Agency.** The organizational unit within the U.S. Department of Agriculture (USDA) that is responsible for administering the SFHGLP.

• **Lender.** A financial institution that has been approved to participate in the SFHGLP. The term is used to refer to entities that underwrite and apply for loan guarantees, service SFHGLP loans, or purchase SFHGLP loans from other entities.

• **National Financial and Accounting Operations Center - NFAOC.** The servicing center in St. Louis, Missouri where specific servicing functions, such as loss mitigation and loss claims are processed.

• **Agency staff.** An Agency employee who is responsible for implementing the requirements of the SFHGLP on behalf of the Agency.

• **Applicant.** One or more individuals who have applied for a guaranteed loan.
• **Borrower.** One or more individuals who have received a guaranteed loan.

### 1.3 GETTING ADDITIONAL HELP

This handbook has been designed to be as comprehensive as possible. Program requirements are outlined along with examples and case studies to assist lenders comply with program requirements. However, no handbook can provide guidance adequate for every circumstance, therefore, Agency staff is available to answer specific questions.

Agency staff will not make underwriting decisions for a lender; however, they will help the lender understand the intent of the applicable requirements and provide guidance about the kinds of information that the lender should include to document its decision-making processes. Additional training may also be provided by Agency staff with regard to particular program requirements that a lender finds very difficult to fulfill properly.

The Agency is committed to providing timely responses to lender inquiries. Lenders should submit general inquiries to SFHGLD.PROGRAM@usda.gov.

### SECTION 2: OVERVIEW OF THE SFHGLP

#### 1.4 SFHGLP GOALS

The SFHGLP is designed to provide low- and moderate-income households the opportunity to own adequate, modest, decent, safe, and sanitary dwellings and related facilities for their own residential use in rural areas. The program offers eligible applicants the opportunity to acquire, build, rehabilitate, improve, or relocate a dwelling in rural areas. The program provides loan guarantees to an approved lender for loans made to eligible applicants.

In providing this service, the Agency strives to meet several goals.

• **Customer Service.** The Agency is committed to providing customer-focused, streamlined service.

• **Partnerships.** The Agency is committed to working with participating lenders in order to expand housing opportunities in rural areas.

• **Effective Use of Resources.** As a publicly funded program, the SFHGLP must use tax dollars efficiently.
1.5 SFHGLP SUMMARY

Private lenders are key to the success of the SFHGLP. Although the Agency issues loan guarantees, lenders that have been approved to participate in the program are responsible for originating, underwriting, servicing, and liquidating loans. The lender is ultimately responsible for ensuring that all program requirements are met, and that the underwriting procedures for the loan are followed. The Agency reviews each loan proposal to ensure the applicant and property appear to meet program eligibility requirements and monitors lender performance on an ongoing basis to help ensure that lenders accurately understand the Agency’s expectations.

Applicant eligibility is discussed in detail in chapters 8 through 11. In summary, applicants may be eligible to receive a guaranteed loan if they:

- Are income-eligible;
- Agree to personally occupy the dwelling as their primary residence;
- Are U.S. citizens, U.S. non-citizen nationals, or qualified aliens;
- Have the legal capacity to incur the loan obligation;
- Have not been suspended or debarred from participation in Federal programs;
- Have demonstrated both the willingness and the ability to repay the loan; and
- Are purchasing a property that meets all program criteria.

In the event that a lender incurs a loss on a guaranteed loan, the Agency will compensate the lender under the terms of the Loan Note Guarantee and all program requirements.

SECTION 3: GENERAL PROGRAM REQUIREMENTS

1.6 CIVIL RIGHTS

The Agency and participating lenders must administer the SFHGLP fairly and in accordance with all equal opportunity and fair housing legislation and applicable Executive Orders. Below is a list of the pertinent Federal laws and Executive Orders, as well as a brief description and highlights. While lenders will be familiar with many of these requirements, they should review carefully applicable legislation and orders, especially if new to Federally-conducted programs. Agency staff should refer to RD Instruction 1901-E for guidance on relevant civil rights requirements.
A. Major Civil Rights Laws Affecting the Single Family Loan Guarantee Program

- **The Equal Credit Opportunity Act (ECOA)** prohibits discrimination in the extension of credit on the basis of race, color, religion, national origin, sex, marital status, age, income from public assistance, or because an applicant has in good faith exercised any right under the Consumer Protection Act. An applicant or borrower who believes he or she has been discriminated by Rural Development for any of these reasons may write to the Secretary of Agriculture, Washington, D.C. 20250.

- **Title VIII of the Civil Rights Act of 1968** (also known as the Fair Housing Act of 1988, as amended) is enforced by the U.S. Department of Housing and Urban Development. The Fair Housing Act prohibits discrimination in the sale, rental or financing of housing on the basis of race, color, religion, sex, national origin, familial status, or disability.

- **Section 504 of the Rehabilitation Act of 1973** prohibits discrimination by the Federal government on the basis of disability. An applicant or borrower who believes he or she has been discriminated by Rural Development on the basis of disability may write to the Secretary of Agriculture, Washington, D.C. 20250.

- **Executive Order 11063 as Amended by 12259** prohibits discrimination in housing or residential property financing for any Federally assisted activity against individuals on the basis of race, color, religion, sex, or national origin.

B. Nondiscrimination Practices

The applicable civil rights laws prohibit the denial of loans, services, and benefits provided under the SFHGLP to any person based upon race, color, national origin, sex, religion, marital status, familial status, age, disability, source of income, or because the applicant has, in good faith, exercised any right under the Consumer Credit Protection Act (15 U.S.C. 1601). Discrimination in employment practices is also prohibited.

The Agency is responsible for providing guidance and oversight to participating lenders, and their agents, to ensure procedures are consistently met. Important key areas are listed below.

- **Outreach.** Information about the availability of the program and how to apply must be broadly disseminated, and the extent of the information, assistance, and courtesy extended to those who make inquiries must be consistent.

- **Application procedures.** Application procedures must be fair and accessible to all potential applicants.
• **Determining eligibility.** Equal rigor must be used for all applicants when verifying income, conducting credit checks, and allowing applicants to clarify information.

• **Making exceptions.** Standards for offering exceptions must be applied consistently.

• **Loan terms and subsidies.** Opportunities for any subsidies and favorable loan terms must be made available consistently.

• **Servicing.** Loan servicing, including offering benefits and assistance, must be offered in a fair and consistent manner to all borrowers.

• **Liquidation and Property Disposition.** Liquidation and any subsequent property disposition must be executed in a fair and consistent manner. Property disposition practices, like those outlined for outreach, must ensure that no person has an unfair advantage in acquiring foreclosed property.

**C. Reasonable Accommodations for Persons with Disabilities**

The lenders and their agents must make reasonable accommodations to permit persons with disabilities to apply for and benefit from Agency programs. Reasonable accommodations may include providing facilities that are physically accessible and effective communication and outreach tools so that all applicants can get good program information, for example, a Telecommunications Device for the Deaf (TDD).

1.7 **REVIEWS AND APPEALS**

Agency decisions that are not made in favor of a lender or other program participant (applicant or borrower) are known as adverse decisions and may be reviewed or appealed. Adverse decisions must be based upon 7 CFR Part 3555 found in Appendix 1 of this Handbook.

Adverse decisions include the administrative actions taken by Agency staff; and the Agency’s failure to take required actions within time frames specified in statutes or regulations, or within a reasonable time if no deadline is specified. Adverse decisions made by a lender are not an Agency decision. Adverse decision made by the Agency may be appealed to USDA, National Appeals Division (NAD) in accordance with Appendix 3 of this Handbook.

1.8 **STATE AND LOCAL LAW**
State and local laws and regulations, and the laws of American Indian tribes, may affect implementation of the program. In such cases, supplemental guidance to resolve any conflicts or differences may be issued. Implementation of the program.

1.9 EXCEPTION AUTHORITY

Exceptions to any requirement of this handbook, or 7 CFR Part 3555, can be approved in individual cases by the Administrator, or designee, if application of the requirement or failure to take action would either adversely affect the Government’s interest or conflict with the objectives and spirit of the authorizing statute. Any exception must be consistent with the authorizing statute and other applicable laws.

A. Who Can File a Request

Only Agency staff may file a request for an exception. However, lenders can request that the Agency consider submission of a formal request for exception. When asking that the Agency consider requesting an exception, the lender should include documentation that demonstrates how the exception would protect the Government’s interest or maintain consistency with the program’s authorizing statute.

B. What Must Be Included in the Request

The exception request developed by the Agency for the Administrator, or designee, must provide clear and convincing evidence of the need for the exception. At a minimum, the request must include:

- A full explanation of the unique circumstances, including an explanation of any adverse effect on the Government’s interest if the waiver is not granted;

- A discussion of proposed alternatives considered; and

- A discussion of how the adverse effect will be eliminated or minimized if the exception is granted.

C. Where Requests are Submitted

Requests for exceptions are submitted to the Administrator, through the Deputy Administrator, Single Family Housing. Requests may be initiated by:

- The Executive Director, Single Family Housing Guaranteed Loan Program; or

- The Deputy Administrator, Single Family Housing.
Requests for exceptions regarding architectural and engineering, environmental, or civil rights issues will be referred for review and comment to the appropriate technical staff prior to exception request of the Administrator.

1.10 CONFLICT OF INTEREST

All Agency staff must strive to maintain the highest levels of honesty, integrity, and impartiality in conducting activities on behalf of the Agency. In order to avoid conflicts of interest, applicants and borrowers must disclose to the lender any prohibited relationship or association with any Rural Development employee and the lender must report this information to the Agency. Lenders must also disclose to the Agency any prohibited relationship or association that it or any of its employees has with any Rural Development employee.

A. Prohibited Relationships

Prohibited relationships and associations include:

- Immediate family members, including parents and children, whether related by blood or marriage, and any household residents;
- Close relatives, including grandmother, grandfather, aunt, uncle, sister, brother, niece, nephew, granddaughters, grandson, or first cousin, whether related by blood or marriage;
- Immediate working relationships, including co-workers in the same office, subordinates, and immediate supervisors; and
- Close business associations with an identity of financial interest, including, but not limited to, business partnerships, joint ventures, or closely-held corporations.

B. Disclosure Requirements

Disclosure of prohibited relationships and associations under this section will not result in applicant, borrower or lender ineligibility. Disclosures may result in special handling or reassignment of Rural Development employee responsibilities with regard to the loan guarantee in question so that no prohibited relationships or associations exist between the Rural Development employees responsible for loan guarantee transactions, and lenders, borrowers, or applicants.

Applicants are required to disclose any known relationship or association with a Rural Development employee. When a relationship or association is identified in the application, the lender is required to notify the Agency prior to submission of the application. Attachment 1-A, “Notice of Relationship/Association between Applicant and
Rural Development Employee,” may be used to notify the Agency. After review by the Agency, the lender will be notified of the special handling procedures.

When a Rural Development employee is aware of a relationship or association with an applicant, the employee is required to notify the Agency in writing. Attachment 1-A may be used to notify the Agency of the relationship or association. Special handling of the application will be provided to avoid a potential conflict of interest.

The Agency official, as determined by the OPD Director, may use Attachment 1-B to determine the processing and servicing procedures. A copy of the notice will be provided to the lender and Agency employee.

1.11 UNAUTHORIZED ASSISTANCE

Unauthorized assistance occurs when a borrower is not eligible for all or part of the financial assistance received in the form of a loan guarantee. Loans made to unqualified borrowers or made for an ineligible purpose are considered unauthorized assistance. The form of unauthorized assistance can differ based upon false information or inaccurate information.

Unauthorized assistance may be identified through audits, reviews by the Agency or its agents or as reported by lenders. Attachment 16-C provides guidance for submitting lender self-reports in Chapter 16 of this Handbook. The significance of the unauthorized assistance will determine the Agency’s response in accordance with Section 3555.257 of 7 CFR Part 3555.

When the Agency becomes aware of unauthorized assistance due to false information provided by the applicant, the lender may be required to accelerate the loan request. Failure of the lender to accelerate the loan may result in reduction of a loss claim and/or voiding the guarantee. Based upon the severity, the Agency may pursue criminal and civil false claim actions, suspension and/or debarment or other appropriate action.

The Agency will document in detail the findings surrounding the unauthorized assistance and provide a solution on disposition of the case.

1.12 AGENCY LOAN APPROVAL AUTHORITY GUIDELINES FOR SINGLE FAMILY HOUSING GUARANTEED PROGRAM

All new loan specialists working in the Single-Family Housing Guaranteed Loan Program (SFHGLP) are expected to receive loan approval authority prior to officially issuing decisions on program applications. The process consists of initial training, proficiency-based tests, mentoring support, file reviews, and formal recommendation by
the new specialist’s supervisor. The guidelines detail the expectations to be followed by agency employees delivering the SFHGLP.

A. Training

- New Specialist will complete all approved Single-Family Housing (SFH) University guaranteed training modules in the order required by the SFH University curriculum.

- The SFH University curriculum will be supplemented with on-the-job training, provided by an experienced loan specialist/mentor.

B. Proficiency Testing

- The proficiency-based tests are a key component of the loan approval authority process. All new specialists are required to pass the test after each training module is completed. This will indicate to the supervisor and mentor that the new specialist has an acceptable level of knowledge in that program area and can proceed to the next training module. The proficiency-based tests and scoring system are administered in accordance with the SFH University curriculum requirements.

- After the final module is completed the supervisor shall schedule a time for the specialist to take the final exam, which consists of questions generated from information presented in all the completed modules and will be used to assess the overall level of knowledge of the specialist.

- The minimum passing score for the proficiency test is 70. If a new specialist fails the first attempt, the first line supervisor will review the results of the test with the specialist, address weaknesses and advise the new specialist on the area(s) they need to focus, provide a solution to rectify the deficiencies and allow the specialist to retake the test when the supervisor determines the specialist’s readiness.

C. Mentoring

- At the time of enrollment in SFH University, the supervisor will assign a mentor to assist the new specialist in learning the requirements associated with the underwriting and review of SFHGLP applications.

- The assigned mentor shall prepare written quarterly reports to the new specialist’s supervisor, outlining the progress and recommendations on areas needed for continued development.
Mentoring is expected to last at least 12 months, but may be extended (in six-month increments) in the event the progress the specialist is making is not up to par with his/her SFH University curriculum and the proficiency-based tests.

The assigned mentor shall not be the new specialist’s supervisor. The mentor’s role is to help facilitate continued learning and to serve as a resource for technical questions and procedural guidance.

D. File Review

After a new specialist attains a passing score on the final test, the supervisor or mentor will assign SFHGLP files to the new specialists to review independently. Prior to obligation, the supervisor or mentor will complete a file review of each application to evaluate and attest that the new specialist is working at a standard worthy of independent loan approval authority.

Once an acceptable level of review has been attained, the first line supervisor will submit a minimum of four (4) GUS ACCEPT and six (6) GUS REFER or REFER WITH CAUTION loan files for review by the Origination and Processing Division (OPD) Director, or assignee in order to determine the loan approval authority recommendation.

E. Supervisor Recommendation for Approval

Upon successful completion of the SFH University curriculum, proficiency tests, final exam, mentoring period, and file reviews, a letter will be prepared by the new specialist’s supervisor to the OPD Director recommending the delegation of loan approval authority.

The OPD Director or assignee, will review the recommendation and any supporting documentation to grant or deny the delegation of loan approval authority to the new specialist. The designation will be documented in writing. If approval is granted, a certificate will be awarded to the specialist noting his/her approval status with USDA Rural Development. Attachment 1-C, “Delegation of Loan Approval Authority” may be used.

The expected amount of time to complete this process may vary between 12 and 18 months. If more than 24 months have elapsed, the OPD Director, or assignee will examine the reason(s) for the delay and will develop a plan of action.

In the event the supervisor is unable to recommend loan approval authority within 24 months due to recurring deficiencies in the specialist’s file reviews, a revised...
training plan will be developed by the supervisor to assist the new specialist overcome and resolve identified deficiencies.

F. Continued Training Process

Supervisors should continue to evaluate the quality of loan reviews by new specialists after loan approval authority has been granted. Close monitoring by an established quality assurance process is recommended to determine if specific training might be required based on unusual application submissions.

G. Reinstatement of Approval Authority

If a specialist’s loan approval authority is revoked, *RD Instruction 1901-A*, authorizes the Administrator to provide written restrictions or revocations of the authority given to any loan approval official. The Administrator may take action upon the recommendation of the OPD Director or assignee. Supervisors are granted the authority to determine what actions, training, and conditions are required to reinstate loan approval authority to a specialist.
ATTACHMENT 1-A
NOTICE OF RELATIONSHIP/ASSOCIATION
BETWEEN SFHGLP APPLICANT AND RURAL DEVELOPMENT EMPLOYEE

TO: Origination and Processing Division

SUBJECT: Notice of relationship or association between applicant and Rural Development employee

This is to notify you that the following applicant is requesting a Single Family Housing Guaranteed Loan and is related or is associated with a Rural Development employee:

Applicant Name: ________________________________________________

Borrower ID Number: ____________________________________________

Property Address: _______________________________________________

County Name: _________________________________________________

Status of Application:

_____ Pre-Eligibility   _____ Ready to submit    _____ In process

Rural Development Employee Name: _________________________________

Duty Station: ___________________________________________________

Details of relationship/association: _______________________________________

___________________________________________________________________

Submitted by: _____________________________                    Date: ____________

Employee or Lender
Title/Organization

Email: _______________________________

(03-09-16) SPECIAL PN
Revised (03-19-20)  PN 534
TO: (Lender Name)

SUBJECT: Requirements for handling SFHGLP applications of employee, relative or associate for (Applicant Name, Borrower ID Number)

The following application processing procedures have been established by the Director of Origination and Processing Division:

Review of application, approval and issuance of Conditional Commitment: ________________________________

Review of closing documents, Issuance of Loan Note Guarantee: ________________________________

Post Closing Review: ________________________________

Access to the applicant’s electronic case file in the Agency’s automated systems will be restricted to the aforementioned employees. All servicing actions will be in accordance with 7 CFR 3555.

[Date]                                                  ________________________________
[Name]
Director, Origination and Processing Branch

cc: [Employee first-line supervisor]
    Employee,
eOPF
DELEGATION OF LOAN APPROVAL AUTHORITY

TO:  [Name]
     [Title]
     USDA Rural Development
     [Location]

By my authority as the Director of Origination and Processing Division for USDA Rural Development, in accordance with Rural Development Instruction 1901-A, I hereby make a delegation to the aforementioned employee:

- Loan approval authority for Single Family Housing Section 502 Guaranteed Loans described in 7 CFR Part 3555.

This delegation is effective immediately and will continue until the delegate leaves his/her position or until revocation or other change is made in writing.

[Date]____________________________________

[Name]
Director, Origination and Processing Division

cc: [first-line supervisor]
eOPF
CHAPTER 2: RECORD RETENTION

2.1 INTRODUCTION

Both the lender and the Agency have record retention responsibilities. Upon request, the lender must be able to provide the Agency with all mortgage loan files including all loan origination documents. When the lender uses imaging for storage of records, it must retain the capability to reproduce legible and exact duplicates of all original documents. The Agency must retain all files relating to its approval of a lender for participation in the SFHGLP.

2.2 LENDER RECORD MAINTENANCE

Lenders must maintain loan origination records and keep record of all payments and disbursements in which the Agency has an interest. Upon written request from the Agency, the lender must provide any mortgage records or documents requested by the Agency.

A. Loan Origination Records

Loan origination records must be retained by the lender. If the lender sells the loan, the selling lender must retain copies of the loan origination documents for a minimum of two years after selling the loan. In addition, the purchasing lender must receive copies of the loan origination documents from the selling lender and retain those copies for a minimum of two years after the lender sells the loan. Retention of origination documents, for a minimum of two years after selling a loan is required for each succeeding lender. Each selling lender is required to transfer copies of the origination documents to the purchasing lender.

Loan origination records retained by the lender include:

- Loan application, including any preliminary (handwritten) application and the final typed application signed at loan settlement;

- Summary of program eligible income and repayment income calculations, verification of employment and income, including documentation of any oral contact or correspondence with an employer for all adult members of the household;

- All credit reports, including explanations for adverse credit;

- Uniform Underwriting and Transmittal Summary or loan approval form;
• All inspection reports, plan certifications, builder warranties, including lender certifications to the Agency;

• All Agency forms submitted to the Agency or received from the Agency;

• Closing documents, including original security instruments; and

• All residential real estate appraisals and supporting documents.

B. Payment and Disbursement Records

Lenders must maintain a record of all payments received and disbursements paid on the obligation while the Agency has potential liability. The lender should also maintain a record of all servicing actions, relevant post-closing documents, and all borrower notices and correspondence. The following retention periods apply:

• Mortgage files that have been satisfied, through payment in full, will be retained for a minimum of three years from the date of the final payment or foreclosure.

• Mortgage files that have been satisfied through voluntary or involuntary liquidation must be retained for at least six years from the date the claim proceeds were received.

2.3 AGENCY RECORD MAINTENANCE

A. Lender Approval Files

The Agency will establish a file folder for each lender approved for participation in the SFHGLP. The Agency will digitally image or electronically store all lender approval documents in the Rural Development Imaging Repository. The Agency will retain all documents relative to lender approval for participation as long as the lender remains active and maintains its approval status. Refer to Chapter 3 and Attachment 3-A of this Handbook for required documentation for lender approval.

If a lender’s approval status is voluntarily withdrawn by the lender, or terminated by the Agency, the lender file and all documentation pertaining to the withdrawal or termination will be retained in accordance with the most recent Agency file record retention requirements.
B. Mortgage Files

The Agency may dispose of all documents except those listed below, which will be retained in accordance with RD Instruction 2033-A, once the Agency receives notification from the lender that the mortgage has been satisfied. The Director of the Origination and Processing Division will designate or delegate authority to the supervisory staff of the unit or other qualified personnel to ensure that appropriate files are established and maintained.

The core documents listed below will be retained for long-term preservation in the Agency’s official SFHGLP folder. The original documents may be destroyed once the Agency has performed a quality control review to confirm the imaged documents have been uploaded and indexed to quality expectations of accuracy and consistency. The following records will be retained:

1. Form RD 3555-18/18E, Conditional Commitment for Single Family Housing Guarantee, with conditions, requirements, and Lender Certification;

2. Promissory Note;

3. Form RD 1980-19, Guaranteed Loan Closing Report, as applicable (those lenders electronically submitting loan closings in accordance with Chapter 16 of this Handbook are not required to submit Form RD 1980-19);

4. Loan Application(s);

5. Employment/Income Verifications and Income Determinations;

6. Credit Report(s);

7. Form RD 3555-21, Request for Single Family Housing Guarantee;

8. All forms related to the Agency’s environmental review (Forms RD Instruction 1970-B, Exhibit D, Environmental Checklist for Categorical Exclusions, FEMA Form 81-93, Standard Flood Determination Form, etc.);

9. Documentation providing annual and repayment income calculations on Attachment 9-B, Income Calculation Worksheet, or Uniform Underwriting and Transmittal Summary 1008, and/or an equivalent form provided by the lender (This requirement excludes Guaranteed Underwriting System (GUS) “Accept” recommendations).

10. Final GUS Underwriting and Findings Report;
11. Form RD 3555-17/17E, Loan Note Guarantee and the final Amortization Schedule attached to the Loan Note Guarantee;

12. Confirmation requirements under 7 CFR 3555, Section 3555.202 have been met;

13. Appraisal Report(s);

14. Form RD 1922-15, Administrative Appraisal Review;

15. National Office waivers, if applicable;

16. Final Closing Disclosure;

17. Internal Agency Processing Checklist;

18. Internal Agency Loan Closing Checklist, if applicable;

19. Any other forms deemed necessary for record retention by the Agency.

When a loss claim is paid on an account, the mortgage file and documentation supporting the claim will be retained accordance with RD Instruction 2033-A. Loss claim documents may also be digitally imaged, and the original documents destroyed.
CHAPTER 3: LENDER APPROVAL
7 CFR 3555.51

3.1 INTRODUCTION

A lender is defined as an entity that originates, services, or holds a loan guaranteed by the Agency.

The SFHGLP is not intended to promote risky lending. For its success, the program relies on lenders to make sound underwriting decisions. Because the Agency does not underwrite the loans it guarantees, lenders that apply for loan guarantees must originate, underwrite, service, and hold loans responsibly. To ensure that these standards are met, the Agency must approve a lender before it participates in the SFHGLP. To be approved, a lender must agree to follow the Agency’s program guidelines and consistently demonstrate high-quality in the areas of loan origination, underwriting, servicing, and reporting. Once the Agency has approved the lender, it may participate in the program as long as it maintains these standards and continues to follow all program requirements. The Agency periodically monitors the lender to verify that continued program participation is warranted.

3.2 LENDER APPROVAL CRITERIA [7 CFR 3555.52]

A lender must demonstrate that it has the expertise to make and/or service single-family housing mortgage loans. Lenders that have been approved for single-family housing loan-making activities by organizations referenced in Paragraph A of this section are considered to have demonstrated the ability to originate, underwrite, and service SFHGLP loans. In all other cases, the Agency determines whether a lender is qualified by reviewing the lender’s history along with other documentation.

A. Approval from Another Recognized Source

Acceptable documentation includes a copy of the official letter or other verifiable communication from an acceptable secondary market organization or other Federal government agency showing that the lender is approved for participation by that entity. The lender must also provide additional documentation listed in the Lender Approval Checklist, Attachment 3-A of this chapter. The Agency reviews and confirms the information the lender submits.

Acceptable secondary market organizations, Federal government and state agencies include:

- A State Housing Finance Agency (SHFA). Evidence that a private sector lender is approved by a SHFA to participate in SHFA programs does not represent an automatic approval to participate in the guaranteed program.

- The U.S. Department of Housing and Urban Development-Federal Housing Administration (HUD-FHA), when the lender is approved as a supervised or non-supervised mortgagee with Direct Endorsement Authority for title II lending activity.
• Government National Mortgage Association (Ginnie Mae), when the lender is an issuer of Ginnie Mae mortgage-backed securities.

• The U.S. Department of Veterans Affairs (VA), when the lender is a supervised lender or is approved as a supervised or non-supervised mortgagee with the authority to close loans under VA’s automatic guaranty procedure.

• Fannie Mae, when the lender is approved for single-family loan activities.

• Freddie Mac, when the lender is approved for single-family loan activities.

The Agency may revoke a lender’s approval to participate in the SFHGLP if the lender fails to maintain the appropriate eligibility status or violates the terms and conditions of the Agency’s lender agreement.

B. Approval by Demonstrated Ability

A lender that does not meet the conditions of Paragraph 3.2.A, and who has not previously participated as an approved lender in the SFHGLP, may seek approval by demonstrating its ability to originate and/or service sound loans. In such a case, the lender either must be overseen by a Federal regulator, be a Farm Credit System institution, or must be an active participant with an approved lender agreement in another USDA guaranteed loan program.

I. Demonstrated Ability

The lender must have a proven ability to originate, underwrite, and/or service single-family mortgage loans and must have a staff with adequate knowledge and expertise in these areas. Expert knowledge and experience in residential mortgage lending may be demonstrated through the following documentation:

• A summary of residential mortgage lending activity. At a minimum, the summary must include the dollar amount and number of residential mortgage loans in its loan origination and servicing portfolio, along with percentages of delinquencies, foreclosures, and credit losses. The Agency will examine the summary to verify that the lender’s performance is comparable to that of other participating lenders in good standing.

• Written criteria that outline the policies and procedures the lender typically follows when originating, underwriting, and closing residential mortgage loans. The quality control system must ensure that the lender demonstrates safe and sound lending practices including, but not limited to, the analysis and review of appraisals and other factors affecting property values, credit analysis and review, and income analysis and review. In addition, the policies and procedures must comply with all applicable laws and regulations such as the Equal Credit
Opportunity Act (ECOA), the Real Estate Settlement Procedures Act (RESPA), and the Home Mortgage Disclosure Act (HMDA).

- **Evidence that the lender has an experienced loan underwriter on staff.** The lender must provide a copy of the underwriter’s signed resume showing that the underwriter has at least two years of experience in underwriting single family residential loans, and is knowledgeable of the principles, practices, and techniques of residential mortgage lending.

2. **Additional Requirements for Originating Lenders that do not Service Loans**

A lender that does not intend to service SFHGLP loans must certify that it will contract with an Agency-approved lender that agrees to follow all Agency servicing requirements, and that has the capacity to hold funds for taxes and insurance in escrow. Originating lenders should be prepared to escrow funds for taxes and insurance when required to repurchase loans.

3. **Additional Requirements for Lenders Servicing Loans**

If the lender intends to service SFHGLP loans, the lender must provide the following additional documentation:

- **Written criteria concerning the policies and procedures for servicing residential mortgage loans.** The Agency will review these policies and procedures to determine if escrow accounts are handled in compliance with RESPA, and that all other applicable laws and regulations, such as the Fair Credit Reporting Act (FCRA), are followed.

- **Evidence of a written plan if the lender contracts for escrow services.** If a lender does not have an escrow system for taxes and insurance, it must submit a written plan to the Agency for ensuring that taxes and insurance for mortgage loans are paid when due.

- **Evidence that the lender has serviced single-family residential mortgage loans in the year before applying for Agency approval.** This documentation should include the number and dollar amount of the loans in the lender’s portfolio, the number and percentage of loans in default (categorized by 30-60-90-days late, in bankruptcy, and in foreclosure), and the number, percentage and dollar amounts of loans on which losses have been paid.

The Agency reserves the right to re-evaluate a lender’s status from time to time. Lenders who fail to follow established guidelines for real estate taxes and hazard insurance premiums or other conditions of the lender’s agreement may have their lender’s approval revoked by the Agency. The lender may be required to provide information to support continued Agency approval similar to the documentation provided with its initial application.
4. **Federal Oversight**

A lender that is a federally regulated depository institution may be considered for participation in the SFHGLP. The lender must provide an official letter or other verifiable communications from the oversight authority that indicates the lender’s ability to process, underwrite and service single-family residential mortgage loans. The documentation must confirm that Federal oversight is being provided by one of the following Federal oversight entities:

- The Federal Reserve System.
- The Office of the Comptroller of the Currency (OCC).
- The Federal Deposit Insurance Corporation (FDIC).
- The National Credit Union Administration (NCUA).
- The Federal Housing Finance Board regulating lenders within the Federal Home Loan Bank (FHLB) system.

5. **Experience with a USDA Program or Farm Credit System**

A Farm Credit System (FCS) institution or lender participating in certain other USDA programs is eligible to participate in the SFHGLP if it can also demonstrate experience in underwriting and servicing single-family residential mortgage lending. Lenders meeting these criteria include:

- An FCS lender with direct lending authority; or
- A lender participating in other Rural Housing Service, Rural Business-Cooperative Development Service, Rural Utilities Service, or Farm Service Agency guaranteed loan programs that have an active lender agreement.

C. **Participation as an Agent of an Approved Lender**

A lender that does not meet the requirements for Agency approval as a lender may participate in the program as the agent of a lender approved by Rural Development. The lender approved by Rural Development must designate the agent in writing and state the functions that the agent performs on its behalf. The agent may be permitted to originate the loan and close it in their name as long as the loan was reviewed by the approved lender and is transferred to the approved lender immediately upon closing and prior to issuance of a Loan Note Guarantee. The lender approved by Rural Development is responsible for ensuring that its agent’s loan origination, underwriting, and closing activities are in accordance with Agency standards. The Conditional Commitment for Loan Note Guarantee and Loan Note Guarantee will be issued to the approved lender.
3.3 APPLICATION

Lenders will submit Form RD 3555-16, “Agreement for Participation in Single-Family Housing Guaranteed/Insured Loan Programs of the United States Government,” and the necessary supporting documentation as outlined in Lender Approval Checklist, Attachment 3-A, of this chapter. When a lender determines that it will participate in multiple states, the application package will be submitted to the Rural Development National Office. If the lender wishes to participate in the SFHGLP in a single state, the lender should submit the application package to the State Office as listed in Appendix 4 of this handbook.

Reliable and effective quality control (QC) programs are essential to a lender’s success in the mortgage industry. Quality begins prior to application intake and continues through the mortgage process. The purpose of quality control is to monitor and evaluate the integrity of the origination and servicing processes and is customized to the lender’s organization, circumstances and needs. The quality control plan must contain the necessary controls as required by other recognized sources noted at Section 3.2.A of this chapter. At a minimum, the lender’s plan should:

- Have written procedures for document re-verification process, sampling methodology that includes a representative sample of Rural Development loans, consistent and timely review process and document retention.

- Have a quality control team that operates independently from loan origination/underwriting and servicing functions or contracts out this function.

- Provides for standard operating procedures for all employees who will be involved with or affected by the quality control process.

- Written procedures to report violations of laws or regulations, false statements, and program abuses directly to appropriate authorities in a timely manner. Information regarding violations will be reported to the National Office in accordance with Appendix 4 of this handbook.

- Ensure adequate quality control and data integrity checks are included for loans processed through automated underwriting systems on a regular and timely basis.

- Ensure adequate monitoring of all vendors, contractors, and third-party providers involved in the origination process (ex. mortgage brokers, correspondents, appraisers, and credit agencies).

- Identify training opportunities for lender staff.
3.4 AGENCY REVIEW

The Agency review of the lender’s application includes the following:

- Ensuring that all required documents have been submitted and are completed correctly. Incomplete applications cannot be approved and the lender will be advised of the omission(s) in writing.

- *Form RD 3555-16* has been properly executed by a person authorized to bind the lender to the terms stated on the form.

- Evidence that the lender’s demonstrated ability is consistent with the requirements of this chapter.

- Evidence that neither the lender nor any of the lender’s principal officers have been suspended or debarred from participation in Federal programs.

- Evidence that the lender’s approval status with Fannie Mae, Freddie Mac, HUD, VA, or another acceptable government agency is active at the time of the application to the Agency.

The Agency should use the *Lender Review Guide*, Attachment 3-B of this chapter to review lender applications.

A. Approval of Application [7 CFR 3555.52]

Pre-Approval

If the lender meets the criteria for an approved lender and provides the supporting documentation as outlined in Attachment 3-A of this chapter, the Agency will issue an approval notice to the lender. Final approval is dependent upon the lender and all origination and underwriting staff involved with the SFHGLP completing mandatory training. The purpose of the training is to provide an overview of the SFHGLP objectives, lender responsibilities, required loan documentation, and how to obtain a Loan Note Guarantee. The following options are available to assist in meeting the training requirements:

- Lenders may utilize on-demand training as an option to complete mandatory training and approval of their requested Lender Agreement. The training is posted at [https://usdalinc.sc.egov.usda.gov/](https://usdalinc.sc.egov.usda.gov/) under the *Training and Resource Library* link at the *Single Family Housing Guaranteed Rural Housing* menu. This on-demand training is available for lenders to take at their convenience. The steps in accessing this on-demand training and the certification required of lenders once training is complete is outlined in Attachment 3-C of this chapter.
• Guaranteed training programs presented by state and local office agency staff. Lenders should contact the Rural Development representative in their state for training events. A list of state representatives may be found at: [http://eligibility.sc.egov.usda.gov/eligibility/](http://eligibility.sc.egov.usda.gov/eligibility/). Select “Guaranteed” under the “Contact Us” navigation menu item.

**Final Approval**

Upon receipt of an executed training certification provided in Attachment 3-C, the Agency will forward the lender a copy of the executed *Form RD 3555-16* notifying the lender of their approval to participate in the SFHGLP. The lender may begin participating in the program once final approval is obtained.

New lenders will be subject to a compliance review as outlined in Paragraph 3.8 of this chapter.

Once a lender obtains final approval, the Agency will update the lender pages of GLS as outlined in the Attachment 3-B, *Lender Review Guide*.

**B. Denial of Application**

If the lender does not qualify for participation in the program, the Agency will provide written justification along with appeal rights in accordance with Appendix 3 of this handbook.

A lender who does not meet the criteria to participate, in the program, as an approved lender, may act as an agent for an approved lender, as described in Paragraph 3.2.C.

**C. Record Retention**

Lender approval files will be maintained and retained in accordance with Chapter 2 of this handbook.
3.5 LENDER SALE OF GUARANTEED LOANS [7 CFR 3555.54]

SFHGLP loans can only be sold to lenders meeting the requirements of Paragraph 3.2 of this chapter. The purchasing lender must execute Form RD 3555-16 or have an approved Form RD 3555-16 on file. The selling lender is responsible for providing the original Loan Note Guarantee to the purchasing lender, and must report the sale of the guarantee on Form RD 3555-11 within 30 days of the sale in accordance with Paragraph 4.6 of Chapter 4 of this handbook.

3.6 LENDER RESPONSIBILITY

The lender will be responsible for the processing and servicing of the loan and may use third party originators such as agents or correspondents in carrying out its responsibilities. Lenders are fully responsible for their own actions and the actions of those acting on the lender’s behalf. The approved lender must adhere to SFHGLP guidelines as outlined in Paragraph 4.8 of Chapter 4 of this handbook.

- **Processing.** The lender must abide by restrictions on loan purposes, loan limitations, interest rates and terms set forth in 7 CFR 3555 and this handbook. The lender will underwrite the loan and submit the necessary items as outlined in Chapter 15 of this handbook in order to receive a Conditional Commitment. The agent may close the loan in its name provided the loan is immediately transferred to the approved lender to whom the guarantee will be issued.

- **Servicing.** Lenders are fully responsible for regular and default servicing and maintaining security interest for all guaranteed loans. Regular and default servicing requirements are outlined in Chapters 17 through 20 of this handbook. When servicing is subserviced to a third party, the lender will inform Rural Development of the name and address of the servicer by utilizing Form RD 3555-11.

3.7 EDUCATION AND OUTREACH

A. Lenders

Rural Development has developed a series of educational modules for the SFHGLP and they can be located at: https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library. Approved Lenders are responsible to ensure that all staff have reviewed the modules before participating in the SFHGLP. Additional resources can be accessed on the Agency’s SFHGLP web page located at the following link: https://www.rd.usda.gov/programs-services/single-family-housing-guaranteed-loan-program
B. Agency

State Agency staff will conduct outreach and lender education activities to encourage eligible lending institutions to apply for approved lender status. Eligible rural homebuyers benefit when their choice of lending institutions includes mortgage bankers, mortgage brokers, credit unions, Federal Home Loan Banks, etc. State Agency staff should reach out to local educators. To obtain information regarding educator organizations in the state, an online search of educator credit unions, school districts, teacher unions, etc., could assist in meeting this objective. Additionally, many organizations pass along information that can benefit their members and help them achieve affordable homeownership. Phone calls, letters, educational materials and personal visits, to the key decision makers, are effective tools to promote guaranteed loans.

3.8 MONITORING A LENDER’S ORIGINATION AND SERVICING OF LOANS [7 CFR 3555.51]

Rural Development will conduct compliance reviews of the lender’s operations as provided in this section. *Form RD 3555-16* outlines the responsibilities and terms to maintain approval for the SFHGLP. If Rural Development determines that the lender is not fulfilling the obligations of *Form RD 3555-16* or that the lender fails to meet the required criteria, the lender will receive written notice of any deficiencies. If the lender is unwilling or unable to correct the deficiencies, Rural Development will proceed with termination as provided in Paragraph 3.8 of this chapter.

**Compliance Reviews**

*Form RD 3555-16* requires the lender to provide records pertaining to the SFHGLP for review by the Agency. The Agency will conduct a compliance review on a periodic basis as defined in Paragraph B of this section. Compliance reviews assist in Agency risk management and validate that lenders are complying with SFHGLP regulations. Compliance reviews include the examination of lender policies and procedures, cash management practices, and individual borrower case files (loan origination and servicing records, liquidation and claim files).


**A. Review Circumstances and Factors**

- **New Lender Compliance Review.** Rural Development may review loans originated, by a newly eligible lender to ensure understanding of, Agency regulations. Thereafter, the lender will be subject to a review provided in Paragraph 3.8.C of this chapter.

- **Other reviews.** Rural Development may elect to conduct more frequent compliance reviews when major trends or weaknesses, such as loan delinquencies, loan losses, failure to submit
required data and reports, or other influencing factors related to assuring that the Government’s interest is adequately protected, have been noted, regardless of the volume of loans originated or serviced.

- **Compliance Review Guide.** A Compliance Review Guide noted in Paragraph A outlines the risk, frequency, and process the Agency will undertake to conduct compliance reviews of lenders participating in the program.

**B. Conducting Compliance Reviews**

Compliance reviews will be performed on each lender as noted in this section. Compliance reviews may be conducted as an on-site review at the lender location or as a desk review at a site determined by the Agency. The review should be conducted by Agency staff or a designated representative that is knowledgeable of the lender functions to be reviewed. Typically, the National Office will manage nationally approved lenders compliance reviews, however, based on certain risk characteristics, the National Office may complete reviews of State-approved lender operations. Rural Development will determine the amount of time that is needed to conduct the review. The review team members will utilize the Compliance Review Guide when planning, conducting and reporting reviews.

Three standards reviews may be performed:

- **Loan origination review.** A loan origination review is applicable to lenders who perform all or a portion of the following functions: underwriting, processing and closing.

- **Loan servicing review.** A loan servicing review is applicable to a servicer which is performing all or a portion of the following functions: reporting, loss mitigation, loss claims, and property disposition.

- **Expanded review.** An expanded review is performed for lenders and servicers that are both originating and servicing loans.

Compliance review findings will be communicated to the lender and/or servicer verbally and in writing. The reviewers will work with the lender and/or servicer to correct findings identified. The clearance and follow-up process commences upon issuance of the findings report by the Agency or their representative. If necessary, the National Office will assist the state with resolving open compliance review findings. Upon closure of the review or expiration of any follow-up period, a report will be prepared summarizing the review performed. A copy of all compliance review reports performed by the state will be forwarded to the National Office, Guaranteed Loan Division. All supporting documentation relating to the review will be maintained in the state operational file.
3.9 LENDER RECERTIFICATION AND REVOKING LENDER ELIGIBILITY:

The lender remains eligible as long as the lender meets the criteria in Paragraph 3.2 of this chapter unless that lender’s status is revoked by Rural Development or by another Federal agency. The Agency will review on a two year basis lender’s eligibility and require the lender to recertify their status by submitting an updated Attachment 3-A, Lender Approval Checklist, with supporting documentation.

Rural Development may terminate the lender’s approval due to noncompliance with any of the eligibility requirements. Status may also be revoked if the lender violates the terms of Form RD 3555-16, fails to properly service any guaranteed loan, or fails to adequately protect the interests of the lender and the Government. In addition to revocation of eligible lender status, the lender may be debarred by Rural Development or may be required to indemnify Rural Development for any losses paid.

If Rural Development terminates a lender’s approval, the lender will have 30 days from the date of receipt of the Agency’s notification to appeal the decision. Refer to Appendix 3 of this handbook for additional information regarding appeal procedures. Notifications returned with a forwarding address will be sent to the new address with an additional 30 day timeframe for the lender to respond. If the notice is returned as “undeliverable” with no forwarding address, the returned envelope will be retained in the file as evidence that the lender was sent notice that they no longer met approved lender status. Agency staff will update GLS by removing the lender designation and any authorizations. Closed lender eligibility files will be retained in accordance with RD Instruction 2033-A.

3.10 VOLUNTARY WITHDRAWAL

The lender may voluntarily withdraw from participation in the SFHGLP. Pending, unclosed Conditional Commitments, loans serviced or held must be transferred to another approved lender participating in the SFHGLP prior to withdrawal. Lenders must notify Rural Development of their intent to withdraw participation.
ATTACHMENT 3-A
LENDER APPROVAL CHECKLIST

7 CFR 3555.51 and Chapter 3 of this handbook describe the qualifications required to become an Agency approved lender. Other entities may participate as an approved lender’s agent or correspondent, but only approved lenders are responsible for underwriting and servicing and may hold the Loan Note Guarantee on a Rural Development guaranteed loan. For nationwide or multi-state approval, a lender must submit a request to the Rural Development National Office. For single state approval, a lender must submit a request to the Rural Development State Office. Lenders may utilize the following checklist to assure a complete application is submitted. Requests must contain all of the following information in the order listed:

Lender Approval Checklist
USDA Rural Development

Lender Information

Name: TAX ID:

DBA Name(s), if applicable. Use separate sheet for any additional DBAs:

Geographic Address: Mailing Address (if different) Phone:

Fax:

County:

Chartered State/Headquarters:

Website: Company E-Mail:

Contact Person Name: Phone: E-Mail:

Title:

Fax:

Minority/Women-Owned Business (Optional)

□ Minority-Owned □ Women-Owned □ Minority-Owned/Women-Owned

Provide the following information for all principal officers, directors, and senior managers. Additional sheets may be attached, if necessary.

Legal Full Name, including M.I. Title/Responsibilities

Lender Functions

Lender Type (Select Applicable):

□ Originate □ Commercial Bank □ Credit Union □ Others

□ Underwrite □ Mortgage Loan Co □ Savings Bank □ Non-traditional

□ Service □ Insurance Co □ Banks for Co-Ops □ USDA Agency

□ Own □ Farm Credit System □ State Housing Finance Agency □ Specialty Servicer

(03-09-16) SPECIAL PN
Revised (05-15-18) PN 512
Current eligibility designations [Section 3.2 of HB-3555 Chapter 3]:

<table>
<thead>
<tr>
<th>Agency Certifications (Select applicable)</th>
<th>Preferred Method of Evidence/Certification (Submit as supplemental information)</th>
<th>Applicable Agency Assigned Identification</th>
</tr>
</thead>
<tbody>
<tr>
<td>☐ Fannie Mae</td>
<td>Fannie Mac Form 582, “Annual Eligibility Certification Report”</td>
<td></td>
</tr>
<tr>
<td>☐ Freddie Mac</td>
<td>Freddie Mac Form 16SF, “Annual Eligibility Certification Report”</td>
<td></td>
</tr>
<tr>
<td>☐ U.S. Department of Housing and Urban Development – Federal Housing Administration (HUD-FHA)</td>
<td>Letter showing lender approved by HUD as a Title II supervised or non-supervised mortgagee for submission of one to four family housing applications for Federal Housing Mortgage Insurance or as an issuer of Ginnie Mae mortgage backed securities “supervised” or “non-supervised.”</td>
<td></td>
</tr>
<tr>
<td>☐ U.S. Department of Veterans Affairs (VA)</td>
<td>Letter showing lender approved as a supervised or non-supervised “automatic” mortgagee with direct lending authority for VA</td>
<td></td>
</tr>
<tr>
<td>☐ State Housing Finance Agency (SFHA)</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>☐ Farm Credit Service (FCS)</td>
<td>Lender must have direct lending authority. Provide Membership letter.</td>
<td></td>
</tr>
<tr>
<td>☐ Lenders participating in USDA guaranteed loan programs.</td>
<td>Copy of executed agreement showing approval by Rural Housing Service, Rural Business and Cooperative Service, Rural Utilities Programs and/or the Farm Service Agency.</td>
<td></td>
</tr>
<tr>
<td>☐ Evidence of Federal oversight (if applicable)</td>
<td>Evidence and supporting documentation per Section 3.2 of Chapter 3 of Federal oversight by any of the following: The Federal Reserve System; The Office of the Comptroller of the Currency (OCC); The Federal Deposit Insurance Corporation (FDIC); The National Credit Union Administration (NCUA); or The Federal Housing Finance Board regulating lenders within the Federal Home Loan Bank (FHLB) system.</td>
<td></td>
</tr>
<tr>
<td>☐ Evidence of demonstrated ability in underwriting and/or servicing (if applicable).</td>
<td>☐ A summary of residential mortgage lending activity. ☐ Written criteria that outline the policies and procedures the lender typically follows when originating, underwriting, and closing residential mortgage loans. ☐ Evidence that the lender has an experienced loan underwriter on staff.</td>
<td></td>
</tr>
</tbody>
</table>

List of Supplemental Information to be Submitted with Lender Approval Checklist [Check the box to indicate that each required document has been included with the lender approval request package.]


2. Resume Evidence of Underwriter’s qualifications and experience in the industry. ☐

3. Retail Lender – Spreadsheet If your firm is a [retail lender](http://forms.sc.egov.usda.gov/eForms/welcomeAction.do?Home), provide complete contact information (addresses, telephone numbers, fax numbers and e-mail addresses) for your branch locations, loan processing/underwriting departments, loan servicing, and a contact person for loan production. Information assists in populating Rural Development’s lender record database. ☐

4. Wholesale Lender or Servicing Lender – Spreadsheet If your firm is a [wholesale lender](http://forms.sc.egov.usda.gov/eForms/welcomeAction.do?Home) or a [servicing lender](http://forms.sc.egov.usda.gov/eForms/welcomeAction.do?Home), provide a general description of your services (loan processing, underwriting, table funding, loan servicing, real estate owned (REO) disposition, etc.) and provide complete contact information (address, telephone number, fax number, e-mail addresses) for your various departments, including regional account executives. ☐

5. Underwriting Outline A brief outline of underwriting criteria from the lender’s internal loan policy manual. Include a statement to use forms approved by the Federal Housing Administration (FHA), Fannie Mac, or Freddie Mac. ☐
6. Quality Control Plan

General requirements for quality control plans:

- Must be in writing outlining policies and procedures along with any forms and checklists used in the process.
- Employees must operate independently of loan origination and servicing departments or the lender/servicer may contract out this function. If this function is contracted out, the lender must adequately monitor the performance of the contractor.
- Have procedures to report non-compliance to the highest levels of management. May be monthly or at the most a quarterly basis.
- Have procedures to report non-compliance or suspected misrepresentation to the appropriate regulatory authorities.
- Identify training opportunities for lender/servicer staff.
- Set timeframes for review and follow-up procedures.
- Have procedures in place to monitor any third party originators (TPOs).
- Include a consistent process to sample select and review SFHGLP loans.

7. Training Certification


Certifications/Acknowledgments

I certify I am a corporate officer and/or principal/owner of the above-named entity with the authority to legally bind the organization and to execute certifications and acknowledgements on behalf of the entity/organization named. I certify information provided and any accompanying documentation is true and accurate to the best of my knowledge and belief.

Name:  Title:

Signature:  Date:

Send the executed Lender Agreement, Checklist and Supplemental Information to one of the following addresses:

**Single State Approval**

Send to the Rural Development State Office Headquarters in the State lender approval is sought. To find the address and contacts, go to:


**Multi-State or National Approval (by US Mail or Overnight Delivery)**

USDA – Rural Development
SFH/Guaranteed Loan Division
STOP 0784, Room 2250-S
1400 Independence Avenue, SW
Washington, D.C.  20250-0784

Questions:  202.720.1452
Email:  sfhglp.lender@wdc.usda.gov
ATTACHMENT 3-B
LENDER ELIGIBILITY GUIDE
New Lender/Renewing Lender

INTRODUCTION:

This attachment provides assistance to Rural Development staff reviewing and documenting approved lender case files. This guide includes information on the initial review of files, updating lender file information, and closing out lender files.

Detailed guidance on making Guaranteed Loan System lender file corrections are found in Lender Maintenance Help.

REVIEW OF LENDER INFORMATION;

Lender Qualification [3555.3.2.A]:

The Agency may use the chart below to electronically confirm a lender’s eligibility, role and participation with that organization.

<table>
<thead>
<tr>
<th>Organization</th>
<th>URL</th>
</tr>
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<tbody>
<tr>
<td>HUD/FHA and Ginnie Mae</td>
<td><a href="https://entp.hud.gov/sfnw/public">https://entp.hud.gov/sfnw/public</a></td>
</tr>
<tr>
<td>Fannie Mae</td>
<td><a href="mailto:Regulatoryinquiries@fanniemae.com">Regulatoryinquiries@fanniemae.com</a></td>
</tr>
<tr>
<td>Freddie Mac</td>
<td><a href="https://ems-team.usda.gov/sites/RD_HCFP/SFH1/GRH/agreements/Natl%20Lender/Forms/AllItems.aspx">https://ems-team.usda.gov/sites/RD_HCFP/SFH1/GRH/agreements/Natl%20Lender/Forms/AllItems.aspx</a></td>
</tr>
<tr>
<td>Evidence of participation as an approved lender in guaranteed loan programs</td>
<td>Rural Housing Community Development Service</td>
</tr>
<tr>
<td></td>
<td>Rural Business-Cooperative Development Service</td>
</tr>
<tr>
<td></td>
<td>Rural Utilities Services or</td>
</tr>
<tr>
<td></td>
<td>Consolidated Farm Services Agency:</td>
</tr>
<tr>
<td></td>
<td>Approval requires an active lender agreement with the guaranteed program. Approval can be confirmed at: <a href="https://gls.sc.egov.usda.gov/lnrdlst.asp">https://gls.sc.egov.usda.gov/lnrdlst.asp</a>. Enter the Lender Tax ID Number in Guaranteed Loan System (GLS).</td>
</tr>
</tbody>
</table>

(03-09-16) SPECIAL PN
Revised (12-07-17) PN506
DO NOT PAY (DNP) PORTAL:

Rural Development has designated the Department of Treasury’s Do Not Pay (DNP) portal as the approved data verification system to comply with the “Improper Payments Elimination and Recovery Improvement Act of 2012.” The DNP portal provides free access to all the required databases to determine if an individual or entity is eligible to receive federal payments.

State office staff must check the lender’s name and tax identification number and the name of each of the lender’s principal officers through the DNP portal. This search will return a result for the systems below:

- The General Services Administration’s Excluded Parties List System for Awards Management (SAM);
- The Credit Alert System or Credit Alert Interactive Voice Response Verification Reporting System of the Department of Housing and Urban Development (CAIVRS); and,
- The Debt Check Database of the Department of the Treasury (TOP Debt Check).

Authorized agency staff must have a DNP database token issued by the Department of Treasury to access the DNP portal. For a token request or further instructions on how to use the DNP portal access the Rural Development DNP SharePoint site.
**ATTACHMENT 3-C**

**NEW LENDER TRAINING AND CERTIFICATION**

Mandatory training is required as part of the lender approval process. Training is required for all originators, underwriters and servicer employees of the organization and is available at [https://usdalinc.sc.egov.usda.gov/](https://usdalinc.sc.egov.usda.gov/). The lender/servicer will be required to certify training has been taken.

<table>
<thead>
<tr>
<th>Lender Name:</th>
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<tbody>
<tr>
<td>Lender Tax ID #:</td>
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</table>

I certify the following participants completed mandatory Guaranteed Rural Housing training.

Signed

Title

<table>
<thead>
<tr>
<th>Participant Name</th>
<th>Title/Position</th>
<th>Email Address</th>
<th>Phone Number</th>
<th>Date Training Completed</th>
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<tbody>
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</table>
CHAPTER 4: LENDER RESPONSIBILITIES  
[7 CFR 3555.51]

4.1 INTRODUCTION

Lenders must operate responsibly and comply with all Single-Family Housing Guaranteed Loan Program (SFHGLP) requirements. The Agency will provide notice of all program changes; however, lenders are responsible for remaining informed of all program policies and procedures and ensuring that lender staff is adequately trained. The Agency encourages lenders to attend or participate in training provided by the Agency or other approved methods, as outlined in Chapter 3 of this Handbook. For Agency provided training, any of the State Offices can arrange training for lenders and their staff members. New lenders who request participation in the SFHGLP by submitting Form RD 3555-16, “Agreement for Participation in Single Family Housing Guaranteed/Insured Loan Programs of the United States Government,” are required to take training prior to approval by the Agency. Lenders are encouraged to register for automatic email notification regarding loan origination, servicing or automated underwriting updates. Lenders may register at: https://public.govdelivery.com/accounts/USDARD/subscriber/new.

4.2 OPERATE RESPONSIBLY

The lender must:

- Operate in a prudent and businesslike manner. A lender that maintains approval from Fannie Mae, Freddie Mac, VA, or HUD is presumed to act responsibly if all elements of the Lender Agreement are maintained.

- Establish and maintain adequate written policies for loan origination, underwriting, servicing, and quality control. The quality control plan must contain information as outlined Chapter 3 of this Handbook. It must be compliant for the organization on which approval is based and include a representative sampling of SFHGLP loans. The lender must provide copies of the quality control plan for Agency review.

4.3 MAINTAIN A WELL-TRAINED STAFF

A lender must ensure that its loan processors, underwriters, and servicers are fully trained to implement the SFHGLP properly and document this training was provided before originating SFHGLP loans.
• **Maintain knowledgeable staff.** The lender must ensure that new staff members are trained on relevant SFHGLP areas. On a periodic basis, lenders are encouraged to seek refresher training for staff to promote efficiency and consistency in delivering the SFHGLP.

• **Performance improvement.** If the Agency finds that a lender needs to improve its performance, the Agency will require training for the lender’s staff.

4.4 COLLECT LOAN PAYMENTS AND ENSURE PAYMENT OF TAXES AND INSURANCE

The servicing lender, or their representative, must collect the borrower’s monthly payment and apply the funds to the borrower’s account in accordance with the terms of the promissory note and mortgage. The servicing lender must maintain first lien position and ensure that real estate taxes and hazard insurance premiums are paid when they are due. If tax and insurance funds are collected from the borrower, they must be held in escrow in accordance with the Bureau of Consumer Financial Protection (BCFP) regulations. A lender that is not able to hold funds in escrow must have a plan that ensures that taxes and insurance are paid, as described in Attachment 4-A.

4.5 MAINTAIN FIDELITY BONDING

The lender must maintain fidelity insurance covering its employees’ errors and omissions at a level of coverage deemed prudent based on the size of the lender’s operation. The fidelity bond or errors and omission insurance that is generally acceptable to the secondary market agencies (Ginnie Mae, Fannie Mae, and Freddie Mac) will meet Rural Development requirements.

4.6 SELL LOANS ONLY TO APPROVED LENDERS [7 CFR 3355.54]

A. Procedure

A SFHGLP loan may be sold only to an Agency-approved lender, Fannie Mae or Freddie Mac. The selling lender must report any guaranteed loan sale to the Agency by using Form RD 3555-11, “Lender Record Change,” or electronically transmit the information. The notification of transfer of the loan(s) should be sent to the Rural Development Housing Services Branch in St. Louis as indicated on Form RD 3555-11. If the loan is sold to a party not approved to participate in the SFHGLP, the loan note guarantee will be considered invalid.
Should a lender be unable to complete the sale of a loan due to the loss of the original loan note guarantee, the lender may request a copy from the Agency. The Agency will provide a copy marked “Reissued Loan Note Guaranteed.” If the loan was closed in the Agency’s Lender Loan Closing System, the lender can access a duplicate copy within the system.

B. **Purchaser Risks and Responsibilities**

The purchaser of a SFHGLP loan acquires all the rights of a loan holder under the guarantee. This means that, should there ever be a loss, the purchaser is entitled to file a loss claim with the Agency. However, the purchaser must ensure that it properly fulfills all servicing obligations and must provide the Agency any requested assistance for its program monitoring.

4.7 **REPORT SIGNIFICANT CHANGES**

The lender must immediately inform the Agency, in writing, of significant changes in its structure or status. Failure to keep the Agency informed of changes in accordance with *Form RD 3555-16* could lead to withdrawal of approval. Significant changes include instances where the lender:

- Changes its name, location, address, tax identification number, or corporate structure;
- Changes its fidelity bonding or errors and omissions insurance coverage;
- Becomes insolvent;
- Files for any type of bankruptcy protection, is forced into involuntary bankruptcy, or requests an assignment for the benefit of creditors;
- Takes any actions to cease operations, or discontinue servicing its SFHGLP portfolio;
- Becomes delinquent on any Federal debt, or is debarred, suspended, or sanctioned in connection with participation in any Federal program;
- Is debarred, suspended, or sanctioned in accordance with any applicable State licensing or certification requirement or regulation; or,
- Voluntarily withdraws from participation in the SFHGLP.
4.8 ADHERE TO SFHGLP GUIDELINES

The lender must follow all SFHGLP guidelines. Failure to comply could result in reduction or denial of a loss claim or revocation of approval to participate in the program. These program guidelines include:

- **Approved Forms.** The lender must use forms approved by the FHA, Fannie Mae, Freddie Mac, or FCS lenders when forms are not provided by the Agency.

- **Eligibility Requirements.** The lender is responsible for ensuring that the loan applicant and property meet all SFHGLP eligibility requirements.

- **Underwriting Requirements.** The Agency approved lender is responsible for underwriting the loan even if an agent originates the loan.

- **Servicing Requirements.** The lender must comply with the loan servicing requirements in this Handbook. The approved lender is responsible for proper servicing even if it has sub-contracted the servicing.

- **Counterparty Management and Third-party Providers.** Lenders are responsible for managing all counterparty and third-party providers that may assist to the processing, underwriting, and servicing of SFHGLP loans.

- **Monitoring Requirements.** The lender must submit all required reports and cooperate with all Agency monitoring efforts and information requests.

4.9 INDEMNIFICATION

If the Agency determines that the originating lender did not originate a loan in accordance with the requirements of 7 CFR 3555 and this Handbook, the Agency may use available legal remedies against the originating lender, including revoking the originating lender’s eligibility status in accordance with §3555.52 and Chapter 3 of this Handbook. The Agency may also require the originating lender:

(1) Indemnify the Agency for the loss, if the loan default under the guarantee occurred within 60 months of loan closing, when one or more of the following conditions is present:

- The originating lender utilized unsupported data or omitted material information when submitting the request for a conditional commitment to the Agency.

- The originating lender failed to properly verify and analyze the applicant’s income and employment history in accordance with Agency guidelines.
• The originating lender failed to address property deficiencies identified in the appraisal or inspection report that affect the health and safety of the occupants or the structural integrity of the property.

• The originating lender used an appraiser that was not properly licensed or certified to make residential real estate appraisals in accordance with §3555.107(d).

(2) Indemnify the Agency for the loss, regardless of how long ago the loan closed or the default occurred, if the Agency determines that fraud or misrepresentation was involved in the origination of the loan.

4.10 PREVENT MORTGAGE FRAUD

Lenders are accountable for the contents of a loan file, including:

• The sources of and authenticity of all qualifying documentation;

• Representation made on the loan application, such as occupancy, employment income, assets, equity contribution, etc.

Lenders must ensure they have adequate quality control procedures in place to help detect and effectively prevent mortgage fraud. Sound pre-funding quality control practices and rigorous post-funding quality programs are examples to safeguard against fraud. The quality control procedures should address updating company policies and procedures when fraud is discovered.

When a lender becomes aware of fraud, they must report the findings surrounding the discovery to the National Office. National Office information is in Appendix 4 of this Handbook. Include the following information:

• Provide the name, email address, and telephone number of the company point of contact of the case reported;

• Indicate if the fraud involves origination or servicing;

• Indicate the originating lender (underwriting lender) and/or servicing lender, as applicable;

• Include the lender’s federal tax identification number and the lender loan number;

• Agency borrower identification;

• Property street, city, state and zip code;
• Detailed description of findings;

• Identify the mortgage broker, loan officer, appraiser, closing agent, real estate agents, as applicable.

Refer to Chapter 1 of this Handbook for more information regarding falsely submitted information, fraud, and unauthorized assistance.

4.11 WITHDRAWAL OF APPROVAL

A lender’s approval to participate in the SFHGLP does not expire if the lender is an active program participant who is complying with Agency guidelines, continues to meet the criteria of Form RD 3555-16, and remains an eligible lender with Fannie Mae, Freddie Mac, HUD, VA, or other lender approval criteria explained at Section 3.2 of Chapter 3 of this Handbook. The Agency will perform a review on a two year basis to recertify the lender’s on-going eligibility. When the Agency withdraws approval, the Agency retains the right to pursue debarment and other legal actions, as appropriate.

A. Criteria to Withdraw Approval

A lender’s approval may be withdrawn when the lender is neither servicing loans guaranteed under the program, does not hold SFHGLP loans, nor has originated a SFHGLP loan in the previous 24 months. Updated training to ensure a lender’s continued knowledge of the program may be required when lenders originated a small number of loans in the previous 24 months.

The Agency will withdraw a lender’s approval if the lender experiences uncorrected performance problems. The Agency will notify the lender in writing of the reasons for the termination and of its appeal rights as described in Appendix 3 of this Chapter. If a lender chooses to stop participating in the SFHGLP, the lender should notify the Agency in writing.

B. Sale of Loans upon Termination

Upon the Agency’s termination of a lender’s approval, any SFHGLP loans held by the lender must be sold within six months to an Agency-approved lender. Failure to sell the loans can result in the Agency withdrawing its guarantee from the loans. If poor loan quality prevents the sale, the lender may continue to hold the SFHGLP loans in its portfolio; however, it must contract with an Agency-approved lender to conduct all servicing activities and give proper notifications to the Agency.
4.12 ADDITIONAL LENDER RESPONSIBILITIES UPON APPROVAL

- **Guaranteed Underwriting System (GUS).** An automated underwriting system is available to approved participating lenders. Lenders utilizing GUS must enter into a User Agreement. Information on obtaining access to GUS is provided Chapter 5 of this Handbook and at: [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).

- **Electronic Lender Loan Closing System.** Lenders are eligible to submit closed loans electronically upon execution of a User Agreement. Access to the system provides the benefit of paying guarantee and technology fees electronically in lieu of paper checks. Additionally, the lender will have access to the loan note guarantee electronically. Additional information is provided in Chapter 16 of this Handbook. An on-line user guide is available through the link [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). Scroll to Lender Loan Closing/Administration.

- **Payment of Annual Fees.** Lenders will pay annual fees electronically. Lender/servicers will enter into a User Agreement to receive automatic notification and electronically pay annual fees due. Additional information is provided Chapter 16 of this Handbook.

- **Electronic Status Reporting.** Servicers must submit monthly default reports and portfolio reports indicating the status of loans they are servicing via Electronic Status Reporting (ESR) to the National Financial and Accounting Operations Center (NFAOC). The link [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) provides information on completing a Trading Partner Agreement and utilizing the Electronic Status Reporting (ESR) system. Email questions or request for assistance to: RD.NFAOC.HSB@stl.usda.gov. Refer to Chapter 17 and Appendix 8 of this Handbook for additional information regarding electronic reporting.

- **Loss Mitigation, Property Disposition, Loss Claim Administration.** An automated method of processing loss mitigation requests pre-liquidation, property disposition and loss claim administration post-liquidation is available to participating lender/servicers. Lenders will enter into a User Agreement. Information on obtaining access is provided at the link noted above. Scroll to Loss Mitigation, Property Management or Loss Claim Administration and Servicing.
• **Post-Closing Lender Self Report.** Once a loan closes and the LNG has been issued, the Agency will not release the loan in GUS/GLS for corrections. If the Lender determines that information was not accurately reported during the underwriting process or changes occurred between issuance of the Conditional Commitment and the LNG, the lender will submit a self-report to the Agency with a detailed description of the issue along with supporting documentation. The LNG will not be revoked. The Agency will review the lender’s documentation and provide the lender with a written response. The Agency’s correspondence should be sufficient to satisfy most investor’s concerns regarding lender oversights. Additional information on submitting a self-report can be found in Attachment 16-C, of Chapter 16 of this Handbook.
ATTACHMENT 4-A

CONDITIONS FOR LENDERS NOT HOLDING FUNDS IN ESCROW

A lender who does not hold borrower funds in escrow for taxes and insurance should consider the following:

- The Agency’s loan guarantee covers a maximum of twelve months’ past-due real estate taxes and hazard insurance.

- Loan losses attributable to the borrower’s failure to maintain appropriate hazard insurance will not be covered by the Agency’s loan guarantee.

- Loan losses attributable to the borrower’s failure to pay real estate taxes when due will not be covered by the Agency’s loan guarantee.

- The lender will report annually to the Agency the number of borrowers who failed to pay real estate taxes and/or hazard insurance premiums which resulted in the lender advancing funds on the borrowers’ behalf.

Lenders who do not hold borrower funds in escrow should consider doing the following to minimize the risk of taxes and insurance not being paid:

- Prior to loan closing, the lender must extensively counsel applicants about the need for prompt payment of real estate taxes and hazard insurance premiums. Applicants must sign a statement indicating that they fully understand the significance of these obligations.

- The lender must include the estimated monthly tax and insurance expenses in the ratio calculations when determining the borrower’s loan eligibility.

- The lender should encourage applicants to set money aside for taxes and insurance through payroll deductions or bank accounts with direct deposit.

- The lender must ensure that taxes and insurance are paid by monitoring insurance policy expiration, contacting the taxing authority annually, and reviewing local newspapers for tax delinquencies.
ATTACHMENT 4-B

SAMPLE FOR ACKNOWLEDGMENT OF REAL ESTATE TAX
AND HAZARD INSURANCE REQUIREMENTS

_____________ (Date) ____________

I (We), ____________________________________________, hereby acknowledge that
________________________________________(lender), has explained the requirements for
monthly deposits, or set-asides for payment of annual real estate taxes and hazard insurance
premiums. I (We), the undersigned, do state that I (We) understand and agree to set-aside
_______ dollars each month ($ monthly amount) to pay real estate taxes and hazard insurance
premiums when they are due.

____________________________________(Borrower Signature)

____________________________________(Borrower Signature)

____________________________________(Lender)
CHAPTER 5: ORIGINATION AND UNDERWRITING OVERVIEW

5.1 INTRODUCTION [7 CFR 3555.51(b)]

SFHGLP loans are originated and underwritten by approved lenders. However, the process of requesting, issuing, and receiving the loan guarantee is one in which the lender and the Agency must cooperate closely. Lenders must provide the Agency with clear and accurate information so that Agency staff can promptly determine whether the loan qualifies for a guarantee. At the same time, Agency staff must process loan applications quickly and accurately to avoid delays that might hamper the lender’s efforts to close the loan efficiently.

Section 5.2 of this chapter covers manual origination and underwriting. Section 5.3 of this chapter covers the use of the Guaranteed Underwriting System (GUS), the Agency’s automated underwriting system.

5.2 REQUESTING A GUARANTEE

Not all loans are appropriate for the SFHGLP. The lender should determine whether, based on preliminary information, it appears that the loan will meet the program’s criteria. The lender should also ensure that the applicant is fully informed about the requirements of the program.

A. Preliminary Determination of Applicant Eligibility

In general, the program is most appropriately used to offset the risk of making high loan-to-value loans in rural areas. It is not intended to offset risks that stem from a poor credit history or poor property condition. In particular, the lender should review the following items to make a preliminary determination of the applicant’s eligibility.

- **Applicant Characteristics (Chapter 8)** Is the applicant able to secure conventional credit? Does the applicant own a dwelling? Is the applicant a qualified alien or a United States citizen? If the applicant is not a U.S. citizen, they must produce evidence acceptable to the Agency of their qualified alien status.

- **Income (Chapter 9).** At the time of loan approval, is the household's adjusted income below the applicable moderate-income limit? To determine eligibility for the SFHGLP, the lender is responsible for documenting the income of all adult members of the applicant’s household (not just those who will be signatories to the note) Current income limits can be found in Appendix 5, on the eligibility website:
http://eligibility.sc.egov.usda.gov/eligibility/ or by using the Agency’s automated underwriting system, GUS.

In addition to meeting annual adjusted income requirements, the applicant(s) must also have sufficient repayment income and meet additional program requirements. Chapter 9 provides more detailed information about annual, adjusted and repayment income.

- **Credit (Chapter 10).** Is the credit history consistent with program guidelines? The applicant must have a credit history that demonstrates their ability and willingness to repay the loan. GUS is unable to render an underwriting recommendation on supplemental credit reports. These should be uploaded with the application package.

- **Ratios (Chapter 11)** Do the applicant’s PITI (Principal, Interest, Taxes and Insurance) and total debt (TD) ratios fall at or below the limits established by the Agency? Ratios are calculated using repayment income from applicants who will be a party to the Promissory Note.

- **Appraised Value/Loan amount (Chapter 12).** Is the loan amount supported by the appraisal’s fair market value? If there is not yet a current appraisal, is the loan amount expected to be supported by the appraisal?

- **Site and Property (Chapter 12).** Does the property appear to be in an eligible rural area as designated by program guidelines? If warranted, did Agency staff confirm that the property location was rural? The Agency encourages lenders and those involved in the origination package to verify a property’s eligibility on the Agency’s property eligibility website. Property eligibility may be checked online at http://eligibility.sc.egov.usda.gov/eligibility/ or by using the Agency’s automated underwriting system, GUS.

**B. Informing the Applicant**

Before requesting a loan guarantee, the lender should take the following steps to ensure that the applicant has a general understanding of the SFHGLP.

- **Concept of a loan guarantee.** Describe to the applicant what a loan guarantee is, why it is used, and the benefits of a loan guarantee. Benefits include but are not limited to: no required down payment and a fixed interest rate.

- **Loan guarantee fee.** Inform the applicant of the upfront guarantee fee to be paid at loan closing.

- **Annual fee.** Inform the applicant of the annual guarantee fee, if applicable.
• **Occupancy.** Inform applicants that they must occupy the property as their principal residence.

• **SFHGLP requirements.** Inform the applicant of program requirements such as income limits, property location eligibility, debt ratio thresholds, and other requirements such as the certifications outlined on *Form RD 3555-21*.

### 5.3 UTILIZING THE GUARANTEED UNDERWRITING SYSTEM

[7 CFR 3555.107(3)(b)]

The Guaranteed Underwriting System (GUS) was developed to automate the process of credit risk evaluation for the SFHGLP. Automated underwriting (AU) systems are an efficient, consistent, objective and accurate method of mortgage underwriting compared with traditional manual methods. GUS is a tool that helps evaluate the credit risk of the loan request. It compliments but DOES NOT replace the considered judgment of experienced underwriters.

GUS incorporates applicant eligibility and underwriting requirements of this Handbook by utilizing a modified version of the Federal Housing Administration (FHA) mortgage scorecard known as Technology Open to Approved Lenders (TOTAL) concurrently with a rules based engine. GUS is accessed through a secure web-based automated underwriting environment at: [https://usdalinc.sc.egov.usda.gov/](https://usdalinc.sc.egov.usda.gov/). GUS considers mortgage loan application data entered by the approved lender, credit repository data, and income and property information to evaluate a potential borrower’s ability to meet a proposed mortgage obligation. GUS evaluates select components in a mortgage loan application and provides a credit evaluation and underwriting recommendation within seconds. GUS is not designed to evaluate the dependability of an applicant’s income proposed for repayment. This remains the underwriter’s responsibility to determine prior to final submission. Refer to Chapter 9 of this Handbook to determine adequate and dependable income for repayment ability. Lenders are reminded that data entered in GUS must coincide with that of the lender’s permanent case file.

**A. Functionality of GUS**

Incorporated within the functionality of GUS are the following components:

**Property and Income Eligibility**

- The dwelling offered as collateral for the proposed mortgage loan is located in an eligible rural area; and
• The applicant’s annual adjusted household income meets the adjusted income limits in accordance with size of household, county and State in which the applicant(s) will reside.

**Rules Based Engine**

• The Engine incorporates the guidelines found in this Handbook regarding originating SFHGLP loans.

• Periodically new rules may be created to respond to issues analyzed within the SFHGLP portfolio.

**Scorecard**

• GUS uses a modified version of the FHA mortgage scorecard known as TOTAL exclusive to Rural Development.

• The scorecard has been validated and adjusted for SFHGLP use.

• The TOTAL scorecard, including the modified version validated for SFHGLP use, is intellectual property that is proprietary to HUD.

• Factors considered under the scorecard include credit history, payment-to-income ratios, and loan-to-value ratios.

• The scorecard allows favorable consideration to applicants that exhibit positive compensating factors such as available reserves for housing payments after loan closing.

• Periodically the scorecard may be modified to react to the changing lending market. When modifications occur, loans remaining as a preliminary recommendation may not receive the same underwriting results upon a final submission.

**Credit Bureau Interface**

• GUS links with hundreds of credit providers nationwide. Users may link to a full list of credit providers at the following Fannie Mae link.

• An interface occurs between GUS and the credit bureaus through a platform known as the Fannie Mae Credit Interface Service (CIS).

• The interface is seamless to lenders and only acts as a conduit. An attempt to access information from all national credit repositories will occur, but GUS can complete its credit risk evaluation with information from only one repository.
• New or re-issued credit can be pulled through GUS.

• Credit reports pulled through GUS are valid for 120 days, unless the credit provider’s expiration is more restrictive.

• Lenders are not required to be a Fannie Mae subscriber or partner to utilize the credit report interface in GUS.

B. Gaining Access to GUS

Approved lenders may utilize GUS as part of their credit risk evaluation. Only those lenders who have active Lender Agreements are eligible to utilize GUS. Lenders who utilize this system will be required to enter into a User Agreement and obtain authorized access through the use of an eAuthentication account and password. GUS system User Guides may be obtained at: USDA LINC Training and Resource Library.

C. Underwriting Guidance for Lenders

GUS evaluates the overall creditworthiness of the applicant(s) based upon a number of credit variables and, when combined with remaining functionalities of GUS, indicates a recommended level of underwriting to determine a loan’s eligibility for a SFHGLP guarantee. GUS will conclude that the credit and capacity for repayment of the mortgage are acceptable or will refer the loan to the lender’s underwriter for further consideration, review and manual underwriting.

Regardless of the underwriting recommendation provided, the lender remains accountable for compliance with SFHGLP eligibility requirements, as well as any credit, capacity, and documentation requirements. No borrower should be approved or denied a SFHGLP guarantee solely on the basis of a risk assessment generated by GUS.

D. Compatible Loan Origination System (LOS) and Point of Sale (POS) Vendors

A single file import feature is available in GUS. GUS currently accepts the Mortgage Industry Standards Maintenance Organization (MISMO XML3.4 DU V1.8.1) exported files.

E. Cash Reserves

Although cash reserves after closing are not required for the SFHGLP, 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 have the responsibility 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
these 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 loan closing. Documentation will be retained in the lender’s permanent case file.

Assets should never be overvalued as it affects the risk assessment provided by the automated underwriting system and misrepresents the file presented for a Conditional Commitment for Loan Note Guarantee. The lesser of the current balance or previous month’s ending balance will be input on the “Assets and Liabilities” page of GUS if utilized in the underwriting decision. In lieu of entering assets in GUS, the lender may underwrite to the most conservative approach with no consideration of assets on the “Assets and Liabilities” page and underwriting recommendation.

Assets may also influence program eligible income. Refer to Paragraph 9.4 of Chapter 9 for additional information regarding assets and program eligible income.

F. Omitting Liabilities

If a lender omits an adverse trade line when utilizing GUS and receives an Accept underwriting recommendation, the applicant explanation letters and supportive documentation of adverse trade lines will be retained by the lender. The lender will indicate the justification for the omission in the “Notes” section of the “Asset and Liabilities” page.

G. Established Data Tolerances

Loan application data submitted to the Agency must reflect a true and accurate representation of the loan to be closed. This data must match the loan file submitted to the Agency when requesting the Conditional Commitment for Loan Note Guarantee or fall within the tolerances established by the Agency.

Tax and Insurance Escrows: Approved lenders must ensure that an accurate estimate for the property tax/insurance component of an applicant’s monthly mortgage payment is utilized when submitting loan applications to the Agency. Care must be taken to assume a realistic estimate is used for computing the monthly escrowed amount. For existing properties, the escrowed amount for real estate taxes is based on the actual taxes assessed. For new construction, tax estimates must be based on the land and completed improvements, not just on the land value. (i.e. value of both the property and the completed dwelling). The lender may contact the taxing authority which has jurisdiction over the property to obtain an estimate of the taxes to be assessed for newly constructed homes.
A tolerance threshold has been established when an increase in obligations do not exceed a cumulative total of $50. Examples of these obligations include but are not limited to installment loans, revolving credit lines, real estate taxes, final homeowner’s insurance premiums, etc. Loan files that have received a Conditional Commitment for Loan Note Guarantee do not require updated underwriting or resubmission of GUS when the cumulative total of obligations increase but do not exceed the established thresholds. This tolerance threshold applies to situations where an increase in monthly debt provided on the loan application at time of Conditional Commitment differs from the amount recorded at loan closing.

The threshold policy should not be construed to allow lender manipulation of escrow variables to obtain approvals. The Agency reserves the right to request and review files from lenders that are suspected of purposely underestimating tax and insurance payments in order to secure a commitment or loan guarantee.

**Income:** Verification of income shall be obtained prior to final submission. Therefore, data entered in GUS is supported with verifying documentation of income in the lender’s permanent loan file. Income shall be verified and documented in accordance with Chapter 9 of this Handbook.

**Liquid Assets:** Asset data reflected in GUS must be supported by verification documentation. The final submission will reflect the verified amount. Guidance regarding verifying assets can be found in Attachment 9-A.

**H. GUS Findings and Underwriting Report**

The responsibilities associated with producing loans of acceptable quality for loans guaranteed by the Agency remains the same for a GUS evaluated loan or manually underwritten loans. When a lender enters mortgage loan data into GUS and requests a loan underwriting evaluation, a two part underwriting summary is delivered to the lender through a GUS Underwriting Findings Report. The first portion of the underwriting summary will render an underwriting recommendation of Accept, Accept with Full Documentation, Refer or Refer with Caution. The underwriting recommendation is followed by a risk evaluation of Eligible, Ineligible, or Unable to Determine. The second portion represents a combined analysis of property, income, loan eligibility and borrower eligibility.

The GUS Findings and Underwriting Report provides important feedback messages and conditions for the loan. The lender must review the final findings, comply with the conditions, and provide the Agency with any additional documents as applicable.

The final submission must be retained in the lender’s permanent loan file. Manual submissions, Accept with Full Documentation, Refer, and Refer with Caution will be
accompanied by attachment 9-B, or the Uniform Transmittal Summary, *(FNMA Form 1008/Freddie Mac Form 1077)*, or equivalent. The documentation provided must include calculations for annual, adjusted and repayment income. Further clarification regarding income can be found in Chapter 9.

The Agency commitment will reference the GUS underwriting findings report as a condition of guarantee loan approval.

**I. Lender Steps When Requesting a Commitment**

1. Ensure the data entered in GUS is true, complete, accurate, and supported by the documents retained in the lender’s permanent loan file.

2. The approved lender’s underwriter must review and confirm the entire loan package meets SFHGLP requirements.

3. Submit the file by GUS as a “Final Submission” to electronically transmit the loan application to the Agency according to the documents specified in Attachment 15-A, Loan Origination Checklist.

4. If the loan is a “Refer or Refer with Caution,” the lender’s underwriter must manually underwrite the loan to determine if the borrower is creditworthy in accordance with SFHGLP credit policies and guidelines. If approved, the lender’s underwriter will submit the file by GUS as a “Final Submission” to electronically transmit the loan application to the Agency. Additional documents are required for loans receiving a “Refer”, “Refer with Caution” or “Full Documentation” when using GUS.

**J. GUS Underwriting Recommendations**

Based on the analysis of credit, capacity and other loan characteristics, GUS will render an underwriting recommendation. The recommendation is based upon the data entered in GUS with the representation from the lender that the data is true, complete, accurate, and verified. The following represent possible underwriting recommendations with guidance on documentation to be submitted to the Agency when requesting a Conditional Commitment for Loan Note Guarantee.

**ACCEPT/ELIGIBLE Underwriting Recommendation**

Minimal documentation provisions apply to GUS underwriting recommendations that receive an Accept, unless a quality control message on the GUS Underwriting Findings Report indicates an Accept with Full Documentation file is required. A quality control message requiring a full documentation file will appear on the GUS Underwriting Findings Report upon final submission. Lenders should submit full additional documentation files as noted in Attachment 15-A, Loan Origination Checklist, of this
handbook for files for that receive GUS underwriting recommendations of Accept with Full Documentation.

If the loan applicant is a qualified alien, a buydown is involved, or the property is located in a community property state and there is a non-purchasing spouse additional documents may be required.

Accurate data is the responsibility of the approved lender. By submitting the mortgage loan application request through GUS as a final submission, the lender is representing that the data input is true, complete, accurate and verified. Underwriting is the responsibility of the approved lender. Lenders are required to review the results of the GUS Underwriting Findings Report and credit reports. If necessary, make data changes and resubmit the loan to GUS. Approved lenders then make a lending decision using the Findings Report obtained from GUS, credit report(s), stable and dependable income, employment, assets, collateral and other file documentation.

During the review process, should data appear to be questionable, the Agency reserves the right to request further supportive information. Files may be selected for full file review if the lender is a new user to GUS, has demonstrated a disregard for Agency policies and procedures, has a high first year delinquency rate, or loss payments in excess of the national average. Randomly, full documentation of a file in lieu of minimal documentation noted above will be requested when receiving an underwriting recommendation of Accept. This random selection is for quality control purposes. A message on the lender’s final pass of underwriting will confirm when a full documentation file is required. Full file documentation reviews are to confirm the data input into the GUS file accurately reflects that of the lender’s file and documentation.

Mortgage loan documents will be delivered electronically through the Agency’s automated system of receiving documents. This is the preferred method. In cases when the system may be unavailable or a transition to the system is occurring, documents may be delivered by encrypted email to the appropriate production team. It is anticipated that all lenders will utilize the automated method when available.

**ACCEPT/INELIGIBLE Underwriting Recommendation**

Loans receiving this recommendation have been determined as meeting the SFHGLP risk standards for loan guarantee; however, do not meet certain eligibility guidelines. Typical reasons for an Accept/Ineligible recommendation may include:

- Property not located in a rural area
- Program eligible income exceeds Agency guidelines
• Non-owner occupied transaction

• Applicant does not have qualified alien status

Loans that receive a recommendation of Accept/Ineligible may still be eligible for a SFHGLP loan guarantee. To achieve eligibility, the lender’s underwriter should analyze the findings report and determine the basis for the ineligibility and determine if the reason for ineligibility can be resolved in order to comply with Agency guidelines. Issues that caused the loan to be ineligible may be resubmitted to obtain a up-dated underwriting recommendation.

**REFER or REFER WITH CAUTION Underwriting Recommendation**

GUS loans receiving an underwriting recommendation of Refer or Refer with Caution will require the lender’s underwriter to perform a manual underwriting evaluation of the mortgage loan application to determine if the borrower is creditworthy in accordance with SFHGLP credit policies and guidelines. Risk factors have been identified based upon the data entered in GUS. The credit risk evaluation represented by a Refer with Caution is greater than the credit risk of loans that receive a Refer. Lenders should practice extreme care in their underwriting analysis and decisions when underwriting a loan file receiving a Refer or Refer with Caution recommendation. Lenders must submit additional documentation as noted in Attachment 15-A of this Handbook for files that receive GUS underwriting recommendations of Refer or Refer with Caution. Credit documentation, mitigating circumstances, and compensating factors considered in the manual underwriting analysis should be recorded in the lender’s permanent case file. Compensating factors considered in the evaluation of the mortgage loan application should be documented on the underwriting analysis and summary [typically the Uniform Underwriting Transmittal Summary – FNMA Form 1008/Freddie Mac Form 1077 or equivalent].

Loans should not be approved or denied solely on the basis of a risk evaluation generated by GUS. Mitigating circumstances according to Agency standard guidelines may be considered.

**K. Lender’s Reliance on the GUS System**

Lenders who utilize GUS represent and agree that they will not rely principally or exclusively on the GUS System in determining whether credit will or will not be extended to any applicant. The lender remains responsible for the loan qualifying decision in addition to eligibility of the household for the SFHGLP.
L. Lender’s Permanent Loan File - Documentation Requirements

The lenders permanent case files must be supported with the following verified documentation, regardless of the GUS recommendation:

- Credit history;
- Annual Adjusted Income – determined for program eligibility;
- Stable and Dependable Income – determined for repayment and qualifying purposes;
- Assets – for income calculation, conventional credit test, and compensating factor analysis;
- Collateral requirements; and
- Any other documentation supporting the mortgage loan request.

Stable and dependable income will be documented in accordance with Chapter 9 of this Handbook and remains the responsibility of the lender. GUS does not evaluate or predict the stability of an applicant’s continuance of income. This determination is performed by the lender prior to final submission of an application.

M. Resubmission Policy

The lender is responsible for the integrity of the data used to obtain an underwriting evaluation in GUS. If data changes during the loan application stage, after Conditional Commitment or prior to loan closing, the GUS underwriting recommendation could be compromised. Lenders are responsible for resubmitting the loan to GUS when material changes are discovered. Lenders must follow the Conditional Commitment guidance outlined in Paragraph 15.7 of Chapter 15 of this Handbook prior to closing a loan. Any request to release GUS for data updates after issuance of a Conditional Commitment will be treated as a new request, processed in date order of applications received. Under the following conditions, lenders must resubmit the loan through GUS for an updated evaluation:

- Borrowers were either added or deleted from the loan application or critical information has changed.
- A decrease in the borrower’s income and/or cash assets/reserves.
- An increase in loan amount or interest rate on the mortgage loan request.
• Any changes that would **negatively affect** the borrower’s ability to repay the mortgage.

The lender should submit a request via e-mail to the appropriate production team requesting the loan be released from the Agency to the lender. The lender should modify the data and resubmit the loan through GUS for an updated final evaluation underwriting recommendation.

Some data changes do not affect the outcome of an underwriting recommendation. Once a mortgage loan has been sent to the Agency as a “Final Submit,” the following data changes do not require that the GUS loan application be updated:

• A **decrease** in loan interest rate
• A **decrease** in loan amount
• A **decrease** of mortgage or personal liabilities
• An **increase** of assets
• The bureau update of a credit report due to the expiration of the credit report (expires at 120 days prior to loan closing) after a final submit has occurred by the lender and a Conditional Commitment has been issued; yet prior to loan closing as long as no adverse impact has occurred that would affect the outcome of the underwriting recommendation. Lender must retain the updated credit report in their permanent lender’s case file.

N. **Lender’s Representations to the Agency upon Final Submission**

The lender represents as of the date of final submission to the Agency the following:

• All terms, conditions and requirements of the SFHGLP are fully satisfied.
• All representations submitted by the lender are true, correct and verified.
• The lender is in compliance with its agreements contained in documents to participate in the SFHGLP and utilize the GUS System.
• The lender has not misstated or omitted any material fact about the mortgage loan request for guarantee.
• Applicable laws and terms of the note and security instruments have been correctly and timely disclosed to the applicant(s).
• The lender represents that all persons executing documents on behalf of the lender are duly authorized to do so.

O. Termination

The Agency reserves the right to terminate the lender’s approved lender status in the event of any default under the terms of the lender agreement.

A lender’s suspension, withdrawal or termination of approval to participate in the SFHGLP may be suspended if (not all inclusive):

• A lender fails to provide the Agency with information that is true, complete and accurate.

• Omission of any material fact on any application, other documents, or oral representation made to the Agency when seeking a Loan Note Guarantee.

• A lender has a 30-, 60- or 90- day delinquency rate or loss claim rate more than 50% higher than the average 30-, 60- or 90- day delinquency rate or loss claim for all guarantees issued in the Agency’s portfolio. This can be measured within a geographic area of the nation also.

• Misuse of GUS in accordance with terms and conditions of the agreement to utilize the System.

Emphasis of any evaluation conducted will be placed on the risk that the loan(s) poses to the Agency.

Agency Actions

• Initially, contact the lender to ensure a firm understanding of the lender’s terms and conditions of the lender agreement. Firm evidence of any violations must be discussed and addressed.

• Follow up the initial communication with a written notice outlining the agreed upon plan to improve.

• Allow a lender a reasonable time frame to institute a remedy and represent improvement to the identified findings.

• Monitor the lender for improvement.

• After continued evaluation of findings and results to improve, if the lender fails to comply, their approved lender status may be revoked.
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. This section describes loan purposes, restrictions, and refinance opportunities. 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 a new or existing dwelling;
- Repairs and rehabilitation when associated with the purchase of an existing dwelling;
- Reasonable and customary expenses associated with purchasing a dwelling; and
- Refinancing under specific situations.

A. Acquiring a Site and Dwelling

Loan funds may 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 addressed in Chapter 12 of this Handbook.

B. Repairs and Rehabilitation

The lender may request the loan note guarantee prior to work completion if all requirements as outlined in Chapter 12 of this Handbook are 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 upfront guarantee fee and fees for appraisal, surveying, tax monitoring, expenses for homeownership education counseling, and other technical services associated with obtaining the loan.

- **Reasonable Lender Fees.** Reasonable lender fees, when 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 to “buydown” or permanently reduce the effective interest rate may be financed. Loan discount points and the loan origination fee must be itemized separately on the Closing Disclosure. 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 financed with loan funds. Closing costs cannot exceed those charged to 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 Concessions.** 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. Closings costs and/or prepaid items paid by the lender through premium pricing are not included in the seller contribution limitation. The approved lender is responsible to ensure applicable limitations and eligible loan purposes are met. 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.

- **Single Close to Permanent Construction.** 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 payment) are considered an eligible loan purpose. Seller contribution limits do not apply to single close construction to permanent loans.

- **Contract for Deed.** Loan funds can be used for the conversion of a seller-financed mortgage with an existing dwelling. These contracts are also known as a conversion of contract for deed or land contract. The Agency considers this a “purchase” transaction. The dwelling must meet the requirements for existing dwelling outlined in Chapter 12 of this Handbook.

- **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.

- **Site Preparation.** Site preparation activities, including grading, foundation plantings, seeding or sod installation, trees, walks, fences, and driveways, are eligible costs.

**D. Refinance [7 CFR 3555.101(d)]**

SFHGLP provides opportunities to refinance an existing loan. Borrowers must meet all eligibility requirements outlined in this Handbook, except where noted.

**1. Construction Financing and Sites without a Dwelling**

A refinance of a debt for a site without a dwelling, interim construction financing to build a new dwelling, or associated with the purchase and improvement of an existing dwelling prior to the issuance of a loan note guarantee is allowed. The Agency considers this a “purchase” transaction.

- 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 construction or 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.

- The construction period is limited to no greater than 12-months. The 12-month period must have occurred directly prior to permanent financing.

- New construction documentation (certified plans and specifications, inspections and warranty) must be obtained as outlined in Chapter 12 of this Handbook.

- In the case of a site without a dwelling, the debt to be refinanced was incurred for the sole purpose of purchasing the site with the intent to build.

For combination construction to permanent financing, also known as single-close loan transactions, refer to Section 6 of Chapter 12.
2. **Existing Section 502 Direct and Guaranteed Loans**

Existing mortgage loans for existing guaranteed and direct borrowers may be refinanced. SFHGLP cannot refinance mortgage debt that is not financed or guaranteed by USDA. Three refinance options are available:

a. **Non-streamlined refinance.**

- A new appraisal is required.

- The maximum loan may include the principal and interest balance of the existing loan, reasonable and customary closing costs up to the new appraised value. The appraised value may only be exceeded by the amount of the financed upfront guaranteed fee.

- Direct loan borrowers can refinance or defer the amount of subsidy recapture due. Borrowers choosing to refinance subsidy recapture may be eligible for a discount on the amount that is due. Borrowers that do not refinance subsidy recapture will be required to enter into a second lien securing that amount and are not eligible for a discount.

- Additional borrowers may be added to the new guaranteed loan. Existing borrowers on the current mortgage note may be removed when one of the original borrowers remains on the refinanced loan.

- The existing loan must have closed 12 months prior to the Agency’s receipt of a Conditional Commitment request and have a mortgage payment history which must not reflect a delinquency equal to or greater than 30 days within the previous 180-day period.

- The borrower must meet credit requirements as outlined in Chapter 10 of this Handbook.

- Lenders may request a debt ratio waiver when strong compensating factors in accordance with Chapter 11 are documented.

- The Guaranteed Underwriting System (GUS) may be utilized to underwrite the non-streamlined refinance.

b. **Streamlined refinance.**

- A new appraisal is not required to refinance an existing guaranteed loan. 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.

- The maximum loan amount may include the principal and interest balance of the existing loan, and reasonable and customary closing costs, including any financed portion of the upfront guarantee fee.

- Additional borrowers may be added to the new guaranteed loan. Existing borrowers on the current mortgage note may be removed, when one of the original borrowers remains on the refinance loan.

- The existing loan must have closed 12 months prior to the Agency’s receipt of a Conditional Commitment and have a mortgage payment history which must not reflect a delinquency equal to or greater than 30 days within the previous 180-day period.

- Lenders may request a debt ratio waiver when strong compensating factors are documented in accordance with Chapter 11 of this Handbook.

- GUS may be utilized to underwrite the streamlined refinance loan.

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, and reasonable and customary closing costs, including any financed portion of 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
The existing loan must have closed 12 months prior to the Agency’s receipt of a Conditional Commitment request.

The borrower is not required to meet all the credit requirements as outlined in Chapter 10 of this Handbook. Prior to the request for a Conditional Commitment, the existing mortgage payment history must not reflect a delinquency equal to or greater than 30 days within the previous 12 months. Lenders may verify mortgage payment history through a verification of mortgage obtained directly from the servicing lender or a credit report. When a credit report is ordered to determine timely mortgage payments, other credit accounts are not to be considered.

Borrowers may be added; however, only deceased borrowers may be removed from the loan.

Lenders are not required to complete the monthly repayment income calculation section on Form RD 3555-21, Request for Single Family Housing Loan Guarantee.

GUS is unavailable for this product and these loans must be manually underwritten.

The following terms and conditions are applicable to non-streamlined, streamlined and streamlined-assist 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 and owned and occupied by the applicants as their principal residence.
- Properties located in areas since determined by the Agency to be non-rural (ineligible) 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.
- Property inspections as outlined in Chapter 12 of this Handbook are not required. If the lender requires repairs as a condition of loan approval, the expenses related
to property inspections and repairs may not be financed into the new loan amount.

- Secondary financing such as leveraged loans, 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 subordinated to the new guaranteed loan or be paid in full.

- Cash out is not permitted. Borrowers may receive reimbursement from loan funds at settlement for eligible closing costs paid from the borrower’s personal funds for the refinance transaction. Borrower may also receive a refund at settlement that represents prepaid interest or overage from the borrower’s escrow account.

- 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.

- The lender may establish charges and fees for the refinance loan, provided they are the same as those as charged to other applicants for similar transactions. Lenders and the Agency should make every effort to ensure that applicants are not charged excessive fees.

- 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: https://www.rd.usda.gov/resources/directives/instructions

- An annual fee will be charged by the Agency for refinance transactions. The amount of annual 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: https://www.rd.usda.gov/resources/directives/instructions

- Lenders should submit the complete application package in accordance with Chapter 15 and Attachment 15-A, Loan Origination Checklist, of this Handbook.

    The lender will follow the same procedures as provided in Chapter 16 of this Handbook for closing the loan. The Agency will review loan closings for SFHGLP refinance loans using the same procedures for SFHGLP purchase loans prior to issuance of the Loan Note Guarantee.
E. **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

SFHGLP loan funds cannot be used for any of the following purposes:

- **Cash Back to Borrower.** Borrowers may be reimbursed out of loan funds for eligible loan costs incurred prior to closing. Excess loan funds that cannot be applied towards eligible closings as outlined in paragraph 6.2, or that do not represent a reimbursement to the borrower for eligible pre-paid fees from their out of pocket expenses, must be applied as a principal reduction.

- **Select Loan Discount Points.** Loan discount points 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.

- **Existing 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.

- **Closing Costs in Excess of Three Percent.** Closing costs, including lender fees, that exceed three percent of the total loan amount are prohibited, unless flexibility is provided through guidance published by the CFPB’s Ability to Repay and
Qualified Mortgage (ATR/QM) standards.

6.4 AGENCY REVIEW OF LOAN PURPOSES

The Agency will determine if the purposes for the loan guarantee are acceptable before issuing a Conditional Commitment for loan guarantee. If the Agency determines loan funds will be used for an ineligible purpose, the Agency will contact the lender and attempt to resolve the situation prior to issuance of the Loan Note Guarantee. Loan purposes will also be reviewed during the Agency’s Quality Assurance (QA) internal monitoring process and Lender Oversight (LO) compliance reviews to ensure that the lender has an accurate understanding of eligible and prohibited loan purposes. See Chapter 19 of this Handbook for a detailed discussion of how the Agency handles loss claims for loan funds that were used for an ineligible purpose.
## REQUIREMENTS FOR ALL REFINANCE OPTIONS

- Only loans financed or guaranteed by USDA are eligible.
- Original loan must have closed 12 months prior to the request for Conditional Commitment.
- Fixed interest rate and 30-year term.
- Borrower must meet applicable adjusted annual household income.
- No cash out from collateral equity. Only reimbursement of borrower prepaid eligible closing costs and/or refund from escrow overage.
- Borrowers must occupy the property.
- Properties located in areas now deemed ineligible remain eligible for refinance.
- Existing leveraged loans or subordinate liens must be paid in full or be subordinated.

<table>
<thead>
<tr>
<th>REQUIREMENT</th>
<th>NON-STRAIGHTENED</th>
<th>STREAMLINEN</th>
<th>STREAMLINEN-ASSIST</th>
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<td>Only for Direct 502 with recapture subsidy due</td>
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<td>May include:</td>
<td>May include:</td>
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<tr>
<td></td>
<td>- Principal &amp; interest balance</td>
<td>- Principal &amp; interest balance</td>
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<td></td>
<td>- Eligible closing costs</td>
<td>- Eligible closing costs</td>
<td>- Eligible closing costs</td>
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<tr>
<td></td>
<td>- Subsidy recapture</td>
<td>- Upfront guarantee fee</td>
<td>- Upfront guarantee fee</td>
</tr>
<tr>
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<tr>
<td></td>
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<td>$50 or greater reduction of the total principal, interest and monthly annual fee payment</td>
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<td></td>
<td></td>
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<td></td>
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<td>Meet Chapter 10 requirements</td>
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<td>GUS Refers only Must meet Chapter 11 requirements</td>
<td>No ratio calculations required</td>
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<td>Soft seconds and/or subsidy recapture may be subordinated</td>
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Guidance for Refinancing Section 502 Direct Loans

The Section 502 Direct Loan Program provides loans to low and very-low income borrowers that may include payment assistance, or payment subsidy that reduces the mortgage payments determined by the borrower’s adjusted household income.

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

Obtaining a “Statement of Loan Balance” Letter for Direct Loan Borrowers

Lenders may determine an applicant has a direct loan when the credit report reflects “USDA” or “Farmers Home Administration” 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). 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 instructions for the lender to follow regardless of information submitted at the time of payoff request.

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 the subsidy recapture due. Lenders and direct loan borrowers that have questions regarding a direct loan account may contact the NFAOC at (800) 414-1226.
CHAPTER 7: LOAN TERMS AND CONDITIONS
7 CFR 3555.104

7.1 INTRODUCTION

The SFHGLP helps low- and moderate-income people living in rural areas purchase adequate, modest, decent, and safe homes by providing guarantees for qualified loans that a lender would not make without a guarantee. The program’s loan terms and conditions, which are described below, are designed to ensure that the loans are used to acquire modest homes and that the property will provide adequate security for the loan.

7.2 MAXIMUM LOAN AMOUNT

The applicant is permitted to finance reasonable and customary expenses associated with purchasing a home as described in Chapter 6, if the total amount financed does not exceed any of the following limits:

- The maximum loan amount for which the applicant qualifies, as determined by their income and repayment ability as further discussed in Chapter 8 and 9 of this Handbook;

- The fair market value of the property, as determined by a current appraisal conducted in accordance with the Uniform Standards of Professional Appraisal Practices (USPAP); and

- The LTV of the loan can exceed 100 percent of the market value of the property when the guarantee fee is financed. Loans may exceed 100 percent LTV only to the extent that the excess represents a financed guarantee fee. See additional guidance in Chapter 6 of this Handbook regarding refinance loans.

The purchase price of the property is permitted to exceed these limits for applicants with sufficient cash reserves or access to a source other than credit through which to obtain the necessary cash difference.

A newly constructed dwelling that does not meet the definition of an existing dwelling, as defined at Section 3555.10, and cannot meet the requirements of Section 3555.202(a) is limited to 90 percent of the present market value. The dwelling must meet or exceed the International Energy Conservation Code (IECC) in effect at the time of construction.
7.3 **LOAN TERMS**

The lender must consider whether the loan could be made without a guarantee. If the lender is willing to make the loan without the guarantee at the same rates and terms, the loan is not eligible for the guarantee program. If the lender is not willing to make the loan without a guarantee and wishes to request a guarantee, the required loan terms for all loans guaranteed under the program are described below.

A. **Repayment Period**

The loan term must be 30 years and the loan must fully amortize in that period. The promissory note must show regular monthly payments generally payable on the first day of the month.

B. **Interest Rate**

The lender and the borrower are free to negotiate any mutually acceptable fixed interest rate. The interest rate should be locked by the time of loan settlement. In the event the interest rate is not locked at the time Form RD 3555-18 is issued, and the interest rate increases between the time of issuance of Form RD 3555-18 and loan closing, the lender will note the change when submitting the loan closing package and support the increase in interest rate with modified loan application documents. Modified loan documents will include at a minimum:

- Updated URLA reflecting data changes due to an interest rate adjustment.
- Underwriting analysis reflecting the updated interest rate and confirming the applicant(s) remain eligible for the SFHGLP.
- Interest rates that have been underwritten with the assistance of GUS will require a resubmission if the locked interest rate adversely affects the eligibility of the loan. The resubmission will be treated as a new request by SFHGLP processing offices. An increased interest rate could result in a denial of Loan Note Guarantee request if the underwriting recommendation of GUS at issuance of Form RD 3555-18 results in a recommendation lower than the original recommendation (i.e. an Accept underwriting recommendation at issuance of the Form RD 3555-18, changed to Refer underwriting recommendation as a result of a resubmission with a higher interest rate).
C. Terms Unacceptable for a Guarantee

The following terms are unacceptable for the guaranteed loan.

- Adjustable rate mortgages (ARMs);
- Balloon mortgages;
- Mortgages for other than 30 years;
- Interest on interest or negative amortization (or any non-fully amortizing loan); and
- Prepayment penalties.
CHAPTER 8: APPLICANT CHARACTERISTICS
7 CFR 3555.151

8.1 INTRODUCTION

Applicants seeking the assistance of a SFHGLP loan must meet the minimum applicant characteristics outlined in this chapter. Lenders must determine that the criteria have been met prior to analyzing the applicant’s income, credit and ratio qualifications.

8.2 APPLICANT ELIGIBILITY REQUIREMENTS

The lender must confirm the applicant meets the criteria for obtaining a SFHGLP guarantee prior to full analysis of the applicant’s loan request.

A. Owning a Dwelling [7 CFR 3555.151 (e)]

An applicant who owns a dwelling to which they will retain ownership may be eligible for a guaranteed loan. It is not the intent of the SFHGLP to assist borrowers in building an investment portfolio. The loan applicant is limited to owning one single family housing unit, whether adequate or inadequate, other than the house associated with the loan request.

Applicants may purchase another home if all the criteria below are met:

- The homeowner’s current dwelling is not financed by a Rural Development guaranteed, direct Section 502 (including cosigned obligations), or 504 loan or active grant;

- The homeowner is financially qualified to own more than one house;

- The homeowner will occupy the home financed with the guaranteed loan as their primary residence throughout the term of the loan; and

- The current home owned no longer adequately meets the applicants’ needs. Examples include, but are not limited to:
  - Relocation due to a new job opportunity.
  - Requires a larger home to provide for a growing family.
  - Obtaining a divorce and the ex-spouse will retain the dwelling.
Is a non-occupying co-owner or co-borrower on another mortgage loan and wants to purchase their own dwelling.

All documentation will be retained in the lender’s permanent loan file and may be requested by the Agency upon review.

**Repayment Income for rents received less than 24 months.** Applicants retaining their existing dwelling must qualify for all mortgage liability payments. Rents received less than 24 months do not represent a stable continued source of income for repayment income and cannot be used when qualifying the loan request. The corresponding mortgage liability associated with the retained dwelling must be included in the long-term debt liability. Refer to Chapter 9 of this Handbook for additional information regarding the calculation of rental income.

**Repayment Income for rents received 24 months or greater.** When applicants can demonstrate rental income is stable and dependable, as evidenced and documented with the most recent two years tax returns and a copy of the current written lease executed by the homeowner and the lessee, the net rental income can be considered for repayment ratios. IRS Form 1040 Schedule E is required to verify all rental income. Depreciation or depletion shown on Schedule E may be added back to the net income or loss for repayment income. Positive rental income is considered gross income for repayment income while negative income must be treated as a recurring liability. If the net rental amount is negative, the amount of debt will be considered as a recurring liability for repayment ratios. Refer to Chapter 9 of this Handbook for additional information regarding the calculation of rental income.

**Annual Income Calculation.** Any positive net rental income will be included in the calculation of annual income to determine eligibility of the household for the SFHGLP. Rental income must be considered in the annual income analysis regardless of its duration. Rental income, for annual income purposes, is considered the total rental real estate income amount reported on the most recent IRS Form 1040 Schedule E for the previous 12 months. In the absence of a Schedule E, canceled checks, money order receipts, bank statements or other documentation may be used to support the amount of rents received for annual income purposes. Any negative net rental income is treated as zero for the purposes of calculating annual income.

**Documentation.** Refer to Chapter 9 of this Handbook for additional information surrounding documentation requirements of rental income. Guidance on the process of entering rental income into GUS is available by viewing the GUS “Real Estate Page” training posted to the following resource site: [https://www.rd.usda.gov/page/usda-linc-training-resource-library](https://www.rd.usda.gov/page/usda-linc-training-resource-library).
B. Obtaining Credit

Form RD 3555-21, *Request for Single Family Housing Loan Guarantee*, requires both the lender and the applicant to certify that the applicant is unable to secure credit from other sources upon terms and conditions which the applicant can reasonably fulfill. The certification can be made if the applicant does not meet the requirements to obtain a traditional conventional credit loan. Traditional conventional credit is defined for Agency purposes as:

- The applicant has available personal non-retirement liquid verifiable asset funds of at least 20% of the purchase price that can be used as a down payment;
- The applicant can, in addition to the 20% down payment, pay all their closing costs associated with the loan;
- The applicant can meet qualifying ratios of no more than 28% PITI and 36% TD when applying the 20% down payment; and
- The applicant demonstrates qualifying credit for such a loan. The conventional mortgage loan term is for a 30-year fixed rate loan term without a condition to obtain private mortgage insurance (PMI).

If the applicant meets the cumulative criteria of traditional conventional credit, as defined by the Agency above; the applicant is ineligible for the SFHGLP.

It remains the underwriter’s responsibility to support the criteria of this Section. Documentation to support ineligibility for conventional credit will be retained in the lender’s permanent case file.

Liquid assets for conventional credit down payment purposes typically consist of cash or cash equivalents. Cash or cash equivalents include funds in the applicant’s checking or savings accounts, or investments in stocks, bonds, mutual funds, certificates of deposit, and money market funds, unless they were encumbered (pledged as collateral) or otherwise inaccessible without substantial penalty. Cash equivalents do not include funds in Individual Retirement Accounts, 401(k) accounts, Keogh accounts, or other retirement accounts that are restricted and may not be accessed without incurring substantial monetary penalties. Educational college savings plans, such as a 529 plan, which incur a penalty to withdraw, are not considered a cash equivalent. Owning land is not considered a liquid asset.
C. Occupying the Property [7 CFR 3555.151(c)]

Applicants must agree to personally occupy the dwelling as a principal residence throughout the term of the loan. Bona fide occupancy in the home as the applicant’s principal residence within 60 days after signing the security instruments is required.

- **Active duty military applicants.** Active duty military applicants may be eligible for the SFHGLP. They must occupy the property as their principal residence. The military applicant must express intent to meet occupancy requirements upon his/her discharge from the service. A military serviceperson who cannot physically reside in a property because they are on active duty will be considered to meet occupancy requirements defined in § 3555.10 of 7 CFR 3555 if:
  
  o The serviceperson’s family will continue to occupy the property as their principal residence. See Chapter 9 for additional information on calculating military income for repayment of the loan request.

- **Student applicants.** Due to the probability of relocation after graduation, full-time students cannot obtain loans unless they intend to make the home a permanent residence and there are reasonable prospects of securing employment in the area after graduation.

D. Having Legal Capacity [7 CFR 3555.151(f)]

The applicant must be considered an adult under State law and must have the legal capacity to incur the loan obligation. An applicant with a court-appointed guardian or conservator, who is empowered to obligate the applicant in real estate matters, is eligible for a loan. An applicant is an individual, not a trust, corporation, or partnership.

E. Not Having a Suspension or Debarment [7 CFR 3555.151(g)]

Individuals who have been suspended or debarred from participation in Federal programs are not eligible for a guaranteed loan. The approved lender, or their agent, is responsible for screening the applicant and parties to the transaction on the U.S. General Services Administration’s (GSA) System for Award Management (SAM.GOV) website as part of their eligibility determination of the applicant. Lenders who utilize an automated method that creates a report, similar to a watch list, which performs a check of the SAM website, will meet the criteria of this check. The results of the SAM check including date and screen print will be retained in the lender’s permanent file. Additionally, during submission of the application the lender will ensure a SAM’s check
was performed by documenting the date on Form RD 3555-21, *Request for Single Family Housing Loan Guarantee*. The check should occur prior to the request for Conditional Commitment and no greater than 30 days prior to loan closing; otherwise, the lender will update their documentation by performing another check of SAM. Rural Development staff is not required to rescreen an applicant upon request of a loan guarantee.

F. **Having Acceptable Citizenship or Immigration Status [7 CFR 3555.151 (b)]**

The applicant must be a U.S. citizen, a U.S. non-citizen national, or a qualified alien as identified in Section 401 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (8 U.S.C. Section 1611). Lenders and the Agency must determine whether the applicant for a guaranteed loan is a U.S. citizen, a U.S. non-citizen national, or a “qualified alien”. The Agency has access to the Systematic Alien Verification for Entitlements (SAVE) Program. SAVE is administered by U.S. Citizenship and Immigration Services, a component of the Department of Homeland Security.

This program is available to individuals who receive a loan note guarantee under the SFHGLP who:

- reside as a citizen in any of the 50 States, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Marianas, Federated States of Micronesia, and the Republics of the Marshall Islands and Palau; or,

- a non-citizen who resides in one of the foregoing areas after being legally admitted to the U.S. for permanent residence or on indefinite parole.

The term “indefinite parole” is no longer a term used by the Citizenship and Immigration Service (CIS), formerly the Immigration and Naturalization Service (INS).

Generally, a U.S. non-citizen national is a person born in American Samoa or Swains Island or after the date the U.S. acquired American Samoa or Swains Island, or a person whose parents are U.S. non-citizen nationals. Typical evidence of the relatively uncommon status as a non-citizen national includes a birth certificate or passport. Persons who are non-citizen nationals are eligible for consideration.

Aliens must provide acceptable evidence that they are qualified aliens. A qualified alien is defined under PRWORA (8 U.S.C. Section 1641) as:

- An alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act (INA); or
• An alien who is granted asylum under section 208 of such Act; or
• A refugee who is admitted to the United States under section 207 of such Act; or
• An alien who is paroled into the United States under section 212(d)(5) of such Act for a period of at least 1 year; or
• An alien whose deportation is being withheld under sections 243(h) or 241(b)(3) of such Act, as amended; or
• An alien who is granted conditional entry pursuant to section 203(a)(7) of such Act as in effect prior to April 1, 1980; or
• An alien who is a Cuban/Haitian Entrant as defined by section 501(e) of the Refugee Education Assistance Act of 1980; or
• An alien who has been battered or subjected to extreme cruelty under section 431 of the Immigration and Nationality Act.

In addition to the categories of qualified aliens described above, Native Americans born in Canada may also be eligible as lawfully admitted for permanent residence. The documentation described above or through Systematic Alien Verification for Entitlements (SAVE) Program may be unavailable.

To establish the applicant(s) is a qualified alien, the Native American should provide all of the following documentation:

• A letter from their Native American tribe stating that the alien has at least 50 percent Native American or Aboriginal blood (also referred to as the blood quantum);

• Their Canadian “Certificate of Indian Status Card” with a red stripe along the top;

• Their birth certificate;

• If a Haudenosaunee, their Red I.D. Card;

• If an Inuit, an Inuit enrollment card from one of the regional Inuit lands claim agreements;

• Their Social Security Card issued by the U.S. Social Security Administration; and
• Their Canadian or U.S. driver license.

Lenders must secure proof of identity and evidence that non-citizens who apply for a guaranteed loan are qualified aliens. The evidence confirming qualified alien status may be obtained after the lender has received an application. The lender should obtain the non-citizen’s alien identification number with copies of any supporting documents, which will be maintained in the lender’s permanent case file. In all cases, non-citizens legally admitted into the United States will have an Alien Identification Number. In the rare occasion where a number is not available or known, the applicant should contact the USCIS.

Lenders who utilize GUS will have the ability to obtain SAVE results to validate non-citizens qualified alien status. Lenders will enter the requested applicant’s alien information into the “Additional Data” tab in GUS and, in most cases, will receive an instant result of the alien’s eligibility status. A second and third check may be required if an immediate response is not received. Specific guidance on utilizing GUS to obtain the alien’s eligibility status is available by viewing the GUS “Additional Data” training posted to the following resource site: https://www.rd.usda.gov/page/usda-linc-training-resource-library.

For manual file submissions, the lender will submit the alien documentation with the complete application submission and the Agency will verify eligibility status via SAVE.

Non-streamlined, streamlined, and streamlined-assist refinance transactions only require verification of an alien’s eligibility status when a new borrower, who is not a U.S. Citizen, is added to the loan.

8.3 TRUTHFUL APPLICATION

The integrity of the information presented in the mortgage application process is of the utmost importance. Applicants and lenders should be aware that they will be held responsible for the validity of the information submitted to the Agency. Applicants must provide truthful information when applying for a guaranteed loan. Applicants who provide false information, or who fail to disclose relevant information, will be denied a guaranteed loan. Falsification of information or disclosure can jeopardize any issued Loan Note Guarantee or continued eligibility of the approved lender, depending on the severity of the action.

The types of information covered by this policy include all documentation and information submitted by the approved lender when requesting a Conditional Commitment, Loan Note Guarantee, or servicing action request. Fraud or other criminal
HB-1-3555

misconduct in connection with his or her application will be reported to the appropriate office or Agency as required by state or federal law. These include the Office of Inspector General, state agencies, or other entities that may take whatever action is required by law.

Any intentional or negligent misrepresentation of information contained in the application package may result in civil liability, including monetary damages, to any person who may suffer any loss due to reliance upon any misrepresentation made on the application and/or in criminal penalties including but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.
CHAPTER 9: INCOME ANALYSIS
7 CFR 3555.152

9.1 INTRODUCTION

The lender is responsible to confirm applicants and households meet eligibility criteria for the Single Family Housing Guaranteed Loan Program (SFHGLP). Lenders must calculate and document annual, adjusted, and repayment income. The guidance provided applies to both manually underwritten loans and loans that utilize the Agency’s automated underwriting system, GUS.

SECTION 1: ELIGIBILITY INCOME

9.2 OVERVIEW

The SFHGLP assists very-low, low, and moderate-income households. Therefore, the lender must certify that any household that requests a loan guarantee does not exceed the adjusted annual income threshold for the applicable state and county where the dwelling is located. The Agency provides income eligibility information in Appendix 5 of this Handbook to lenders and updates the limits as they are revised.

This section assists lenders to analyze income types, complete income calculations (annual, adjusted, and repayment), and document the income with acceptable verifications. Documentation of income calculations should be provided on Attachment 9-B, or the Uniform Transmittal Summary, *(FNMA FORM 1008/FREDDIE MAC FORM 1077)*, or equivalent. Attachment 9-C provides a case study to illustrate how to properly complete the income worksheet. A public website is available to assist in the calculation of annual and adjusted annual income at: [http://eligibility.sc.egov.usda.gov/eligibility/](http://eligibility.sc.egov.usda.gov/eligibility/).

9.3 ANNUAL INCOME [7 CFR 3555.152(B)]

Annual income will include all eligible income sources from all adult household members, not just parties to the loan note. The annual income for the household will be used to calculate the adjusted annual household income. The adjusted annual income determines if the household is eligible for a guaranteed loan.
A. Income that is Never Counted

7 CFR 3555, Section 3555.152(b)(5) lists income sources that are never included in the annual income calculation. Refer to Attachment 9-A to review income and asset types, guidance for annual and repayment purposes, and documentation options acceptable to verify the income or asset source.

B. Calculation of Annual Income

Annual income is calculated for the ensuing 12 months, based on income verifications, documentation, and household composition. Lenders must examine all evidence to ensure the calculation is supported.

In addition to 3555.152(b) and Attachment 9-A, lenders must consider the following to calculate annual income:

- Use the gross amount, before any payroll deductions, of base wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances and other compensations for personal services of all adult members of the household, unless they meet the exclusion criteria of 3555.152(b)(2) and Attachment 9-A. Documented cost of living allowances or wage increases that will be effective on or before loan closing, must be included in the annual income calculation.

- Include the first $480 of earned income from adult full-time students who are not the applicant, co-applicant, or spouse of an applicant.

- Include the income of an applicant’s spouse, unless the spouse has been living apart from the applicant for at least three months (for reasons other than military or work assignment), or court proceedings for divorce or legal separation have been commenced. Evidence to support living apart for three months may include, but is not limited to, an apartment lease, bills, or bank statements in their name alone delivered to a different address, etc. This guidance applies to domestic partners, significant others, and fiancée’s that are currently living with the applicant as a household/family unit. This guidance does not apply to adult dependents age 18 and up.

- An adult member that is currently unemployed but is seeking new employment must have their previous earnings included in annual income. The previous earnings are not required to be included when there is documented evidence to support they are not seeking to be reemployed, such as a tendered resignation, official termination from previous employer, or a signed statement from the adult...
household member that they do not plan to pursue new employment.

- Income verifications provided by the applicant that do not currently support historical earnings with the same employer (example: less hours worked, less overtime, less bonus, declining self-employment income, etc.) must be carefully reviewed to determine appropriate calculations.

- Verified changes of income amounts or sources in the ensuing 12 months must be documented. Examples include, but are not limited to, pending retirement, resignation tendered, documented raise that will occur prior to loan closing, etc.

- Income sources that will not be received for the entire ensuing 12 months must continue to be included in annual income unless excluded under 3555.152(b)(5). Examples include, but are not limited to, child support, alimony, maintenance, Social Security, etc. Annual income is the total of all income sources for a 12-month timeframe. Income calculations must state the income source, the number of months receipt remaining for the ensuing 12-month timeframe, and the total amount to be received.

Lenders are responsible for the accurate calculation of the annual household income. The calculation should be logical based on the history of income and documentation provided. Training is available on USDA LINC Training and Resource Library, located at https://www.rd.usda.gov/page/usda-linc-training-resource-library.

Annual income calculations will typically vary from adjusted annual and repayment income.

C. Income of Temporarily Absent Household Members

A household member is defined as all persons routinely living in the dwelling as a principal residence, except for live in aides, foster children, and foster adults (3555.10). If a member of the household that will make the dwelling their principal residence is temporarily absent, their income must be included.

D. Applicant Assets

Income earned from non-retirement assets may be required to be included in the annual income calculation as applicable. Refer to paragraph 9.4 for guidance.
E. Verification Requirements

Lenders must verify income and asset documentation provided by the applicant(s) and other adult household members. The following guidance will assist:

- Written, oral, or electronic verifications, and documents provided or prepared by third-party sources are acceptable. These verifications must be provided directly to the lender.

- Lenders may not accept verifications or documents transmitted by or passed through an interested third party such as builders, real estate professionals, or sellers.

- Facsimiles, photocopies, digital images and computer-generated documents may be accepted in lieu of original forms.

- The lender is responsible for the integrity and accuracy of the information in the mortgage underwriting file. Regardless of the type of documentation used to support the loan application, the documents must be legible and free of any alterations, erasures, “white-outs,” or similar indications that changes have been made.

- Verification documentation of household annual, adjusted and repayment income will be retained in the lender’s permanent case file.

- Paystubs/earning statements must include adequate information to calculate income and include year-to-date earnings. The lender must utilize paystub(s)/earning statement(s) that are dated no earlier than 30 days prior to their initial loan application date.

- W-2 forms must include the most recent one-or-two years as applicable. W-2’s must clearly identify the applicant and employer.

- Tax returns for self-employed borrowers must be copies of the original returns filed with the IRS and include all supporting schedules. Lenders may substitute IRS transcripts obtained directly from the IRS with all supporting schedules. The most recent tax return refers to the last return filed as determined by IRS schedule/deadlines. Lenders must continue to obtain the most recent two years of returns as applicable. USDA requires all applicants to be current on their income tax filings.

- An applicant with an approved IRS extension for the current tax year may
continue to be eligible if they are not delinquent on taxes owed as determined by the IRS. Evidence of the extension and tax payment made, if applicable, must be retained in the lender’s permanent loan file. USDA does not require an applicant to file a return for the current tax year if the IRS schedule/deadline for that tax year has not passed (i.e. prior to April 15th).

- Income and asset documents and verifications cannot be greater than 120 days old at time of loan closing. Divorce decrees, income tax returns, and other documents that do not expire, will continue to have the most recent or filed copy accepted.

- Applicable income and asset documents greater than 120 days old at the time of loan closing must be updated or re-verified to support applicant/household eligibility.

Lenders must verify the income for each applicant and adult household member (excluding eligible full-time students age 18 and above) through one of the following documentation methods. Refer to Attachment 9-A for documentation and verification options that are acceptable to support income types.

1. **Full Documentation – Non-Self-Employed**

   - W-2 forms for the most recent two tax years, which may be electronically generated, provided in paper format, as reported on filed Federal Income Tax Returns, or IRS transcripts;

   - Paycheck stubs or payroll earning statements that report the most recent four weeks of earnings; and

   - Prior to loan closing, a Verbal Verification of Employment (VVOE) must be obtained for all applicants within 10 business days of the note date/loan closing. This VVOE will be retained in the lender’s permanent loan file. Adverse changes to the applicant’s employment may render the loan ineligible.

2. **Streamlined Documentation – Non-Self-Employed**

   - Written Verification of Employment (VOE): Electronically generated verifications from the employer or a verification service utilized by the employer, Form RD 1910-5 “Request for Verification of Employment,” or an equivalent HUD, VA, Fannie Mae, or Freddie Mac form may be utilized to
verify the current year-to-date (YTD) and previous year’s employment earnings. This verification must confirm base income/wages, bonus, overtime, commissions, and other income sources earned as applicable;

- Recent paycheck/earnings statement: Lenders must compare a recent paystub that includes YTD earnings and employment information to the VOE to confirm these two documents reasonably agree; and

- Prior to loan closing a VVOE must be obtained for all applicants within 10 business days of the note date/loan closing. This VVOE will be retained in the lender’s permanent loan file. Adverse changes to the applicant’s employment may render the loan ineligible.

3. **Self-Employed**

An applicant or household member is considered self-employed when they have a 25 percent or greater ownership interest in a business. Federal Income Tax Returns for the business will be required when ownership is 25 percent or greater. The lender must analyze the most recent two-year history of the business earnings. Sharp increases or declines in self-employed income may require the lender to review additional documentation to support their calculation of annual, adjusted, and repayment income. Sharp increases or declines are defined as a 20 percent or greater variance for income earnings from the previous 12 months. The lender’s permanent file must contain the following as applicable:

- Federal Income Tax Returns (filed and signed) for the most recent two consecutive years with all schedules, or IRS transcripts that include all applicable schedules, and

- Federal Income Tax Returns for the business (filed and signed) for the most recent two consecutive years with all schedules, or IRS transcripts that include all applicable schedules, if required for the ownership interest/business type, and

- Recent profit and loss statement (not required to be audited), and

- Confirmation the business is operational, obtained within 30 days of the note date/loan closing. Documentation may include evidence of a website, additional internet documentation, licensing bureau certification, etc. Adverse changes to the business may render the applicant ineligible.

Lenders may utilize Fannie Mae Form 1084 “Cash Flow Analysis,” Fannie
Mae 1088 “Comparative Income Analysis,” or a comparable self-employment evaluation form(s), and Attachment 9-E to assist in the calculation of self-employment income.

A business (full time or part-time) that is closed may be removed from consideration for annual income when the applicant provides a letter of explanation and documentation to the lender which details: 1. When the business was closed, 2. Why the business was closed, 3. How the business was closed, and 4. Evidence, satisfactory to the lender, to support the closure of the business.

REMINDER: Refer to Attachment 9-A for documentation options and verification requirements of additional income and asset types that may apply to the household. If a specific income or asset type is not listed, refer to 3555.152. All income and asset types must be documented and verified. The lender must retain all documentation and calculations in their permanent loan file.

4. IRS Transcripts: Verification of Income

IRS transcripts are required for all required household members in addition to the documentation option selected by the lender. Lenders must require each adult household member as applicable to complete and sign IRS Form 4506-T or IRS Form 4506-C for the previous two tax years at the time of loan application. The 4506-T/4506-C must be used to request full transcripts with all schedules.

Full time students age 18 and up that are not the applicant, co-applicant, or spouse of an applicant are not required to sign the 4506-T/4506-C or have transcripts provided.

Guaranteed loans cannot be made to a household that exceeds the applicable adjusted annual income limit. The transcripts provide a quality control measure to ensure all income and asset earnings reported to the IRS have been disclosed to the lender.

Lenders must obtain and review the transcripts prior to loan closing and retain them in their permanent loan file.

Previously unknown/undisclosed income or asset sources that are identified by the transcripts will require additional review by the lender and may render a loan file ineligible.
When the lender is unable to obtain transcripts from the IRS for an applicant or required household member, they may document their correspondence to and from the IRS in the permanent loan file to support the omission. “Failure to file” tax returns by the due date when legally required to do so is not an eligible explanation. The loan file will be considered complete when the explanation is documented. Loan closings will not be delayed due to obstacles in obtaining the tax transcripts.

Adult household members that do not have a Social Security Number, I-TIN number, or other identification to confirm they are legal U.S. residents to enable the lender to submit a 4506-T/4506-C request, may render the application ineligible. If the required documentation cannot be confirmed, the lender will be unable to submit a complete loan application to USDA.

9.4 CALCULATING INCOME FROM ASSETS [7 CFR 3555.152(d)]

Household members with cumulative net family assets (non-retirement) of $50,000 or greater, must have those assets reviewed for annual income purposes as indicated in 3555.152(d). Lenders must review asset information provided by applicant(s) and household members at the time of loan application. Net family assets with actual earnings will use the stated rate of interest to calculate annual income. Net family assets that do not earn interest will use a current passbook savings rate (verified through the lender’s personal banking rates, online website, etc.) to calculate annual income.

Refer to the Asset section in Attachment 9-A for individual asset types and options for documentation/verification.

9.5 ADJUSTED ANNUAL INCOME [7 CFR 3555.152(C)]

The adjusted annual income calculation will determine if the household is eligible for the guaranteed loan program. Adjusted annual income is calculated by using the annual income figure and subtracting any of the eligible deductions in 3555.152(c) for which the household may qualify. The “Income Calculations Worksheet” in the case study in Attachment 9-B of this chapter provides an example of using deductions.

Refer to Attachment 9-A for information and documentation options to support these eligible deductions:

- Dependents
- Child Care Expenses
• Elderly Household

• Care of Household Members with Disabilities

• Medical Expenses

9.6 AGENCY REVIEW OF HOUSEHOLD INCOME

Agency staff will recalculate the lender’s determination of adjusted annual income, as a quality control step, when the lender’s calculation is within 10 percent of the applicable published income limit. The Agency review is only required for manually underwritten loans. If the Agency’s calculation exceeds the adjusted annual income threshold, the Agency will contact the approved lender to review the results and determine the appropriate calculation. This review will ensure adjusted annual household income calculations are correctly computed and include all applicable income. Agency staff will complete Attachment 9-F, Worksheet for Documenting Eligible Household and Repayment Income, to record their calculation and upload to the Agency’s Imaging Repository.

SECTION 2: REPAYMENT INCOME [7 CFR 3555.152(a)]

9.7 OVERVIEW

Repayment income will determine if the applicant(s) has sufficient income to repay the mortgage in addition to recurring debts. Repayment income calculations often differ from the calculation of annual and adjusted annual income.

Repayment income is the stable and dependable income of the applicants who will be parties to the note. Co-signers and non-occupant co-borrowers are not permitted for a guaranteed loan transaction.

9.8 STABLE AND DEPENDABLE INCOME

3555.152(a) and Attachment 9-A assist lenders to review income types. The following guidance also assists lenders to consider repayment income sources:

• The income source must be documented.

• There must be evidence to support the historical receipt of earnings.
• Establish the likelihood of its continuance for at least 3 years into the mortgage.

• Analyze any gaps in employment to make a final determination of stable and dependable income.

• Caution should be utilized for any applicant that has documented declining wages or earnings. Lenders must ensure repayment income is not inflated/overstated.

• Caution should be utilized for any applicant that has a documented sharp increase in earnings. A sharp increase in earnings is defined as a 20 percent or greater variance in income from the previous 12 months. Lenders must determine if an increase is supported and logical. Examples include but are not limited to promotion with the current employer, documented pay raise with current employer, income trend analysis for overtime, bonus, commission, seasonal employees, etc.

• Caution should be utilized for any applicant that has a documented decrease in earnings. A documented decrease in earnings is defined as a 20 percent or greater variance in income from the previous 12 months. Lenders must determine if the decrease has/will continue or if there is evidence to support the earnings have stabilized. Examples include but are not limited to loss of job but new employment secured with lower wages, new profession/line of work, loss of contract/clients, economic cycle impact such as real estate, finance/lending, manufacturing, construction, etc.

• Lenders may gross up income that is not subject to Federal taxes 25 percent.

REMINDER: Approved lenders are responsible for their underwriting decisions, which includes the determination of stable and dependable income. Loans that default within 60 months of the date the Loan Note Guarantee is issued may result in indemnification from the approved lender to USDA due to unauthorized underwriting per 7 CFR 3555, HB-1-3555, and additional published USDA guidance.

9.9 AGENCY REVIEW OF REPAYMENT INCOME

Agency staff will recalculate the lender’s determination of repayment income, as a quality control step, when the repayment ratios are within 10 percent of the published debt ratio threshold of 3555.151(h). Repayment ratios greater than 26 percent for principal, interest, taxes, and insurance (PITI) and/or greater than 37 percent total debt (TD) require the Agency recalculation. The Agency review is only required for manually underwritten loans. If the Agency’s calculation does not agree with the repayment income calculation of the lender, the file could potentially be ineligible. The Agency will
contact the approved lender to review the results and determine the appropriate calculation. This action will strengthen the oversight procedures to verify compliance with regulatory requirements. Agency staff will complete Attachment 9-F, Worksheet for Documenting Eligible Household and Repayment Income, as directed to record their calculation and will be uploaded to the Agency’s Imaging Repository.

9.10 OPTIONAL DOCUMENTATION OF INCOME FORMS

Attachment 9-G of this Chapter provides optional verification forms for the lender’s use in verifying non-employed income or adjusted annual income deductions as follows:

- Verification of Pensions and Annuities
- Verification of Student Income and Expenses
- Verification of Medical Expenses
- Verification of Social Security Benefits
- Verification of Public Assistance
- Verification of Child/Dependent Care
- Verification of Unemployment Benefits
- Verification of Business Expenses
- Verification of Support Payments

Also available is an optional form to record an oral verification of employment.

- Record of Oral Verification of Employment

9.11 EDUCATION

The Agency will allow time spent in school towards requirements for annual and repayment income including college, technical school, and career-based certificates in high school (e.g., health and public safety career tracks). A standard high school diploma without an accompanying certificate does not meet the time requirements.
## Income and Documentation Matrix

**Income guidance:** 7 CFR 3555, Section 3555.152(a) and (b)

This matrix cannot cover every income/asset type, employment scenario, etc. USDA requires approved lenders to use sound judgment to make accurate and dependable analysis of income per 3555.152(a). Exclusions may apply under 3555.152(b)(5) and Attachment 9-D.

### Considerations for Income Calculations

- Income used in Repayment Income calculations must be confirmed to continue a minimum of three years into the mortgage.
- If the income is tax exempt, it may be grossed up 25 percent.
- “Documentation Source Options” lists eligible documentation. Every item listed is not required unless otherwise stated. Lenders must meet the income verification documentation requirements outlined in this Chapter.

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<tr>
<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
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| **Adoption Assistance or Subsidy** | If the income will be received in the ensuing 12 months, include the first $480 of adoption income or subsidy assistance for each grantee. | **Required History:** None, the income must be received at the time of loan application. Lenders must document:
  - the applicant is currently receiving the income, and
  - the amount of the income received each month

Benefits that do not include expiration dates on the documentation will be presumed to continue. |

**Documentation Source Options:**
- Benefit/Award letter to document the amount and duration of payments
- Online payment schedule from the Agency, bank statements, etc.
- Federal income tax returns or IRS tax transcripts with all schedules

| **Automobile Allowance** | Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months. | **Required History:** One year

**Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease.

The amount of allowance that exceeds the expenditure may be included for repayment. If there is a monthly debt associated with the income (such as a car or equipment payment), this debt must continue to be included in the debt ratio calculation. |

**Documentation Source Options:**
- Paystub(s)/Earning statement(s)
- Contract/agreement from employer to state terms and duration of payments
- Federal income tax returns or IRS tax transcripts with all schedules
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<tr>
<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
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<tbody>
<tr>
<td>Base Wages (Hourly or Salary)</td>
<td>Include amounts received before deductions for payroll taxes, insurance, etc. Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5). Full time students age 18 and above that are not an applicant, co-applicant, or spouse of an applicant will only have $480 of their earnings included in the annual income calculation. These household members are not required to present income documentation.</td>
<td>Required History: One year Income must be received at the time of loan application. The one year of required history may be met through a combination of employers, education, or military service. This history does not have to be with the same or current employer. Applicants that were on leave with their employer due to maternity/paternity leave, medical leave, relocation, etc. remain employed. Underwriters may use discretion for applicants returning to the workforce after leaving a previous job to care for a child/family member, complete education, etc. for an extended time of one year or greater.</td>
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Documentation Source Options:
- Paystub(s)/Earning statement(s)
- W-2’s
- Written Verification of Employment (VOE) or electronic verifications
- Federal income tax returns or IRS tax transcripts with all schedules

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<tr>
<th>Boarder Income</th>
<th>Include income of all household members, including boarders, that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5). Rent paid by the boarder to the applicant that is reported in tax returns must also be included.</th>
<th>Ineligible</th>
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</table>

Documentation Source Options:
- Federal income tax returns or IRS tax transcripts with all schedules
- Bank statements, money order receipts, electronic payment verifications, etc.
## Income Type

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<th>Income Type</th>
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<th>Repayment</th>
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| Bonus       | Include amounts that will be received in the ensuing 12 months based on employment verifications. Exclusions may apply under 3555.152(b)(5). | **Required History:** One year
Underwriters must analyze bonus income for the current pay period and YTD earnings. Significant variances (increase or decrease) of 20 percent or greater in income from the previous 12 months must be analyzed and documented (example: paid once annually, paid monthly, etc.) before considering the income stable and dependable. **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease. |

## Documentation Source Options:
- Paystub(s)/Earnings statement(s)
- W-2’s
- Written VOE or electronic verifications
- Federal income tax returns or IRS tax transcripts with all schedules

| Capital Gains | Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5). | **Required History:** Two years
Lenders must analyze the previous two years of capital gains income. An average of the previous two years may be logical, or if the current year was 20 percent less than the previous year, the lesser of the current year must be utilized. |

## Required Documentation:
- Federal income tax returns or IRS transcripts with all schedules
- Evidence of additional property or assets retained by the applicant through title, bank statements, etc.
<table>
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<tr>
<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
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<tr>
<td>Child Support</td>
<td>Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5). Legally enforceable payments that have not been received may be excluded when payments are not received for an extended time and a reasonable effort has been made to collect them through the official entity responsible for enforcing such payments.</td>
<td>Court ordered payments: Required History: Six months (payment received must be consistent) Voluntary payment agreements: Required History: 1 year (payment received must be consistent) Child support that meets the minimum history, but the payment amounts are not consistent must average the amounts received over the time of receipt. Payments received for 6 months or less with zero received for any month must use zero.</td>
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**Documentation Source Options:**
- Final divorce decree, legal separation agreement, or court order (front and pertinent pages) to document the amount and timeframe of the obligation
- Evidence of timely receipt/consistent amount for required history: bank statements, canceled checks, deposit slips, tax returns, etc.

| Commission | Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5). | Required History: One year, in the same or similar line of work. Underwriters must analyze commission for the current pay period and YTD earnings. Significant variances (increase or decrease) of 20 percent or greater in income from the previous 12 months must be analyzed and documented (example: variances due to seasonal/holiday/etc.) before considering the income stable and dependable. **Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease. |

**Documentation Source Options:**
- Paystub(s)/Earning statement(s)
- W-2’s
- Written VOE or electronic verifications
- Federal income tax returns or IRS tax transcripts with all schedules
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<tr>
<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
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<tbody>
<tr>
<td>Contract / Employment Offer</td>
<td>Include amounts that will be received in the ensuing 12 months based on employment verifications.</td>
<td>Required History: One year</td>
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<td></td>
<td>The one year of required history may be met through a combination of employers, education, or military service. This history does not have to be with the same or current employer.</td>
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<td>An applicant moving to a new employer (i.e. school district, same profession, etc.) with a contract to begin employment within 60 days of loan closing may be eligible if the underwriter determines the applicant has reserves available post loan closing to cover all monthly liability payments and the new mortgage obligation until employment begins.</td>
</tr>
</tbody>
</table>

**Documentation Source Options:**
- Copy of signed employment contract/offer
- Paystub(s)/Earning statement(s) of current/former employer to confirm employment/income history
- W-2’s
- Written Verification of Employment (VOE) or electronic verifications
- Federal income tax returns or IRS tax transcripts with all schedules

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<tr>
<th>Income Type</th>
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<th>Repayment</th>
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<tr>
<td>Depreciation Depletion</td>
<td>The amount(s) of straight-line depreciation and/or depletion documented on acceptable IRS forms may be deducted.</td>
<td>Required History: Two years</td>
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<td>Continuance: These amounts will be presumed to continue unless there is documented evidence they will cease.</td>
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<td>The amount(s) of straight-line depreciation and/or depletion may be added back to repayment.</td>
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**Required Documentation:**
- Federal income tax returns or IRS tax transcripts with all schedules
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<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
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| Disability Income – Long Term       | Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5). | **Required History:** None, the income must be received at the time of loan application.  
Lenders must document:  
  o the applicant is currently receiving the income, and  
  o the amount of the income received each month, and  
  o determine if there is a contract termination or modification date. |
| Documentation Source Options:       |                                                                         |                                                                          |
|                                     |                                                                         |                                                                          |
|                                     |                                                                         |                                                                          |
| Dividends                           | Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5). | **Required History:** Two years                                           |
| Required Documentation:             |                                                                         |                                                                          |
|                                     |                                                                         |                                                                          |
|                                     |                                                                         |                                                                          |
| Earned Income Tax Credit            | Do not include                                                         | Do not include                                                            |
| Employee Fringe Benefits            | Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5). | **Required History:** One year                                           |
| Documentation Source Options:       |                                                                         |                                                                          |
|                                     |                                                                         |                                                                          |
|                                     |                                                                         |                                                                          |

**Disability Income – Long Term**  
This section does not refer to disability income received from the Social Security Administration.
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<tr>
<td>Employment Related Account</td>
<td>Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5).</td>
<td>Required History: None, the income must be received at the time of loan application. Lenders must document: o the applicant is currently receiving the income, and o the amount of the income received each month, and o determine if there is a contract termination or modification date.</td>
</tr>
<tr>
<td></td>
<td>Required Documentation:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Contract/agreement from employer to state terms and duration of payments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Benefit/Award verification letter, IRS 1099, evidence of current receipt, bank statements, etc.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Federal income tax returns or IRS transcripts with all schedules</td>
<td></td>
</tr>
<tr>
<td>Expense Allowance</td>
<td>Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5).</td>
<td>Required History: One year Continuance: Income will be presumed to continue unless there is documented evidence the income will cease. The amount of allowance that exceeds the expenditure may be included for repayment. If there is a monthly debt associated with the income (such as a car or equipment payment), this debt must be included in the debt ratio calculation.</td>
</tr>
<tr>
<td></td>
<td>Documentation Source Options:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Paystub(s)/Earning statement(s)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Contract/agreement from employer to state terms and duration of payments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Federal income tax returns or IRS tax transcripts with all schedules</td>
<td></td>
</tr>
<tr>
<td>Foreign Income</td>
<td>Include all wages, salaries, and additional income types that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5).</td>
<td>Required History: One year (Refer to Base Wages) Continuance: Income will be presumed to continue unless there is documented evidence the income will cease.</td>
</tr>
<tr>
<td></td>
<td>Documentation Source Options:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Paystub(s)/Earning statement(s), translated into English if applicable</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Written VOE or electronic verifications</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Federal income tax returns or IRS tax transcripts with all schedules</td>
<td></td>
</tr>
<tr>
<td>Foster child or adult income</td>
<td>Do not include</td>
<td>Do not include</td>
</tr>
<tr>
<td>Income Type</td>
<td>Annual</td>
<td></td>
</tr>
<tr>
<td>------------------</td>
<td>--------</td>
<td></td>
</tr>
<tr>
<td>GI Bill</td>
<td>Do not include</td>
<td></td>
</tr>
</tbody>
</table>

This income source is paid directly to veterans and/or their dependents attending college or university for the purpose of covering tuition and related expenses.

<table>
<thead>
<tr>
<th>Income Type</th>
<th>Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>GI Bill</td>
<td>Do not include</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income Type</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Benefits</td>
<td>Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5) and Attachment 9-C.</td>
</tr>
</tbody>
</table>

**Required History:** None, the income must be received at the time of loan application.

Lenders must document:
- the applicant is currently receiving the income, and
- the amount of the income received each month

Benefits that do not include expiration dates on the documentation will be presumed to continue.

**Required Documentation:**
- Benefit/Award documentation to support payment amounts and duration

<table>
<thead>
<tr>
<th>Income Type</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Allowance</td>
<td>Include the amounts that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5).</td>
</tr>
</tbody>
</table>

**Required History:** One year

Include the allowance in repayment income. Do not offset the mortgage payment with the amount of the allowance.

**Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease.

**Documentation Source Options:**
- Paystub(s)/Earning statement(s)
- Contract/Agreement from employer to state the terms and duration of payments
- Federal income tax returns or IRS tax transcripts with all schedules
<table>
<thead>
<tr>
<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest</td>
<td>Include income that will be received in the ensuing 12 months.</td>
<td>Required History: Two years</td>
</tr>
<tr>
<td></td>
<td>Net family assets that do not exceed a cumulative total of $50,000 are not required to be considered in the annual income calculation.</td>
<td></td>
</tr>
<tr>
<td>Required Documentation:</td>
<td>Account statements to support the balance, rate of interest, and payment amounts/continuance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Federal income tax returns or IRS tax transcripts with all schedules</td>
<td></td>
</tr>
</tbody>
</table>

Live in Aides   | Do not include | Do not include |

Medical Reimbursement | Do not include | Do not include |

Mileage         | Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months. | Required History: One year |
|                |                                                           | Continuance: Income will be presumed to continue unless there is documented evidence the income will cease |
|                |                                                           | Mileage may be documented on earning statements. |
|                |                                                           | When “standard mileage” is deducted from income tax returns, multiply the business miles driven by the depreciation factor for the appropriate year. The calculated amount may be added to repayment. Lenders must follow current IRS guidance to calculate this amount. |

Documentation Source Options: | Paystub(s)/Earning statement(s) | Federal income tax returns or IRS tax transcripts with all schedules |
<table>
<thead>
<tr>
<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Military</td>
<td>Include all wages and pay allowances that will be received in the ensuing 12 months.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hazardous duty pay and additional income sources may be excluded under 3555.152(b)(5).</td>
<td><strong>Required History:</strong> One year College/Technical School attendance may be substituted. <strong>Continuance:</strong> Income will be presumed to continue unless there is documented evidence the income will cease. In addition to base pay, military personnel may be entitled to additional forms of pay. Income sources such as basic allowance for housing and subsistence (BAH/BAS), clothing allowances, flight or hazard pay, rations and proficiency pay may be used for repayment income provided it is verified to continue. Additional consideration for the tax-exempt nature of these payments may be applied.</td>
</tr>
</tbody>
</table>

**Documentation Source Options:**
- Military Earnings and Leave Statement(s)
- W-2’s
- Written VOE or electronic verifications
- Federal income tax returns or IRS tax transcripts with all schedules

<table>
<thead>
<tr>
<th>Mortgage Credit Certificate</th>
<th>Do not include</th>
<th><strong>Required History:</strong> None <strong>Self-employed applicants are not eligible for MCC.</strong></th>
</tr>
</thead>
</table>

**Required Documentation:**
- Copy of the approved MCC award letter/contract with the rate of credit documented
- Copy of the IRS W-4 filed with applicant’s employer to reflect that the borrower is taking the tax credit on a monthly basis.

**GUS:**
In the “Borrower Information” page under “Income from Other Sources” use the dropdown button in the Income Source field and select “Mortgage Credit Certificate”. Tab to the Monthly Income field and enter the amount.

**Manual Underwrite:**
Add the monthly benefit amount to repayment income calculations.
<table>
<thead>
<tr>
<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Differential Payment</td>
<td>Include amounts that will be received in the ensuing 12 months.</td>
<td>Required History: One year</td>
</tr>
<tr>
<td></td>
<td>Exclusions may apply under 3555.152(b)(5).</td>
<td>Include the differential payment in repayment income. Do not offset the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>mortgage payment with the amount of the allowance.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Continuance: Income will be presumed to continue unless there is</td>
</tr>
<tr>
<td></td>
<td></td>
<td>documented evidence the income will cease.</td>
</tr>
<tr>
<td>Required Documentation:</td>
<td></td>
<td></td>
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<tr>
<td>• Verification from the employer</td>
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<tr>
<td>to confirm the subsidy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>amount and duration of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>payments</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Non-Occupant Borrower             | Ineligible                                                             | Ineligible                                                               |

| Notes Receivable                  | Include amounts that will be received in the ensuing 12 months.        | Required History: Two years                                              |
|                                   | Exclusions may apply under 3555.152(b)(5).                             |                                                                           |
| Required Documentation:           |                                                                        |                                                                           |
| • Copy of note to establish the   |                                                                        |                                                                           |
|        amount and length of time   |                                                                        |                                                                           |
|        of payment                 |                                                                        |                                                                           |
| • Federal income tax returns or   |                                                                        |                                                                           |
|        IRS transcripts with all    |                                                                        |                                                                           |
|        schedules, for proof of    |                                                                        |                                                                           |
|        receipt of income           |                                                                        |                                                                           |

| Overtime                          | Include amounts that will be received in the ensuing 12 months based  | Required History: One year                                              |
|                                   | on employment verifications.                                           |                                                                           |
|                                   | Exclusions may apply under 3555.152(b)(5).                             |                                                                           |
| Required History:                 |                                                                        |                                                                           |
| Continuance:                      |                                                                        |                                                                           |
| Underwriters must analyze         |                                                                        |                                                                           |
| overtime for the current pay      |                                                                        |                                                                           |
| period, and YTD earnings.         |                                                                        |                                                                           |
| Significant variances (increase   |                                                                        |                                                                           |
| or decrease) of 20 percent or     |                                                                        |                                                                           |
| greater in income from the        |                                                                        |                                                                           |
| previous 12 months must be        |                                                                        |                                                                           |
| analyzed and documented (example: |                                                                        |                                                                           |
| variances due to seasonal/holiday |                                                                        |                                                                           |
| etc.) before considering the      |                                                                        |                                                                           |
| income stable and dependable.     |                                                                        |                                                                           |

Documentation Source Options:     |                                                                        |                                                                           |
• Paystub(s)/Earning statement(s)  |                                                                        |                                                                           |
• W-2’s                           |                                                                        |                                                                           |
• Written VOE or electronic       |                                                                        |                                                                           |
| verifications                   |                                                                        |                                                                           |
• Federal income tax returns or   |                                                                        |                                                                           |
<p>| IRS tax transcripts with all     |                                                                        |                                                                           |
|      schedules                   |                                                                        |                                                                           |</p>
<table>
<thead>
<tr>
<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part-time Employment</td>
<td>Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5). Evidence of resignation, termination, retirement, or relocation from these positions may result in the exclusion of this income type.</td>
<td>Required History: One year&lt;br&gt;Continuance: Income will be presumed to continue unless there is documented evidence the income will cease.</td>
</tr>
<tr>
<td>Documentation Source Options:</td>
<td>• Paystub(s)/Earning statement(s)&lt;br&gt;• W-2’s&lt;br&gt;• Written VOE or electronic verifications&lt;br&gt;• Federal income tax returns or IRS tax transcripts with all schedules</td>
<td></td>
</tr>
<tr>
<td>Pensions</td>
<td>Include amounts that will be received in the ensuing 12 months. Lump sum withdrawals or sporadic payments may be excluded under 3555.152(b)(5).</td>
<td>Required History: None, the income must be received at the time of loan application. Lenders must document:&lt;br&gt;o the applicant is currently receiving the income, and&lt;br&gt;o the amount of the income received each month&lt;br&gt;Continuance: Income will be presumed to continue unless there is documented evidence the income will cease.</td>
</tr>
<tr>
<td>Documentation Source Options:</td>
<td>• Benefit/Award verification letter, retirement documents, IRS 1099, evidence of current receipt, bank statements, etc.&lt;br&gt;• Federal income tax returns or IRS tax transcripts with all schedules</td>
<td></td>
</tr>
<tr>
<td>Income Type</td>
<td>Annual</td>
<td>Repayment</td>
</tr>
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</tr>
<tr>
<td>Per Diem</td>
<td>Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5).</td>
<td>Required History: One year Taxable Income only. Continuance: Income will be presumed to continue unless there is documented evidence the income will cease.</td>
</tr>
</tbody>
</table>

Documentation Source Options:
- Paystub(s)/Earning statement(s)
- Contract/agreement from employer to state terms and duration of payments
- Federal income tax returns or IRS tax transcripts with all schedules

**Rental Income**

A retained dwelling must meet the requirements of 3555.151(e).

Include positive net rental income that will be received in the ensuing 12 months. Negative net rental income is counted as zero in the annual income calculation.

Required History: Two years
Only rents received 24 months or more Positive net rental income received may be included in the repayment income.

Negative net rental income is treated as a recurring liability in the debt ratios. Corresponding mortgage liabilities may be omitted from the debt ratios.

Rents received less than 24 months: No rental income may be included for repayment purposes. Corresponding mortgage liabilities must be included in the debt ratios.

Required Documentation:
- Federal income tax returns with all schedules, specifically Schedule E, or
- IRS transcripts with all schedules, confirm Schedule E is completed.
- Evidence of cash/check deposits, money order receipts, electronic payment receipt, etc. to document rents received for last 30 days.
- Signed lease of current occupants.

**GUS:**
Complete the applicable fields in the “Real Estate” page. Include the corresponding mortgage debt associated with the property, if applicable.

**Manual Underwrite:**
Include only net positive rental income and corresponding mortgage debt associated with the property, if applicable.
<table>
<thead>
<tr>
<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Restricted Stock Units (RSU)</strong></td>
<td>Include amounts listed as taxable income on the pay statements as gross earnings that will continue to be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5).</td>
<td><strong>Required History:</strong> Two years</td>
</tr>
</tbody>
</table>

**Required Documentation:**
- RSU account statements or award letters
- Paystubs, VOE’s, or other documentation from the employer to support previous and future payments

**Retirement**
Include amounts that will be received in the ensuing 12 months. Lump sum withdrawals or sporadic payments may be excluded under 3555.152(b)(5).

**Required History:** None, the income must be received at the time of loan application.

Lenders must document:
- the applicant is currently receiving the income, and
- the amount of the income received each month

**Continuance:** Income will be presumed to continue unless there is documented evidence the income will cease.

**Documentation Source Options:**
- Benefit/Award verification letter, retirement documents, IRS 1099, evidence of current receipt, bank statements, etc.
- Federal income tax returns or IRS tax transcripts with all schedules

**Royalty Payments**
Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5).

**Required History:** Two years

Lenders must confirm the amount, frequency, and duration of these payments.

**Required Documentation:**
- Royalty contract or agreement
- Federal income tax returns or IRS transcripts including all schedules
<table>
<thead>
<tr>
<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Schedule K-1</strong></td>
<td>Include monetary amounts (cash distributions) that will be received in the ensuing 12 months. Distributions of equipment, shares of real estate interest/ownership, non-monetary items, etc. are not included in the annual income.</td>
<td>Required History: Two years Schedule K-1 income may be utilized to qualify the applicant if the lender can confirm the business has adequate liquidity to support the withdrawal of earnings. The Schedule K-1 may provide this confirmation through “guaranteed payments to the partner”. Continuance: These amounts will be presumed to continue unless there is documented evidence they will cease.</td>
</tr>
<tr>
<td>Required Documentation:</td>
<td>Federal tax returns or IRS transcripts with all schedules Schedule K-1 forms</td>
<td></td>
</tr>
<tr>
<td><strong>Scholarships</strong></td>
<td>Include funds that will be received in the ensuing 12 months after deducting for tuition, fees, books and equipment.</td>
<td>Required History: Two years Continuance: Income must be confirmed to continue a minimum of three years into the mortgage. Include remaining funds after deducting tuition, fees, books, and equipment.</td>
</tr>
<tr>
<td>Required Documentation:</td>
<td>Award letter to state the benefit/scholarship amount or tuition assistance and date of termination Evidence to support the deductions required to arrive at any repayment amount</td>
<td></td>
</tr>
<tr>
<td><strong>Seasonal Employment</strong></td>
<td>Include amounts that will be received in the ensuing 12 months. Evidence of resignation, termination, retirement, or relocation from these positions may result in the exclusion of this income.</td>
<td>Required History: Two years in the same line of work. If the income is not earned at the time of loan application, the employer must provide verification that the applicant is still an employee along with an anticipated return to work date. Continuance: Income will be presumed to continue unless there is documented evidence the income will cease.</td>
</tr>
<tr>
<td>Documentation Source Options:</td>
<td>Paystub(s)/Earning statement(s) W-2’s Written VOE or electronic verifications Federal income tax returns or IRS tax transcripts with all schedules</td>
<td></td>
</tr>
<tr>
<td>Income Type</td>
<td>Annual</td>
<td>Repayment</td>
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<tr>
<td>-----------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Secondary Employment</td>
<td>Include amounts that will be received in the ensuing 12 months.</td>
<td><strong>Required History:</strong> One year</td>
</tr>
<tr>
<td></td>
<td>Evidence of resignation, termination, retirement, or relocation from these positions may result in the exclusion of this income.</td>
<td><strong>Continuance:</strong> Income will be presumed to continue unless there is documented evidence the income will cease.</td>
</tr>
<tr>
<td><strong>Documentation Source Options:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Paystub(s)/Earning statement(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• W-2’s</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Written VOE or electronic verifications</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Federal income tax returns or IRS tax transcripts with all schedules</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Section 8 Housing Vouchers</strong></td>
<td>Do not include</td>
<td><strong>Required History:</strong> None</td>
</tr>
<tr>
<td><strong>Required Documentation:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Benefit/Award letter to verify the subsidy amount</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>GUS:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enter the amount on the “Borrower Information” page, under “Income from Other Sources”, using the Income Source “Housing Choice Voucher Program”.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Manual Underwrite:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Add the amount of the benefit payment to repayment income calculations.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Self-Employment Income and Independent Contractors (1099)</strong></td>
<td>Lenders must analyze Federal tax returns to determine the appropriate gross income calculations.</td>
<td><strong>Required History:</strong> Two years</td>
</tr>
<tr>
<td></td>
<td>Include zero in annual income for a business loss.</td>
<td>Lenders must analyze Federal tax returns to determine the appropriate gross income.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Depreciation, depletion, business use of home, and other paper deductions may be allowed to be added back to the net profit/loss. Lenders may refer to Fannie Mae Form1084 or comparable self-employed analysis form for assistance.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>A business loss must be deducted from repayment income.</td>
</tr>
<tr>
<td><strong>Required Documentation:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Most recent two years of Federal income tax returns or IRS tax transcripts with all schedules, and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• YTD Profit and Loss Statement (audited or unaudited), used for income trend analysis</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Type</td>
<td>Annual</td>
<td>Repayment</td>
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<tr>
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</tr>
</tbody>
</table>
| Separate Maintenance /Alimony | Include amounts that will be received in the ensuing 12 months. Legally enforceable payments that have not been received may be excluded when payments are not received for an extended period of time and a reasonable effort has been made to collect them through the official entity responsible for enforcing such payments. | Court ordered payments:  
**Required History:** Six months (payment received must be consistent)  
**Continuance:** Three years  
Voluntary payment agreements:  
**Required History:** One year (payment received must be consistent)  
Maintenance that meets the minimum history, but the payment amounts are not consistent must average the amounts received over the time of receipt. Payments received for 6 months or less with zero received for any month must use zero. |

**Required Documentation:**  
- Final divorce decree, legal separation agreement, or court order (front and pertinent pages) to document the amount and timeframe of the obligation.  
- Evidence of timely receipt and consistent amount for required history: bank statements, canceled checks, deposit slips, tax returns, etc.
<table>
<thead>
<tr>
<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
</tr>
</thead>
</table>
| Social Security Income       | Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5). | **Required History:** None, the income must be received at the time of loan application  
Benefit letters that do not include an expiration date will be presumed to continue.  
Benefits received by the applicant on behalf of minors (funds are intended for their support) may be utilized for repayment.  
Benefits received by the applicant on behalf of an adult household member may be used for repayment income when there is evidence they are the legal guardian for the non-applicant adult household member. |

**Documentation Source Options:**
- Benefit statement from the Social Security Office or Form SSA-1099/1042S, Social Security Benefit Statement  
- Legal guardianship/payee status for adult household members

<table>
<thead>
<tr>
<th></th>
<th>Annual</th>
<th>Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Loans</td>
<td>Do not include</td>
<td>Do not include</td>
</tr>
<tr>
<td>Supplemental Nutrition Assistance Program (SNAP)</td>
<td>Do not include</td>
<td>Do not include</td>
</tr>
<tr>
<td>Income Type</td>
<td>Annual</td>
<td>Repayment</td>
</tr>
<tr>
<td>-------------</td>
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</tr>
<tr>
<td>Temporary Leave</td>
<td>Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(a)(5).</td>
<td>Required History: None, the income must be received at the time of loan closing.</td>
</tr>
<tr>
<td>Income/Temporary Reduction to Income with current employer</td>
<td></td>
<td>The lender must obtain all the following from the employer:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Verification the applicant has the right to return to work following the leave.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Documentation of the applicant’s return date.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Verification of the duration and amount of temporary leave income.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>o Documentation of regular employment prior to temporary leave.</td>
</tr>
</tbody>
</table>

This guidance is for an applicant that is currently employed. This guidance does not apply to an applicant that is currently unemployed.

An applicant that will return to work prior to the first mortgage payment may use their pre-leave income.

An applicant that will not return to work prior to the first mortgage payment must use their current income received (which may be zero) plus non-retirement liquid reserves. Reserves must meet the required history and calculations in the Asset and Reserves section of this matrix. The total of income and assets must meet the mortgage obligation and additional monthly liability payments until the applicant’s date of return to work. Lenders must document their calculation of income plus reserves divided by applicable months on Attachment 9-B, the underwriting transmittal summary, or on an alternate underwriting form.

Documentation Source Options:

- All employer verifications required by this section
- Benefit statement/Contract
- Paystub(s)/Earning statement(s)
- Written VOE or electronic verification

(03-09-16) SPECIAL PN
Revised (03-31-21) SPECIAL PN
<table>
<thead>
<tr>
<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tips</td>
<td>Include amounts that will be received in the ensuing 12 months.</td>
<td><strong>Required History:</strong> One year</td>
</tr>
<tr>
<td></td>
<td>Exclusions may apply under 3555.152(b)(5).</td>
<td>Underwriters must analyze tip income for the current pay period, and YTD earnings. Significant variances (increase or decrease) of 20 percent or greater in income from the previous 12 months must be analyzed and documented (example: variances due to seasonal/holiday/etc.) before considering the income stable and dependable. <strong>Continuance:</strong> Income will be presumed to continue unless there is documented evidence the income will cease.</td>
</tr>
<tr>
<td></td>
<td><strong>Required History:</strong> One year</td>
<td><strong>Required History:</strong> Six months</td>
</tr>
<tr>
<td>Trust Income</td>
<td>Include amounts that will be received in the ensuing 12 months.</td>
<td><strong>Required History:</strong> Six months</td>
</tr>
<tr>
<td></td>
<td>Exclusions may apply under 3555.152(b)(5).</td>
<td><strong>Required History:</strong> Six months</td>
</tr>
<tr>
<td></td>
<td><strong>Required Documentation:</strong></td>
<td><strong>Required Documentation:</strong></td>
</tr>
<tr>
<td></td>
<td>Trust documents: legally filed or recognized to document the balance, monthly payments, term of payments, mode of payment delivery (revocable or irrevocable), etc.</td>
<td>Trust documents: legally filed or recognized to document the balance, monthly payments, term of payments, mode of payment delivery (revocable or irrevocable), etc.</td>
</tr>
<tr>
<td></td>
<td>Documentation to support payments received: bank statements, deposit slips, trust account statements, etc.</td>
<td>Documentation to support payments received: bank statements, deposit slips, trust account statements, etc.</td>
</tr>
<tr>
<td>Unemployment</td>
<td>Include amounts that will be received in the ensuing 12 months.</td>
<td><strong>Required History:</strong> Two years</td>
</tr>
<tr>
<td></td>
<td>Benefits received while seeking new full/part time employment that have ended are excluded under 3555.152(b)(5)(v).</td>
<td><strong>Continuance:</strong> Income will be presumed to continue unless there is documented evidence the income will cease. Applicants with a sole source of unemployment income are ineligible for a guaranteed loan.</td>
</tr>
<tr>
<td></td>
<td><strong>Required History:</strong> Two years</td>
<td><strong>Required History:</strong> Two years</td>
</tr>
</tbody>
</table>

**Documentation Source Options:**
- Paystub(s)/Earning statement(s)
- W-2’s
- Written VOE or electronic verifications
- Federal income tax returns or IRS tax transcripts with all schedules

**Documentation Source Options:**
- Evidence of compensation: IRS Form 1099 or equivalent
- Federal income tax returns or IRS tax transcripts with all schedules
<table>
<thead>
<tr>
<th>Income Type</th>
<th>Annual</th>
<th>Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unreimbursed Employee or Business Expenses</strong></td>
<td>Do not include.</td>
<td>Do not include. No longer applicable</td>
</tr>
<tr>
<td><strong>VA Benefits</strong></td>
<td>Include amounts that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5).</td>
<td><strong>Required History:</strong> None, the income must be received at the time of loan application. Lenders must document: o the applicant is currently receiving the income, and o the amount of the income received each month Benefits with no expiration date stated will be presumed to continue. Benefits received by the applicant on behalf of minors (funds are intended for their support) may be utilized for repayment. Benefits received by the applicant on behalf of an adult household member may be used for repayment income when there is evidence they are the legal guardian for the non-applicant adult household member.</td>
</tr>
<tr>
<td><strong>Documentation Source Options:</strong></td>
<td>- Benefit statement from the Office of Veteran’s Affairs - Legal guardianship/payee status for adult household members</td>
<td></td>
</tr>
<tr>
<td><strong>Workman’s Compensation</strong></td>
<td>Include amounts that will be received in the ensuing 12 months. Lump sums or sporadic payments may be excluded under 3555.152(b)(5).</td>
<td><strong>Required History:</strong> Six months</td>
</tr>
<tr>
<td><strong>Required Documentation:</strong></td>
<td>- Award letter or settlement to state amount and duration of payments - Earnings statements/Paystubs - Written VOE from employer</td>
<td></td>
</tr>
</tbody>
</table>
### Adjusted Annual Income Deductions

**3555.152(c)**

**Dependent Deduction: 3555.152(c)(1)**
- $480 deduction per eligible dependent at the time of loan application
- Applicants with shared custody may include their child(ren)

**Documentation Source Options:**
- Certify to the household number on Form RD 3555-21
- List all household members and ages in Borrower Information page in GUS and Attachment 9-B, or the lender’s Uniform Transmittal Summary, (FNMA Form 1008/Freddie Mac Form 1077), or equivalent.

**Child Care Expenses: 3555.152(c)(2)**
- Care for children age 12 and under
- Care is necessary to enable a family member to work, seek employment, or attend school
- Calculate anticipated child care expenses for the ensuing 12 months
- Applicants that have not placed their child into care or have no evidence to support payments, deposits, or registration fees are ineligible for this deduction

**Documentation Source Options:**
- Utilize income tax returns, receipts, or third-party verifications provided by a licensed childcare facility or provider on letterhead that 1. Identifies the child enrolled, 2. Date of enrollment, 3. Payment due, and 4. Payment history
- Relatives or non-licensed private individuals who provide care must also provide evidence of payments made (i.e. canceled checks, money order receipts, bank statements, etc.)
- Child support payments and school tuition (K – 8) are not eligible deductions
- Attachment 9-G is an available option to document childcare expenses, but may not be used alone when additional documentation is required per this section to verify payment (i.e. relatives and private individuals)
- Calculations must be included on the Income Calculation Worksheet

**Disability Expenses: 3555.152(c)(3)**
- Deduction for eligible expenses that exceed three percent of the annual income
- Eligible expenses: 1. allow the disabled individual or another household member to work, 2. are non-reimbursable by insurance or other sources, and 3. do not exceed the income earned by the person who is working due to the care provided
- Examples include but are not limited to daily living assistance, wheelchairs, ramps, adaption needs, workplace equipment, etc.
- Utilize documentation to estimate anticipated annual expenses

**Documentation Source Options:**
- Third party verifications for caregivers/agencies for the dates, costs, and fees
- Receipts, itemized income tax returns, and other evidence to support the deductions
- Calculations must be included on the Income Calculation Worksheet
### Adjusted Annual Income Deductions

#### 3555.152(c)

**Elderly Household Deduction: 3555.152(c)(4)**
- Applicant or Co-Applicant is age 62 or older
- One $400 deduction allowed

**Documentation Source Options:**
- Certify to date of birth on Form RD 3555-21 and the loan application

**Medical Expenses: 3555.152(c)(5) (Elderly and Disabled Households Only)**
- Deduction for eligible expenses that exceed 3 percent of the annual income for entire family
- Definition of elderly family is in 3555.10
- Utilize documentation to estimate anticipated annual expenses

**Documentation Source Options:**
- Itemized tax return documents
- Receipts for insurance premiums, prescriptions, dental and eye exams, eyeglasses, medical/health products or apparatus, hearing aids, visiting or live in care providers
- Calculations must be included on Attachment 9-B, or the Uniform Transmittal Summary, (FNMA Form 1008/Freddie Mac Form 1077), or equivalent.
### Assets and Reserves

3555.152(d)

Funds to close will be subtracted from the assets entered on “Assets and Liabilities”, “Other Credits” on the “Lender Loan Information” and “Gifts or Grants You Have Been Given or Will Receive for This Loan” on the “Loan and Property Information” GUS application pages. Remaining funds eligible as reserves must be available to the applicant post loan closing. Lenders must use caution and not overstate assets utilized for reserves. USDA does not require evidence from all parties to access joint or business accounts unless access to the funds are restricted without it.

#### Bridge Loan

**Documentation:**
- Evidence of the loan proceeds, where they are held (depository account, etc.), and balance remaining
- Confirm corresponding liability for this debt is included in the total debt ratio if applicable

**Reserves:** Eligible

**Funds to Close:** Eligible

#### Business Accounts

**Documentation:**
- Two months of recent bank statements, or
- Verification of Deposit (VOD) and a recent bank statement, or
- Alternate evidence (example: statement print outs stamped by lender) to support account activity and monthly balances

**Reserves:** Eligible
- Lenders must use the lesser of the current balance or previous months ending balance

**Funds to Close:** Eligible

**GUS:**
Enter as Asset Type “Other” and specify as either “Liquid” or “Non-Liquid.”

#### Cash on Hand

**Documentation:**
- Applicant must supply a letter of explanation to state how the funds were accumulated (how much weekly/monthly/etc.)
- Lender must determine reasonableness of accumulation based on income stream, spending habits, etc.

**Reserves:** Ineligible

**Funds to Close:** Eligible

#### Certificate of Deposit (CD)

**Documentation:**
- Recent account statement (monthly, quarterly, etc.) to evidence the account balance and early withdraw penalty if applicable

**Reserves:** Eligible
- Lenders may use the current vested balance, minus applicable fees/penalties

**Funds to Close:** Eligible
### Assets and Reserves

#### Depository Accounts: Checking, Money Market Accounts, and Savings

**Documentation:**
- Two months of recent bank statements, **or**
- Verification of Deposit (VOD) and a recent bank statement, **or**
- Alternate evidence (example: statement print outs stamped by lender) to support account activity and monthly balances.
- Investigate all deposits on the account statements that are not attributed to wages or earnings. Confirm deposits are not from undisclosed income sources. There is no tolerance or percentage of the deposit amount that is not required to be investigated.

**Reserves:** Eligible
- Lenders must use the lesser of the current balance or previous month’s ending balance

**Funds to Close:** Eligible

#### Earnest Money

**Documentation:**
- Retain a copy of the check, money order receipt, etc. that was remitted for the earnest money.

**Reserves:** Eligible
- Earnest money that has cleared an applicant’s depository account may be entered under “Other Credits” section of the “Lender Loan Information” GUS application page. The amount of earnest money should not be reflected in the balance of any asset entered on the “Assets and Liabilities” application page.

**Funds to Close:** Eligible

#### Gift of Equity, Sweat Equity, or Rent Credits

**Documentation:**
- These gifts or credits must be applied as a reduction to the purchase price of the dwelling
- Ensure the appraiser is aware of the gift and/or credit. This will allow them to properly complete the appraisal report, note the reduction, and support the appraised value compared to purchase price if applicable.
- The borrower may not receive cash back at loan closing for these gifts and/or credits.

**Reserves:** Ineligible

**Funds to Close:** Ineligible
### Assets and Reserves

#### Gift Funds

**Documentation:**
- Gift funds are considered the applicant’s own funds therefore they are eligible to be returned to the applicant at loan closing as applicable.
- Gift funds may not be contributed from any source that has an interest in the sale of the property (seller, builder, real estate agent, etc.).
- Gift funds must be properly sourced:
  - If the funds have been deposited to the borrower’s account, obtain a gift letter to state the funds do not have to be repaid and bank statement as evidence of funds from the donor’s account. Cash on hand is not an acceptable explanation for the source of funds.
  - If the funds have not been deposited in the borrower’s account, obtain a gift letter to state the funds do not have to be repaid, a certified check, money order, or wire transfer and a bank statement showing the withdrawal from the donor’s account.
  - If the gift funds will be sent directly to the settlement agent, the lender must obtain a gift letter to state the funds do not need to be repaid and verify the funds have been received by the settlement agent by the donor.
- Gift funds should be entered in the “Gifts or Grants You Have Been Given or Will Receive for This Loan” section of the “Loan and Property Information” GUS application page, as well as included in an Asset account on the “Assets and Liabilities” page. If cash back is received at loan closing, it cannot exceed monies advanced by the borrower minus utilized gift funds.

**Reserves:** Ineligible  
**Funds to Close:** Eligible

#### Individual Development Account (IDA)

**Documentation:**
- Two months of account statements, or
- Verification of Deposit (VOD) or
- Alternate evidence provided by the account trustee/management to support account activity and monthly balances
- Verification must document the vested/amount available for withdrawal without penalty or reimbursement

**Reserves:** Eligible  
**Funds to Close:** Eligible

#### Life Insurance

**Documentation:**
- Document the applicant’s receipt of funds from the policy
- Verify where the proceeds are held and available to the applicant
- Confirm corresponding liability for this debt in the total debt ratio if applicable

**Reserves:** Eligible  
**Funds to Close:** Eligible
## Assets and Reserves

### Personal Property Sold

**Documentation:**
- Document the applicant’s ownership of the asset
- Evidence of the transfer of ownership of the asset through a bill of sale or statement from the purchaser
- Receipt of sales proceeds through deposit slips, bank statements, or a copy of the purchasing party’s canceled check, money order, or electronic funds transfer

**Reserves:** Eligible  
**Funds to Close:** Eligible

### Retirement: 401k, IRA, etc.

**Documentation:**
- Recent account statement (monthly, quarterly, etc.) to evidence the account balance, vested balance available for withdraw, and early withdraw penalty if applicable

**Reserves:** Eligible  
- 60 percent of the vested amount available to the applicant may be used as reserves

**Funds to Close:** Eligible

### Sales Proceeds: Real Estate Owned

**Documentation:**
- Closing disclosure or acceptable alternative
- Verify where the proceeds are held and available to the applicant

**Reserves:** Eligible  
- Reserves will be calculated based on the data entered in the “Assets and Liabilities” and “Real Estate” application pages in GUS. Lenders must confirm the GUS calculation, their override data entry, or other asset data entry for this purpose has supporting documentation.
- Net equity/sales proceeds manually entered on a loan application must have supporting documentation

**Funds to Close:** Eligible

### Secured Loan from Personal Asset

**Documentation:**
- Document the amount of the secured loan proceeds and the source (example: Certificate of Deposit, stocks, etc.)
- Confirm corresponding liability for this debt is included in the total debt ratio if applicable

**Reserves:** Eligible  
**Funds to Close:** Eligible

### Stocks, Stock Options, Bonds, Mutual Funds, and Investments

**Documentation:**
- Recent account statement (monthly, quarterly, etc.) to evidence the account balance, vested balance available for withdraw, and early withdraw penalty if applicable

**Reserves:** Eligible  
**Funds to Close:** Eligible
### Assets and Reserves

<table>
<thead>
<tr>
<th>Trust Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Documentation:</strong></td>
</tr>
<tr>
<td>• Verify applicant has access to the funds, amounts, circumstances, requirement to repay withdrawal, etc.</td>
</tr>
<tr>
<td>• Recent account/trust statement (monthly, quarterly, etc.) to evidence the account balance</td>
</tr>
<tr>
<td><strong>Reserves:</strong> Eligible</td>
</tr>
<tr>
<td><strong>Funds to Close:</strong> Eligible</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Unsecured Loan: Borrowed Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Documentation:</strong></td>
</tr>
<tr>
<td>• Document the amount of the loan proceeds and the source (example: signature loan, line of credit, credit card advance/loan, overdraft protection, etc.)</td>
</tr>
<tr>
<td>• Confirm corresponding liability for this debt is included in the total debt ratio if applicable</td>
</tr>
<tr>
<td><strong>Reserves:</strong> Ineligible</td>
</tr>
<tr>
<td><strong>Funds to Close:</strong> Ineligible</td>
</tr>
</tbody>
</table>

**ASSET CHANGES AFTER CONDITIONAL COMMITMENT ISSUANCE**

Assets verified prior to loan closing that are less than the amounts entered into GUS or on the loan application may retain the issued Conditional Commitment (Form RD 3555-18/18E) when one of the following are met:

1. The application was approved with zero months of cash reserves, or
2. The application will continue to have a minimum of four months of cash reserves.
WORKSHEET FOR DOCUMENTING ELIGIBLE HOUSEHOLD AND REPAYMENT INCOME

**Lender Instructions:** Determine eligible household income for the Single-Family Housing Guaranteed Loan Program (SFHGLP) by documenting all sources/types of income for all household members. Qualify the loan by documenting all sources/type of income that is stable and dependable utilized to repay the loan.

<table>
<thead>
<tr>
<th>Identify all Household Members</th>
<th>Age</th>
<th>Full-time Student Y/N?</th>
<th>Disabled Y/N?</th>
<th>Receive Income Y/N?</th>
<th>Source of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

**ANNUAL INCOME CALCULATION** (Consider anticipated income for the next 12 months for all adult household members as described in 7 CFR 3555.152(b) and HB-1-3555 Chapter 9. Website for instructions/administrative notices: [https://www.rd.usda.gov/resources/directives](https://www.rd.usda.gov/resources/directives).

1. **Applicant** (Wages, salary, self-employed, commission, overtime, bonus, tips, alimony, child support, pension/retirement, social security, disability, trust income, etc.) Calculate and record how the calculation of each income source/type was determined in the space below.

2. **Co-Applicant** (Wages, salary, self-employed, commission, overtime, bonus, tips, alimony, child support, pension/retirement, social security, disability, trust income, etc.) Calculate and record how the calculation of each income source/type was determined in the space below.

3. **Additional Income to Primary Income** (Automobile Allowance, Mortgage Differential, Military, Secondary Employment, Seasonal Employment, Unemployment.) Calculate and record how the calculation of each income source/type was determined in the space below.

4. **Additional Adult Household Member(s) who are not a Party to the Note** (Primary Employment from Wages, Salary, Self-Employed, Additional income to Primary Employment, Other Income). Calculate and record how the calculation of each income source/type was determined in the space below.

5. **Income from Assets** (Income from household assets as described in HB-1-3555, Chapter 9). Calculate and record how the calculation of each income source/type was determined in the space below.

6. **Annual Household Income** (Total 1 through 5)

(03-09-16) SPECIAL PN
Revised (03-31-21) SPECIAL PN
<table>
<thead>
<tr>
<th>7. Dependent Deduction ($480 for each child under age 18, or full-time student attending school or disabled family member over the age of 18)</th>
<th>( # \text{ number of children} \times 480 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>8. Annual Child Care Expenses (Reasonable expenses for children 12 and under) <strong>Calculate and record the calculation of the deduction in the space below.</strong></td>
<td></td>
</tr>
<tr>
<td>9. Elderly/Disabled Household (1 household deduction of $400 if 62 years of age or older, or disabled and a party to the note)</td>
<td></td>
</tr>
<tr>
<td>10. Disability (Unreimbursed expenses in excess of 3% of annual income per 7 CFR 3555.152(c) and HB-1-3555 Chapter 9.) <strong>Calculate and record the calculation of the deduction in the space below.</strong></td>
<td></td>
</tr>
<tr>
<td>11. Medical Expenses (Elderly/Disabled households only. Unreimbursed medical expenses in excess of 3% of annual income per 7 CFR 3555.152(c) and HB-1-3555 Chapter 9.) <strong>Calculate and record the calculation of the deduction in the space below.</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total Household Deductions</strong> (Total 7 through 11)</td>
<td></td>
</tr>
<tr>
<td><strong>Adjusted Annual Income</strong> (Item 6 minus item 12) <strong>Income cannot exceed Moderate Income Limit to be eligible for SFHGLP</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Moderate Income Limit:**

**State:**

**County:**
### MONTHLY REPAYMENT INCOME CALCULATION

Consider stable and dependable income of parties to the note as described in 7 CFR 3555.152(a) and HB-1-3555 Chapter 9. Non-occupied borrowers or co-signers are not allowed.

14. Stable Dependable Monthly Income (Parties to note only). Calculate and record how the calculation of each income source/type was determined in the space below. Identify income type by party to note.

<table>
<thead>
<tr>
<th></th>
<th>Applicant</th>
<th>Co-Applicant</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Calculation of Base Income:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Calculation of Other Income:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

15. Monthly Repayment Income (Total of 14)

Preparer’s Signature: ________________________________________________________________

Name (Print): ________________________________________________________________

Title: ________________________________________________________________

Date: ___________________
ATTACHMENT 9-C
EXAMPLE CASE STUDY

Household members:

<table>
<thead>
<tr>
<th>Name</th>
<th>Relationship</th>
<th>Comments</th>
<th>Household Income, Assets and Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>David Example</td>
<td>Applicant</td>
<td>Employed, party to note</td>
<td>$1,250/week wages; Savings account balance $2,000, Checking account balance $300</td>
</tr>
<tr>
<td></td>
<td>Age: 40</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Betsy Example</td>
<td>Applicant</td>
<td>Employed, party to note</td>
<td>$15.50/hr wages – working 20 hours week; $100/month child support from ex-husband (Kathy’s father)</td>
</tr>
<tr>
<td></td>
<td>Age: 40</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cynthia Example</td>
<td>David’s mother</td>
<td>Disabled, moved in when husband died, not a party to the note</td>
<td>$800/month Social Security benefits</td>
</tr>
<tr>
<td></td>
<td>Age: 67</td>
<td></td>
<td>Checking account balance $600</td>
</tr>
<tr>
<td>Janet Smith</td>
<td>Daughter</td>
<td>Full-time college student, part-time employed, not a party to the note</td>
<td>$600/month wages</td>
</tr>
<tr>
<td></td>
<td>Age: 19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kathy Smith</td>
<td>Daughter</td>
<td>Full-time junior high school student, part-time employed, not a party to the note</td>
<td>$9.00/hour x 8 hours per week x 4 weeks = $288 monthly earnings</td>
</tr>
<tr>
<td></td>
<td>Age: 14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chris Doe</td>
<td>Foster child</td>
<td>Full-time elementary student, not a party to the note</td>
<td>County pays household $800/month to care for foster child. The family pays $50 per week/$200 per month for after school child care.</td>
</tr>
<tr>
<td></td>
<td>Age: 8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Eligible Household Income: Calculate annual and adjusted income to determine eligibility of the household for the SGHGLP.

For Annual Income Calculation – Consider income of all household members:

- Count David’s wages
- Count Betsy’s wages
- Count child support (Betsy)
- Count only the first $480 of Janet’s wages (Household member is greater than 18 years of age and an adult
- Do not count Kathy’s wages (Household member is a minor and less than 18 years of age)
- Count Cynthia’s Social Security
- Count actual income from assets from all members of the household if they total $50,000 or more. In this example the household does not meet this threshold. No asset income is required.
- Do not count income payments for care of foster child
Adjusted Income Calculation:

Dependent Deduction

- Three dependent deductions are permitted for Kathy (a minor), Janet (an adult full-time student, who is not the head of household or spouse), and Cynthia (an adult individual with disabilities, who is not the head of household or spouse)
- A foster child is not a permanent household member, and therefore is not an eligible dependent.
- Total household members that meet the Household member definition in 3555.10 are 5, David, Betsey, Cynthia, Janet, and Kathy.
- A deduction of $1,440 in this example may be deducted ($480 for each eligible dependent x 3 = $1,440. Dependents are Kathy, Janet, and Cynthia.

Child Care Deduction

- Child care expenses are permitted for the care of a foster child but must not exceed the amount earned by the family member enabled to work. Betsy earns $15.50/hour working 20 hours per week ($1,240 per month) and pays $50/week for child care ($200 per month).
- Child care expenses are not permitted if another adult household member is available to care for the child. Janet is not available because she is a full-time student and Cynthia cannot care for the child because of her disability.
- The cost of child care does not exceed Betsy’s monthly earnings therefore the full amount of the child care may be deducted.

Elderly or Disabled Household Deduction

Cynthia, a household member, is 67. But she is not an applicant on the loan, therefore no elderly family deduction is allowed.

Medical Expense Deduction

Family medical expenses cannot be deducted since this is not an elderly or disabled household as defined in 3555.152(c).

Disability Assistance Expenses

No disability assistance expenses were claimed. To be allowed a deduction, the expenses would have to be necessary to enable a family member to work.

Repayment Income: Calculate the income utilized to repay the loan. Consider only income from parties to the note that is documented to be stable and dependable per 3555.152(a).

David and Betsy are parties to the note. David has worked the last two years earning $1,250 per week or $65,000 annually. Betsy has made $15.50/hour and worked 20 hours per week for the past five years consistently. Betsy receives child support for Kathy, paid through the court at $100 a month, or $1,200 annually. She has received support consistently for the past three years. Kathy is 14. David and Betsy have cared for foster children for the past three years. Chris Doe is 6 years of age. The county pays $800.00 per month, or $9,600 annually to the household to care for the foster child. Foster care is not a source of income that is eligible for repayment income.

- David: $65,000 historical employment income divided by 12 = $5,416.67
- Betsy: $16,120 historical employment income divided by 12 = $1,343.33
- Betsy: $1,200 historical child support income divided by 12 = $100.00 [3-year continuance since Kathy is 14]
- Total stable and dependable income in accordance with 3555.152(a) = $6,860.00
ATTACHMENT 9-C
EXAMPLE CASE STUDY:

Applicant: David Example
Co Applicant: Betsy Example

WORKSHEET FOR DOCUMENTING ELIGIBLE HOUSEHOLD AND REPAYMENT INCOME

<table>
<thead>
<tr>
<th>Identify all Household Members</th>
<th>Age</th>
<th>Full-time Student Y/N?</th>
<th>Disabled Y/N?</th>
<th>Receive Income Y/N?</th>
<th>Source of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>David Example</td>
<td>40</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>XYZ Employment</td>
</tr>
<tr>
<td>Betsy Example</td>
<td>40</td>
<td>N</td>
<td>N</td>
<td>Y</td>
<td>123 Employment, child support</td>
</tr>
<tr>
<td>Cynthia Example</td>
<td>67</td>
<td>N</td>
<td>Y</td>
<td>Y</td>
<td>Social Security</td>
</tr>
<tr>
<td>Janet Smith</td>
<td>19</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>PT Employment</td>
</tr>
<tr>
<td>Kathy Smith</td>
<td>14</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>PT Employment</td>
</tr>
<tr>
<td>Chris Doe</td>
<td>8</td>
<td>Y</td>
<td>N</td>
<td>Y</td>
<td>Foster care income</td>
</tr>
</tbody>
</table>

Lender Instructions: Determine eligible household income for the Single-Family Housing Guaranteed Loan Program (SFHGLP) by documenting all sources/types of income for all household members. Qualify the loan by documenting all sources/types of income that is stable and dependable utilized to repay the loan.

ANNUAL INCOME CALCULATION (Consider anticipated income for the next 12 months for all adult household members as described in 7 CFR 3555.152(b) and HB-1-3555 Chapter 9. Website for instructions/administrative notices: https://www.rd.usda.gov/resources/directives.

1. Applicant (Wages, salary, self-employed, commission, overtime, bonus, tips, alimony, child support, pension/retirement, social security, disability, trust income, etc.). Calculate and record how the calculation of each income source/type was determined in the space below.
   David - $1,250/wk x 52 = $65,000
   $65,000.00

2. Co-Applicant (Wages, salary, self-employed, commission, overtime, bonus, tips, alimony, child support, pension/retirement, social security, disability, trust income, etc.) Calculate and record how the calculation of each income source/type was determined in the space below.
   Betsy - $15.50/hr x 20 hrs/wk x 52 = $16,120
   Betsy – child support - $100 x 12 = $1,200
   $17,320.00

3. Additional Income to Primary Income (Automobile Allowance, Mortgage Differential, Military, Secondary Employment, Seasonal Employment, Unemployment.) Calculate and record how the calculation of each income source/type was determined in the space below.
   $0

4. Additional Adult Household Member(s) who are not a Party to the Note (Primary Employment from Wages, Salary, Self-Employed, Additional income to Primary Employment, Other Income). Calculate and record how the calculation of each income source/type was determined in the space below.
   Cynthia- $800/month x 12 = $9,600
   Janet = first $480 must be counted as full-time student over 18 years of age
   $10,080.00

5. Income from Assets (Income from household assets as described in HB-1-3555, Chapter 9). Calculate and record how the calculation of each income source/type was determined in the space below.
   $0

6. Annual Household Income (Total 1 through 5) $92,400

(03-09-16) SPECIAL PN
Revised (03-31-21) SPECIAL PN
## ADJUSTED INCOME CALCULATION
(Consider qualifying deductions as described in 7 CFR 3555.152(c) and HB-1-3555 Chapter 9)

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Calculation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.</td>
<td>Dependent Deduction</td>
<td>3 x $480</td>
<td>$1,440.00</td>
</tr>
<tr>
<td>8.</td>
<td>Annual Child Care Expenses</td>
<td>$50/week x 52 weeks/year = $2,600</td>
<td>$2,600.00</td>
</tr>
<tr>
<td>9.</td>
<td>Elderly/Disabled Household</td>
<td>1 household deduction of $400 if 62 years of age or older, or disabled and a party to the note</td>
<td>$0</td>
</tr>
<tr>
<td>10.</td>
<td>Disability</td>
<td>Unreimbursed expenses in excess of 3% of annual income per 7 CFR 3555.152(c) and HB-1-3555 Chapter 9</td>
<td>$0</td>
</tr>
<tr>
<td>11.</td>
<td>Medical Expenses</td>
<td>Unreimbursed medical expenses in excess of 3% of annual income per 7 CFR 3555.152(c) and HB-1-3555 Chapter 9</td>
<td>$0</td>
</tr>
<tr>
<td>12.</td>
<td>Total Household Deductions</td>
<td>(Total 7 through 11)</td>
<td>$4,040.00</td>
</tr>
</tbody>
</table>

### ADJUSTED INCOME CALCULATION

**County:** Washington  
**State:** Oklahoma  
**Moderate Income Limit:** $98,650  
**13. Adjusted Annual Income** (Item 6 minus item 12)  
*Income cannot exceed Moderate Income Limit to be eligible for SFHGLP*

$88,360.00
14. Stable Dependable Monthly Income (Parties to note only). Calculate and record how the calculation of each income source/type was determined in the space below. Identify income type by party to note.

<table>
<thead>
<tr>
<th></th>
<th>Applicant</th>
<th>Co-Applicant</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base Income</strong></td>
<td>$5,416.67</td>
<td>$1,343.33</td>
<td>$6,760.00</td>
</tr>
<tr>
<td>Calculation</td>
<td>David: $65,000 / 12 = $5,416.67</td>
<td>Betsy: $16,120 / 12 = $1,343.33</td>
<td></td>
</tr>
<tr>
<td><strong>Other Income</strong></td>
<td>$100.00</td>
<td></td>
<td>$100.00</td>
</tr>
<tr>
<td>Calculation</td>
<td>Betsy: Child Support: $1,200 / 12 = $100.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total Income**

|                  | $5,516.67       | $1,443.33      | $6,860.00 |

15. Monthly Repayment Income (Total of 14)

|                  |                |                | $6,860.00 |

Preparer’s Signature: [Signature]

Name (Print): [Name]

Title: [Title]

Date: [Date]
ATTACHMENT 9-D

ANNUAL INCOME

SOURCES OF INCOME WHICH BY FEDERAL STATUTE ARE EXCLUDED FROM ANNUAL INCOME

The following sources, subject to exemption by Federal statute, are never considered when calculating annual income.

Any revenue which a Federal statute exempts shall not be considered income or used as a basis for determining eligibility for an Agency loan, payment assistance, or denying or reducing Federal financial assistance or benefits to which the recipient would otherwise be entitled. Additional financial assistance, which is considered exempt income under Federal statutes, includes:

1. The imminent danger duty-pay to a service person applicant or spouse away from home and exposed to hostile fire. Amounts of imminent danger pay for military personnel stationed in the Combat Zone are excluded from annual income effective August 2, 1990. Any military pay received by persons serving in the Combat Zone received on or after January 17, 1991, is excluded from annual income. The Combat Zone, as defined by the Presidential Executive Order 12744 dated January 21, 1991, consists of the Persian Gulf, the Red Sea, the Gulf of Oman, that portion of the Arabian Sea that lies north of 10 degrees north latitude and west of 68 degrees east longitude, the Gulf of Aden, the total land areas of Iraq, Kuwait, Saudi Arabia, Oman, Bahrain, Qatar, and the United Arab Emirates. Immediately upon notification by the family, or based on information from a knowledgeable source that a member of the household was serving, in the Combat Zone, the Loan Approval Official shall re-determine the household income retroactive to January 17, 1991, and adjust the applicant’s payment assistance accordingly.

2. Payments to volunteers under the Domestic Volunteer Service Act of 1973, including, but not limited to:
   a. National Volunteer Antipoverty Programs, which include Volunteers in Service to America (VISTA), Peace Corps, Service Learning Programs, and Special Volunteer Programs.
   b. National Older American Volunteer Programs for persons age 60 and over who include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program, and National Volunteer Programs to Assist Small Business and Promote Volunteer Service to Persons with Business Experience, Service Corps of Retired Executives (SCORE), and Active Corps of Executives (ACE).
3. Payments received after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the "In Re Agent Orange" product liability litigation, M.D.L. No. 381 (E.D.N.Y.).

4. Payments received under the "Alaska Native Claims Settlement Act" or the "Maine Indian Claims Settlement Act."

5. Income derived from certain sub-marginal land of the United States that is held in trust for certain American Indian tribes.

6. Payments or allowances made under the Department of Health and Human Services Low-Income Home Energy Assistance Program.

7. Payments received from the Job Training Partnership Act.


9. The first $2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the Court of Claims, or from funds held in trust for an American Indian tribe by the Secretary of Interior.

10. Payments received from programs funded under Title V of the Older Americans Act of 1965.

11. Any other income which is exempted under Federal statute.
ATTACHMENT 9-E
INFORMATION FOR ANALYZING TAX RETURNS
FOR SELF-EMPLOYED APPLICANTS

The self-employed applicant must submit current documentation of the business’s income and expenses, including any applicable Federal tax returns that were filed with the IRS for the most recent two years in addition to year-to-date profit and loss and balance statements. Lenders are encouraged to use Fannie Mae Form 1084, “Cash Flow Analysis,” and Fannie Mae Form 1088 “Comparative Income Analysis” to document a trend analysis for the applicant’s business. Lenders may use the Fannie Mae forms or any documentation that provides the same information. Regardless of the analysis method used, and the documentation prepared by the lender, the loan file must contain clear and sufficient support for the lender’s decision regarding the viability of the business and loan approval.

A. Individual Tax Returns (IRS Form 1040)

The amount shown on the IRS Form 1040 as “adjusted gross income” must be either increased or decreased based on the lender’s analysis of the individual tax returns and any related tax schedules. Particular attention must be paid to:

- **Wages, salaries, tips.** If an amount is shown here, this may indicate the individual is a salaried employee of a corporation or has other sources of income. It may also indicate the spouse is employed, in which case the income must be subtracted from the adjusted gross income in the analysis.

- **Business income or loss (from Schedule C).** The sole proprietorship income calculated on Schedule C is business income. Depreciation or depletion may be added back to adjusted gross income.

- **Rents, royalties, partnerships, etc. (from Schedule E).** Any income received from rental properties or royalties may be used as income after adding back any depreciation shown on Schedule E.

- **Capital gain or loss (from Schedule D).** This is generally a one-time transaction and should not be considered in determining repayment income. However, if the business has a constant turnover of assets resulting in gains or losses, the capital gain or loss may be considered in determining the income provided the applicant has at least three years’ tax returns evidencing capital gains. An example would include an individual who purchases old houses, remodels them, and sells them for a profit.

- **Interest and dividend income (from Schedule B).** This income, both taxable and tax-exempt, may be added back to the adjusted gross income only if it has been received for the past two years and is expected to continue. (If the interest-bearing asset will be liquidated as a source of the cash investment, the lender must adjust accordingly).
• **Farm income or loss (from Schedule F).** Any depreciation shown on Schedule F may be added back to the adjusted gross income.

• **IRA distributions, pensions and annuities, and social security benefits.** The non-taxable portion of these items may be added back to the adjusted gross income if the income is expected to continue for the first three years of the mortgage.

• **Adjustments to income.** Certain adjustments to income shown on the IRS Form 1040 may be added back to the adjusted gross income. Among these are IRA and Keogh retirement deductions, penalties on early withdrawal of savings, health insurance deductions, and alimony payments.

• **Employee business expenses.** These are actual cash expenses that must be deducted from the applicant’s adjusted gross income, if applicable.

### B. U.S. Corporate Income Tax Returns (IRS Form 1120)

Corporations are state chartered businesses owned by their stockholders. Compensation to its officers, generally in proportion to the percentage of ownership, is shown on the corporate tax returns and will appear on individual tax returns. If the applicant’s percentage of ownership is not shown, it must be separately obtained from the corporation’s accountant with evidence the applicant has the right to those funds. Once the adjusted business income is determined, it is to be multiplied by the applicant’s percentage of ownership in the business.

In analyzing the corporate tax returns, lenders must adjust for the following:

• **Depreciation and depletion.** The corporation’s depreciation and depletion must be added back to after-tax income.

• **Taxable income.** This is the corporation’s net income before federal taxes. It must be reduced by the tax liability.

• **Fiscal year versus calendar year.** If the corporation operates on a fiscal year that is different from the calendar year, an adjustment must be made by the lender to relate corporate income to the individual tax return.

• **Cash withdrawals.** The applicant’s withdrawal of cash from the corporation may have a severe negative impact on the corporation’s ability to continue operating.

### C. “S” Corporation Tax Returns

An “S” corporation is generally a small, start-up business, with gains and losses passed onto stockholders in proportion to each stockholder’s percentage of business ownership. The income for the owners comes from W-2 wages and is taxed at the individual rate.

The “compensation of officers” line on the IRS Form 1120S is transferred to the applicant’s IRS Form 1040. Both depreciation and depletion may be added back to income in
proportion to the applicant’s share of income. However, income must also be deducted proportionately by the total obligations payable by the corporation in less than one year. The applicant’s withdrawal of cash from the corporation may have a severe negative impact on the corporation’s ability to continue operating which must be considered in the analysis.

D. Partnership Tax Returns

A partnership is formed when two or more individuals form a business and share in profits, losses, and responsibility for running the company. Each partnership pays taxes on his or her proportionate share of the partnership income.

Both general and limited partnerships report income on the IRS Form 1065 “U.S. Return of Partnership Income;” it must be reviewed by the lender to assess the viability of the business. The partner’s share of income is carried over to Schedule E of IRS Form 1040. Both depreciation and depletion may be added back to income in proportion to the applicant’s share of income. However, income must also be deducted proportionately by the total obligations payable by the partnership in less than one year. The applicant’s withdrawal of cash from the partnership may have a severe negative impact on the partnership’s ability to continue operating that must be considered in the analysis.

E. LLC Corporation Tax Returns

A limited liability corporation (LLC) can be formed by one or more individuals. Only Massachusetts and the District of Columbia require two or more individuals. Owners in a LLC are referred to as members. A member of a LLC normally has, at risk, only his or her share of capital paid into the business. Members are not personally liable for the debts of the LLC. There are three ways in which an LLC is taxed:

- Single-owner LLC - LLC owners are taxed on business profits each year on their individual income tax returns. The IRS treats the LLC as a sole proprietorship. Profits are reported on Schedule C of an individual 1040 tax return.

- LLCs – The IRS treats the LLC as a partnership. The LLC prepares and files IRS Form 1065, Partnership Information Return each year. LLC profits are allocated to each of the owners according to the profit-sharing arrangement set up in the LLC operating agreement. Each owner is given a Schedule K-1, which shows each owner’s share of LLC income. The owner then reports and pays taxes on this income on the owner’s 1040 income tax return.

- Check-the-Box Corporate Tax Treatment – Under these rules, any eligible business can elect to be taxed as a corporation by filing IRS Form 8832 “Entity Classification Election” and checking the corporate income tax treatment box on the form. After making this election, profits kept in the business are taxed at the separate income tax rates that apply to corporations.
WORKSHEET FOR DOCUMENTING ELIGIBLE HOUSEHOLD AND REPAYMENT INCOME ATTACHMENT 9-F [AGENCY USE ONLY]

Agency Instructions: Recalculate income in the circumstances noted below. Retain this worksheet as part of the permanent SFHGLP file, when applicable. If the reviewer agrees with the lender’s income calculation, check the box indicating agreement with the lender’s calculation; otherwise complete the recalculation of income in the space provided.

Eligible Household Income: Recalculate the lender’s determination of eligible income if the lender’s adjusted annual income calculation is within 10 percent of the applicable published income limit for manually underwritten loans. The published income limits may be found at the public website: [http://eligibility.sc.egov.usda.gov/eligibility/](http://eligibility.sc.egov.usda.gov/eligibility/).

Repayment Income: Recalculate the lender’s determination of repayment income for manually underwritten loans if the lender’s repayment ratios are within 10 percent of the published debt ratio limit found at §7 CFR 3555.151(h). [i.e. greater than 26.0% principal, interest, taxes and insurance (PITI) OR greater than 37.0% total debt ratio (TD)].

Definition - Manually Underwritten Loan Files: 1) Loans submitted by lenders that have not utilized the automated underwriting system, GUS. 2) Loans submitted to GUS, that have received an underwriting recommendation of “Refer” or “Refer With Caution.” “Accept” and “Accept-Full Documentation” loans are not manually underwritten loans.

GENERAL INFORMATION

<table>
<thead>
<tr>
<th>Applicant(s):</th>
<th>GLS Borrower ID:</th>
<th>Lender:</th>
</tr>
</thead>
</table>

AGENCY WRITTEN ANALYSIS DOCUMENTING ELIGIBLE HOUSEHOLD INCOME

Consider anticipated income for the next 12 months for all adult household members as described in §3555.152(b). Consider qualifying deductions as described in 3555.152(c). Website for instructions/technical handbook/notices: [https://www.rd.usda.gov/resources/directives](https://www.rd.usda.gov/resources/directives).

Calculate and record how the calculation of each income source/type and deduction was determined in the space below.

☐ I have reviewed the lender’s calculation and compared it to income verifications. I agree with the lender’s calculation of eligible household income.

By: ______________________________________

Date: ____________________________

(Title)
### AGENCY WRITTEN ANALYSIS MONTHLY REPAYMENT INCOME

Consider the stable and dependable income of parties to the note as described in 3555.152(a). Website for instructions/technical handbook/notices: [https://www.rd.usda.gov/resources/directives](https://www.rd.usda.gov/resources/directives).

Calculate and record how the calculation of each income source/type and deduction was determined in the space below.

- [ ] I have reviewed the lender’s calculation and compared it to income verifications. I agree with the lender’s calculation of stable, dependable repayment income.

<table>
<thead>
<tr>
<th>Applicant(s):</th>
<th>GLS Borrower ID:</th>
<th>Lender:</th>
</tr>
</thead>
</table>

By: ____________________________

Date: ________________

(Title) ____________________________
### Attachment 9-G

**OPTIONAL VERIFICATION OF INCOME FORMS**

<table>
<thead>
<tr>
<th>VERIFICATION OF PENSIONS AND ANNUITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>REQUEST FOR INFORMATION</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>APPLICANT IDENTIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name_________________________</td>
</tr>
<tr>
<td>Social Security Number________________</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>REQUESTED INFORMATION</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>A. INCOME FROM ANNUITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. $___________Current monthly gross amount received. Will the applicant continue to receive this monthly amount for the next twelve months? _____Yes_____No  If, no please explain.</td>
</tr>
<tr>
<td>2. Describe any deductions from the gross amount that are taken.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B. VERIFICATION OF ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. $___________Current market value of assets held in the retirement or pension plan.</td>
</tr>
<tr>
<td>2. Can the applicant withdraw amounts from the retirement account without retiring or terminating employment? _____Yes _____No. If yes, explain the terms of the withdrawal, including any penalties.</td>
</tr>
<tr>
<td>3. Can the applicant borrow against amounts in the retirement account? _____Yes_____No  If yes, explain the terms (maximum amount, interest rate, repayment term, purposes, etc.)</td>
</tr>
</tbody>
</table>

**LENDER CERTIFICATION:** Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.

<table>
<thead>
<tr>
<th>Lender Certification:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name:_________________________</td>
</tr>
<tr>
<td>Title:____________________________________</td>
</tr>
<tr>
<td>____________________________________________________________________</td>
</tr>
<tr>
<td>Telephone Number:__________________________</td>
</tr>
<tr>
<td>(Signature)</td>
</tr>
</tbody>
</table>

**WARNING:** Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

---

(03-09-16) SPECIAL PN
### REQUEST FOR INFORMATION

#### APPLICANT IDENTIFICATION

Name: ___________________________ Social Security Number: ___________________

#### REQUESTED INFORMATION

1. Describe any financial assistance the above-reference student receives.

<table>
<thead>
<tr>
<th>Amount</th>
<th>Source</th>
<th>Purpose for Which Funds May Be Used</th>
</tr>
</thead>
</table>

2. Describe any expenses the above-referenced student has for:

<table>
<thead>
<tr>
<th>Amount</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>Tuition</td>
</tr>
<tr>
<td>$</td>
<td>Housing</td>
</tr>
<tr>
<td>$</td>
<td>Books</td>
</tr>
<tr>
<td>$</td>
<td>Supplies and Equipment</td>
</tr>
<tr>
<td>$</td>
<td>Transportation</td>
</tr>
<tr>
<td>$</td>
<td>Misc. Personal Expenses</td>
</tr>
<tr>
<td>$</td>
<td>Total</td>
</tr>
</tbody>
</table>

#### LENDER CERTIFICATION

Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.

Name: ___________________________ Title: ___________________________

_____________________________ Telephone Number: ___________________

(Signature)

### WARNING

Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)
**VERIFICATION OF MEDICAL EXPENSES**

**REQUEST FOR INFORMATION**

**APPLICANT IDENTIFICATION**

Name_________________________  Social Security Number____________________

**REQUESTED INFORMATION**

1. Please list the purpose of any accumulated medical bills, identify to whom the amount is owed, and provide the amount to be paid during the coming 12 months.

<table>
<thead>
<tr>
<th>Amount</th>
<th>Owed To</th>
<th>Medical Expenses for</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Medical Insurance Premiums

   $__________ Amount Paid  Payment Period: __ per month, ___ per year

   Medical Insurance Premiums

   $__________ Amount Paid  Payment period: __ per month, ___ per year

3. List other anticipated medical expenses

**LENDER CERTIFICATION:** Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.

Name:________________________  Title:____________________________________

_________________________________________  Telephone Number:______________

(Signature)

**WARNING:** Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)
### VERIFICATION OF SOCIAL SECURITY BENEFITS

#### REQUEST FOR INFORMATION

#### APPLICANT IDENTIFICATION

<table>
<thead>
<tr>
<th>Name</th>
<th>Social Security Number</th>
</tr>
</thead>
</table>

#### REQUESTED INFORMATION

**Social Security Data**

<table>
<thead>
<tr>
<th>Date of Birth</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Gross Monthly Social Security Benefit Amount, Type of Benefit</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Gross Monthly Supplemental Security Income Payment Amount (including State Supplement) Type of Benefit</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Amount of Monthly Deductions for Medicare Paid by the Applicant</th>
</tr>
</thead>
</table>

#### LENDER CERTIFICATION

Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Telephone Number</th>
</tr>
</thead>
</table>

(Signature)

**WARNING:** Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)
## Verification of Public Assistance

### Request for Information

**Applicant Identification**

<table>
<thead>
<tr>
<th>Name</th>
<th>Social Security Number</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Requested Information**

- **Number in Family:** ________
- **Rate Per Month**
  - Aid to Families with Dependent Children: $__________
  - General Assistance: $__________
- **Does this amount include Court Awarded Support Payments?**
  - Yes ☐  No ☐
- **Amount Specifically Designated for Shelter and Utilities:** $__________
- **Other Assistance - Type:**
  - Total Monthly Grant: $__________
- **Other Income - Source:**
  - *Maximum Allowance for Rent and Utilities: $__________
- **Amount of Public Assistance given during the past 12 months:** $__________

**Lender Certification:** Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Telephone Number</th>
<th>(Signature)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Warning:** Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)
<table>
<thead>
<tr>
<th>VERIFICATION OF CHILD/DEPENDENT CARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>REQUEST FOR INFORMATION</td>
</tr>
<tr>
<td>APPLICANT IDENTIFICATION</td>
</tr>
<tr>
<td>Name: ____________________________</td>
</tr>
<tr>
<td>REQUESTED INFORMATION</td>
</tr>
<tr>
<td>Name of Person or Agency Providing Care: __________________________</td>
</tr>
<tr>
<td>Address: ___________________________________________________________</td>
</tr>
<tr>
<td>__________________________________________________________</td>
</tr>
<tr>
<td>__________________________________________________________</td>
</tr>
<tr>
<td>Name(s) of person or Persons Cared for: __________________________________</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Specify Hours __________ and Days __________ of Care.</td>
</tr>
<tr>
<td>Average Amount Paid for Care: $ __________    □ Week    □ Month</td>
</tr>
<tr>
<td>Estimated Amount to be Paid in coming 12 months (including full-time summer care of school children, if applicable): $ __________</td>
</tr>
<tr>
<td>Will any amount of this expense be reimbursed by an outside source:  □ Yes    □ No</td>
</tr>
<tr>
<td>LENDER CERTIFICATION: Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.</td>
</tr>
<tr>
<td>Name: ____________________________</td>
</tr>
<tr>
<td>__________________________________________________________</td>
</tr>
<tr>
<td>__________________________________________________________</td>
</tr>
<tr>
<td>Telephone Number: __________________________</td>
</tr>
<tr>
<td>(Signature)</td>
</tr>
<tr>
<td>WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)</td>
</tr>
</tbody>
</table>
## Verification of Unemployment Benefits

### Request for Information

#### Applicant Identification

<table>
<thead>
<tr>
<th>Name</th>
<th>Social Security Number</th>
</tr>
</thead>
</table>

#### Requested Information

1. Are benefits being paid now?  □ Yes  □ No
2. If yes, what is Gross Weekly payment?  $________
3. Date of Initial Payment  ___________
4. Duration of Benefits  ___________ weeks
   Is claimant eligible for future benefits?  □ Yes  □ No
5. If yes, How many weeks?  ___________
6. If no, what is termination date of benefits?  ___________

### Lender Certification

Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Telephone Number</th>
</tr>
</thead>
</table>

(Signature)

#### Warning

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<table>
<thead>
<tr>
<th>APPLICANT IDENTIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name: __________________</td>
</tr>
<tr>
<td>Social Security Number:</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>REQUESTED INFORMATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on business transacted during _______ 20__, to _______ 20__</td>
</tr>
</tbody>
</table>

1. Gross Income: $__________

2. Expenses:
   (a) Interest on Loans: $__________
   (b) Cost of Goods/Materials: $__________
   (c) Rent: $__________
   (d) Utilities: $__________
   (e) Wages/Salaries: $__________
   (f) Employee Contributions: $__________
   (g) Federal Withholding Tax: $__________
   (h) State Withholding Tax: $__________
   (i) FICA: $__________
   (j) Sales Tax: $__________
   (k) Other: $__________
   (l) Straight Line Depreciation: $__________

   Total Expenses: $__________

3. Net Income: $__________

<table>
<thead>
<tr>
<th>LENDER CERTIFICATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name: ________________</td>
</tr>
<tr>
<td>Title: ________________</td>
</tr>
<tr>
<td>Telephone Number: ________________</td>
</tr>
<tr>
<td>(Signature)</td>
</tr>
</tbody>
</table>

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)
### VERIFICATION OF SUPPORT PAYMENTS

#### REQUEST FOR INFORMATION

**APPLICANT IDENTIFICATION**

Name ___________________________ Social Security Number ________________

**REQUESTED INFORMATION**

Name of Person Paying Support: ________________________________

Address: ______________________________________________________

For ( ) Former Spouse

( ) Children

Children Names are:

__________________________________________________________

__________________________________________________________

__________________________________________________________

Amount of Support $ ____________ ☐ Week, ☐ Month, ☐ Year

**LENDER CERTIFICATION**: Verifier must print their name, address and telephone number and certify to the accuracy of information recorded by executing below.

Name: ___________________________ Title: ___________________________

__________________________________________________________ Telephone Number: ________________

(Signature)

**WARNING**: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)
## RECORD OF ORAL VERIFICATION OF EMPLOYMENT

<table>
<thead>
<tr>
<th><strong>APPLICANT INFORMATION</strong></th>
<th>□ Applicant</th>
<th>□ Co-Applicant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of Applicant/Co-Applicant:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### EMPLOYMENT INFORMATION VERIFIED  □ Present  □ Previous Employment

- **Company:**
  
- **Name and Title of Person Contacted:**
  
- **Telephone Number:**
  
- **Date:**
  
- **Source of Telephone Number:**
  
- **Date of Employment:**
  
- **Position:**
  
- **Probability of Continued Employment:**
  
- **Salary:**
  
- **Probability of continued bonus and/or overtime is likely to continue:**

### ADDITIONAL INFORMATION VERIFIED

---

**Signature of Person Receiving Verification**

**Date and Time**

**WARNING:** Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)
CHAPTER 10: CREDIT ANALYSIS
7 CFR 3555.151

10.1 INTRODUCTION

This chapter discusses the Agency’s criteria to assess and document the credit history of a loan file. Credit requirements may vary for loans originated with the assistance of the Guaranteed Underwriting System (GUS) as compared to those manually underwritten. Lenders may impose additional criteria/overlays at their discretion.

10.2 CREDIT ELIGIBILITY REQUIREMENTS

Lenders must review the credit history of an applicant, as applicable, to determine an ability and willingness to meet their debt obligations.

The following adverse credit items will render an applicant ineligible for a guaranteed loan:

- Presently delinquent non-tax Federal debt;
- Presently delinquent court ordered child support unless the applicant has an approved repayment agreement in place with three timely payments made prior to loan closing; the arrearage is paid in full prior to loan closing, or a release of liability is documented; and
- CAIVRS Claim: An applicant that will be a party to the loan does not have a clear “A” Credit Alert Verification Reporting System (CAIVRS) response.

Refer to Attachment 10-A “Credit Matrix” for additional information.

10.3 CREDIT REPORT REQUIREMENTS

Credit reports utilized to underwrite guaranteed loans must be from a recognized credit repository that is not affiliated with the lender. Eligible credit reports include:

- Automated Merged Credit Reports: Also known as multi-merged (MMCR) and three-repository merged (TRMCR), and
- Residential Mortgage Credit Report (RMCR).

All credit reports must meet the requirements of Fannie Mae, Freddie Mac, HUD, or VA, which include but are not limited to the following:

- Be no more than 120 days old on the day of loan closing;
- Be accurate and complete;
Provide an account of the credit history and public record information for each applicant who is a party to the note;

- Be submitted as an original document, either the original electronic version or the printed report delivered by the credit reporting agency;
- Have no whiteouts, erasures or alterations;
- Indicate the name and address of the consumer reporting agency;
- State the primary repository where specific information was pulled for each account listed; and
- Show the name of the party that ordered the report.

Lenders may follow credit repository guidelines, lending laws, etc. to determine if joint applicants must have separate credit reports. USDA does not require unmarried applicants to be on one credit report, loan application, Form RD 3555-21, etc. Applicants must ensure credit data frozen at any credit repository is made available.

### 10.4 CREDIT REPORT VERSIONS

The following table lists credit scoring models that are recognized by the Agency’s Guaranteed Underwriting System (GUS) and must also be used to manually underwrite guaranteed loans.

<table>
<thead>
<tr>
<th>Scoring Model Source</th>
<th>Description</th>
<th>Scoring Model Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experian</td>
<td>Experian/Fair Isaac risk Model v3</td>
<td>15</td>
</tr>
<tr>
<td>Experian</td>
<td>New Experian Fair Isaac Model (FICO II)</td>
<td>6</td>
</tr>
<tr>
<td>Equifax</td>
<td>Beacon 5.0</td>
<td>13</td>
</tr>
<tr>
<td>Equifax</td>
<td>Beacon 96</td>
<td>3</td>
</tr>
<tr>
<td>Transunion</td>
<td>FICO Risk Score Classic (04)</td>
<td>14</td>
</tr>
<tr>
<td>Transunion</td>
<td>FICO® Risk Score, Classic (98)</td>
<td>9</td>
</tr>
</tbody>
</table>
ATTACHMENT 10-A

CREDIT MATRIX

Credit guidance: 3555.151(i)

CREDIT ALERT VERIFICATION REPORTING SYSTEM (CAIVRS)

CAIVRS is a Federal government wide repository to file and report delinquent and/or defaulted claims on individuals that were paid on their behalf.

CAIVRS may return the following results:
- **A**: Approved by CAIVRS (no issues exist)
- **B**: Multiple cases from one or more Federal agencies
- **C**: Claim filed
- **D**: Default on loan
- **F**: Foreclosure of loan
- **J**: Judgment filed

An “A” response is the only acceptable result for an applicant to be eligible for a guaranteed loan.

CAIVRS in GUS:
- GUS will automatically retrieve the CAIVRS response for each applicant when the Borrower Information application page is saved. If the automatically retrieved CAIVRS response is not an “A” response, the lender must obtain evidence of an “A” CAIVRS response outside of GUS. This documentation must be uploaded as part of a complete loan application submission of the GUS application to USDA. The CAIVRS response cannot be overwritten or revised within GUS. USDA will retrieve and confirm an “A” CAIVRS response when the loan file is processed in the Agency’s internal Guaranteed Loan System (GLS).
- If the CAIVRS system is unavailable at the time the lender initially completes the Borrower Information Application page, the user may manually retrieve the CAIVRS response by accessing the GUS Assets and Liabilities Page, under the CAIVRS Information section. Lenders can select the HUD CAIVRS hyperlink to access the CAIVRS website directly. The CAIVRS number retrieved in this manner must be manually entered into the applicable CAIVRS Number block.

Manually Submitted Files without GUS:
- Lenders must obtain and document an eligible CAIVRS response and include this evidence in a complete loan submission to USDA.
CREDIT ALERT VERIFICATION REPORTING SYSTEM (continued)

ALL GUARANTEED LOANS:
CAIVRS is not the only source to report a delinquent Federal debt. A delinquent Federal debt identified on the credit report, public records, or equivalent, must be investigated by the lender to determine if the debt is valid, paid in full, or the creditor has issued a release of liability. An applicant with a delinquent non-tax Federal debt is ineligible for a guaranteed loan.

CREDIT SCORES AND VALIDATION
A credit score is a statistical number that evaluates an applicant’s creditworthiness based on their credit history. The credit score considers payment history, amounts owed, percentage of credit used, length of credit history, types of credit, and newly acquired credit.

GUS Loans:
GUS will determine the acceptable credit score to be used for the underwriting recommendation for Accept, Refer, and Refer with Caution recommendations.

GUS Accept/Accept with Full Documentation files: No credit score validation required.

Manually Underwritten Loans without GUS:
Lenders must select the middle of three scores, the lower of two (a repeating score may be used), or the single reported score. A credit report with no score must refer to non-traditional tradeline requirements.

Validate Credit Score - GUS Refer, Refer with Caution, and Manually Underwritten files:
One applicant whose income and/or assets is used to originate the loan must have a validated credit score. This applicant must have two tradelines on the credit report that have been/were/are open for 12 months based on the date the account was opened as stated on the credit report. A validated score does not indicate the applicant has an acceptable credit history. A validated score confirms that one applicant has an eligible minimum credit history.

The following tradelines are eligible to validate the credit score and may be open, closed, and/or paid in full: loans (secured/unsecured), revolving accounts, installment loans, credit cards, collections, charge-off accounts, etc.

Lenders may use an authorized user account to validate the credit score when one of the following is met:
- The tradeline is owned by another applicant on the mortgage loan application;
- The owner of the tradeline is the spouse of the applicant; or
- The applicant can provide evidence that they have made payments on the account for the previous 12 months prior to loan application.
CREDIT SCORES AND VALIDATION (continued)

Public records (bankruptcy, foreclosure, tax liens, judgments, etc.), disputed, and self-reported accounts are ineligible tradelines for credit validation.

Common Scenarios:

A. Only one eligible tradeline on the credit report? Non-traditional tradelines may be verified to meet the cumulative tradeline number requirement.
B. No eligible tradelines on the credit report? One applicant whose income or assets are used to underwrite the loan must have an eligible non-traditional credit history.

Refer to the Nontraditional credit section of this matrix for guidance.

GUS Refer, Refer with Caution, and manually underwritten files are not eligible for debt ratio exceptions if:
1. There is not one applicant with a validated score using traditional tradelines on the credit report, or
2. The file requires non-traditional credit tradelines.

CREDIT INQUIRIES/RECENT DEBTS/UNDISCLOSED DEBTS

A credit inquiry is a request by an institution for credit report information. A hard inquiry is requested when an applicant is seeking credit and completes a credit application. Hard inquiries are typically listed on the credit report and factored into the credit score. A soft inquiry is not included on the credit report and does not result in a new credit/debt. Soft inquiries may include a free annual credit report, companies developing marketing lists, prequalification offers, etc.

Inquiries for credit made by the applicant(s) 90 days before the date of the credit report must be investigated to determine if new credit accounts were opened. Lenders must retain documentation in their permanent loan file to support newly identified debts.

GUS Accept/Accept with Full Documentation files:
New installment or revolving accounts that are not reflected on the credit report in GUS must be manually entered on the GUS Assets and Liabilities page under the Liabilities – Credit, Cards, Other Debts and Leases that You Owe section. No downgrade is required.

GUS Refer, Refer with Caution, and Manually underwritten files:
New installment or revolving accounts that are not reflected on the credit report in GUS must be manually entered on the GUS Assets and Liabilities page under the Liabilities – Credit, Cards, Other Debts and Leases that You Owe section or on the loan application for non-GUS loans.
CREDIT EXCEPTIONS

Credit repayment issues do not always reflect an inability or unwillingness to meet financial obligations. When evidence of significant derogatory credit is present, lenders may consider extenuating circumstances and determine if the applicant is creditworthy. The lender’s underwriter must use prudent underwriting judgment to evaluate loan requests that include significant derogatory credit. Refer to guidance in this Chapter to determine if a credit exception is required.

GUS Accept/Accept with Full Documentation files - No credit exception required:
GUS has determined the credit is an acceptable risk. Confirm the GUS Declarations page is accurately completed for each applicant.

GUS Refer, Refer with Caution, manually underwritten files:
The credit exception must include the lender’s documented rationale on the underwriting transmittal summary or similar underwriting form. The rationale must meet the following:

- The circumstances that led to the derogatory credit were temporary in nature, beyond the applicant’s control, and due to the current employment/financial/health of the household are unlikely to recur. Examples include but are not limited to temporary loss of job/unemployment, delay or reduction in benefits, illness, divorce, dispute over payment for defective goods or services, etc.;

- The approved lender must explain their rationale for issuing the credit exception (identified compensating factors, etc.) and why the applicant(s) remains an acceptable credit risk; and

- The applicant must provide documentation to the approved lender for their permanent loan file that supports the extenuating circumstances. The documentation is not required to be submitted to USDA.

USDA does not approve the lender’s credit exception. Lenders are responsible for their credit decision. Previous USDA losses, delinquent non-tax Federal debts, delinquent child support, and ineligible CAIVRS results are not eligible for lender approved credit exceptions.
NON-TRADITIONAL CREDIT

Applicants that do not have the required traditional credit history, a validated credit score, or no credit score may document their willingness to pay debt obligations through alternate sources. The use of a non-traditional credit history is not a reason to deny a loan.

**Applicants with a 12-month Verification of Rent (VOR):** Two tradelines are required: The VOR plus one additional tradeline. This tradeline must be an eligible traditional tradeline from the credit report with a 12-month history or an eligible non-traditional tradeline.

**Applicants with no rent history:** Three tradelines are required. Tradelines may be a combination of traditional tradelines from the credit report with 12-month history or eligible non-traditional tradelines.

Non-traditional credit may be documented as 1. A Non-Traditional Mortgage Credit Report (NTMCR), 2. Self-Reported tradelines on a traditional credit report, or 3. Evidence from third party verifications, canceled checks, money order receipts, electronic payments, payment histories from the creditor/company, bank statements that clearly identify debit payments for the service/product, etc.

An eligible non-traditional tradeline must have a 12-month history and cannot have been closed more than 6 months prior to loan application. Examples of acceptable non-traditional credit sources include but are not limited to:

- Rent or housing payments
- Utility services: gas, electric, water, land-line telephone service, or cable TV (services should not be included in rent payments)
- Insurance payments: automobile, life, household, renter’s insurance, medical supplements. Premiums paid through payroll deduction for employee offered coverage of plans are ineligible. Premiums paid quarterly or annually are acceptable when the payment(s) provide 12 months of coverage.
- Childcare: licensed childcare providers may provide documentation to support the date of enrollment, dates of fees paid, etc. Bank statements to support cash withdraws or handwritten receipts are not acceptable.
- School tuition
- Payments to local stores (car dealerships, department/furniture/appliance stores, specialty stores)
- Payments for uninsured portions of medical bills
- Internet or cell phone services
- Automobile leases
NON-TRADITIONAL CREDIT (continued)

- Personal loans with repayment terms in writing, supported with canceled checks, money order receipts, or electronic payment receipts
- 12 month documented history of savings that demonstrate regular deposits which equal three months of proposed mortgage (PITI) payments that will be retained as cash reserves post-closing
- Any other reference that gives insight into the applicant’s willingness to make periodic payments on a regular basis for recurring credit obligations.

Child support, alimony, garnishments, court ordered debts, monthly subscription services, gym memberships, etc. are not eligible non-traditional credit tradelines.

Applicant’s that utilize non-traditional credit to qualify for a guaranteed loan are not eligible for debt ratio waivers.

RECENT/UNDISCLOSED DEBTS/INCREASED BALANCE OF EXISTING DEBTS IDENTIFIED AFTER A CONDITIONAL COMMITMENT IS ISSUED

Lenders may discover new debt(s)/increased payments of existing debts/etc. after USDA issues a Conditional Commitment (Form 3555-17/17E) but prior to loan closing. These debts/payment amounts were not part of the loan application submitted to USDA. Examples of these debts include but are not limited to installment debts, revolving credit lines, real estate taxes, final homeowner’s insurance premiums, etc.

**Cumulative debt amount of $50 or less:**
When the additional monthly amount(s) of the new/increased debt(s) does not exceed $50, the lender may retain the issued Conditional Commitment. The lender must retain all documentation to support the new/increased debt(s) and payment(s) in the permanent loan file. No further action is required.

**Cumulative debt amount $51 or more:**
Lenders must request the GUS loan to be released by USDA. Lenders must enter the new/increased debt(s) and payment amount(s). The lender must retain all documentation to support the data entries. A new preliminary underwriting submission must be completed to confirm the GUS underwriting recommendation. Lenders must upload documentation as applicable and complete a new final underwriting submission to USDA. USDA will issue a new Conditional Commitment. Lenders cannot close loans without a valid Conditional Commitment.
### CREDIT ACCOUNTS AND ADVERSE CREDIT

#### AUTHORIZED USER ACCOUNTS (AU)

An authorized user is a person who has permission to use another person’s credit card/line of credit but is not legally responsible for payment of the debt.

Lenders are not required to include monthly payments for an AU account in an applicant’s debt ratio. A closed AU account requires no consideration. An AU account that is classified as “terminated” is considered a closed tradeline.

Lenders may continue to include the monthly debt at their discretion if they determine the applicant is making the payment.

AU accounts and credit score validation for GUS Refer, Refer with Caution, and manually underwritten loans is addressed in the Credit Scores and Validation section.

#### CHAPTER 7 BANKRUPTCY (BK)

Chapter 7 of Title 11 of the U.S. bankruptcy code controls the process of asset liquidation. A trustee is appointed to liquidate nonexempt assets to pay creditors. After the proceeds are exhausted, the remaining debt is discharged.

A Chapter 7 BK discharged or dismissed more than 36 months at the time of loan application is not considered adverse credit.

**GUS Accept/Accept with Full Documentation files:**

GUS may render an Accept underwriting recommendation for loan files that have been discharged from Chapter 7 BK less than 36 months. No credit exception is required.

**GUS Refer, Refer with Caution, and manually underwritten files:**

The approved lender may determine the applicant(s) is creditworthy when their Chapter 7 BK has been discharged less than 36 months. A credit exception must be documented and submitted with the loan file. Refer to the Credit Exception section for guidance.

**Chapter 7 BK that includes a mortgage:**

If the Chapter 7 BK absolved a mortgage debt, the applicant is not legally liable to repay unless the debt was reaffirmed. Foreclosure action post BK discharge is against the property, not the applicant, to allow the lender to obtain title. However, until the property is fully titled to the lender, the applicant remains responsible for real estate taxes, home insurance premiums, HOA fees, special assessments, and similar debts.
CHAPTER 7 BANKRUPTCY (continued)
Include applicable items in the debt ratio unless evidence confirms the applicant is no longer in ownership. Lenders must retain documentation in their permanent loan file.

CHAPTER 11, 12 OR 13 BANKRUPTCY (BK)
Chapter 11, 12 and 13 U.S. bankruptcy proceedings allow the debtor to reorganize their finances and debt payments under the supervision and approval of the court. An impartial trustee consolidates the debt and distributes money to each creditor.

Plan in Progress - GUS Accept/Accept with Full Documentation files:
Confirm all payments for the Chapter 11, 12 or 13 BK are included on the Asset and Liabilities application page. GUS may render an Accept underwriting recommendation. No downgrade is required due to the manual entry of the monthly BK payment. No credit exception is required.

Plan in Progress - GUS Refer, Refer with Caution, and manually underwritten files:
An applicant with a Chapter 11, 12 or 13 BK in progress must meet the following:
- Lender must document 12 months of debt restructure plan has elapsed;
- All required payments have been made on time; and
- The applicant has written permission from the bankruptcy court/trustee to enter into a mortgage transaction. If the bankruptcy court/trustee does not review or issue permissions, the creditor may determine if the applicant is an acceptable credit risk.

Confirm all payment amounts for the Chapter 11, 12 or 13 BK are included on the Asset and Liabilities application page in GUS or on the loan application. No credit exception is required.

Completed Plan - GUS Accept/Accept with Full Documentation files:
No credit exception is required.

Completed Plan - GUS Refer, Refer with Caution, and manually underwritten file:
Plans completed 12 months prior to loan application require no further documentation. No credit exception is required.
**CHARGE-OFFS**

A charge-off is a debt that was determined unlikely to be collected by the creditor due to substantial delinquency. Creditors may sell the debt to a collection company or pursue a judgment against the borrower if the statute of limitations has not expired to collect the debt. This adverse credit is reflected in the credit score.

The approved lender’s underwriter must review all charge-off accounts and determine if the applicant(s) is an acceptable credit risk, regardless of GUS underwriting recommendation. USDA does not require charge-off accounts to be paid.

If the applicant has a repayment plan with the creditor for a charged off debt, include the payment in the Asset and Liabilities GUS application page or on the loan application.

**GUS Accept/Accept with Full Documentation files:**

No credit exception is required.

**GUS Refer, Refer with Caution, and manually underwritten files:**

No credit exception is required.

**COLLECTIONS**

A collection is a debt that has been assigned/sold to a third-party debt collection agency due to negligent payment of the borrower. This adverse credit is reflected in the credit score.

The approved lender’s underwriter must review all collection accounts and determine if the applicant(s) is an acceptable credit risk, regardless of GUS underwriting recommendation. USDA does not require medical collection accounts to be paid.

If the cumulative total of all non-medical collections exceeds $2,000, the following options will apply:

1. Require payment in full of these accounts prior to loan closing;
2. Use an existing repayment agreement or require payment arrangements be made with documentation from the creditor and include the monthly payment; or
3. Include 5 percent of the outstanding balance as the monthly liability amount, no further documentation required.

All open collection accounts on the credit report must be listed on the GUS Assets and Liabilities page under the Liabilities – Credit Cards, Other Debts, and Leases that You Owe section and/or on loan application.
COLLECTIONS (continued)

**GUS Data Entry:**
- Collections that will be paid at or before loan closing should select the “To be paid off at or before closing” checkbox.
- If the collection is not required to be paid in full, the lender should select the “Omit” checkbox and provide an explanation in the additional data entry pop up box to state why the debt will be omitted from ratio consideration.

If a repayment agreement has a specified monthly payment, include that amount. Do not enter “$1.00” in the monthly payment data field unless this is a documented repayment amount.

**GUS Accept/Accept with Full Documentation files:**
No credit exception is required.

**GUS Refer, Refer with Caution, and manually underwritten files:**
No credit exception is required.

**CONSUMER CREDIT COUNSELING - DEBT MANAGEMENT PLANS**

Credit counseling provides guidance and support to consumers which may include assistance to negotiate with creditors on behalf of the borrower to reduce interest rates, late fees, and agree upon a repayment plan. The credit score will reflect the degradation of credit due to participation in this plan. Credit accounts that are included in the repayment plan may continue to report as delinquent or as late pays. This is typical and will not be considered as recent adverse credit. Lenders must retain documentation to support the accounts included in the debt management plan and the applicable monthly payment. Lenders must include the monthly payment amount due for the counseling plan in the monthly liabilities.

**GUS Accept/Accept with Full Documentation files:**
No credit exception is required.

**GUS Refer, Refer with Caution, and manually underwritten files:**
The following must be documented and retained in the lender’s permanent loan file:
- One year of the payment period of the debt management plan has elapsed;
- All payments have been made on time; and
- Written permission from the counseling agency to recommend the applicant as a candidate for a new mortgage loan debt.
- No credit exception is required
<table>
<thead>
<tr>
<th>DELINQUENT COURT ORDERED CHILD SUPPORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>An applicant that is delinquent on court ordered child support is ineligible for a guaranteed loan unless the applicant has an approved repayment agreement in place with three timely payments made prior to loan closing, the arrearage is paid in full prior to loan closing, or a release of liability is documented.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DELINQUENT FEDERAL NON-TAX DEBT</th>
</tr>
</thead>
<tbody>
<tr>
<td>A non-tax Federal debt is a debt owed to the U.S. Federal Government other than Federal income taxes. Federal debts are typically discovered when the lender reviews the Credit Alert Verification Reporting System (CAIVRS) result, credit report, public records, or equivalent. An applicant with a delinquent Federal non-tax debt is ineligible until the debt is paid in full or a release of liability is documented.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FEDERAL TAXES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal taxes are due each year on the date determined by the Internal Revenue Service (IRS). Taxpayers who owe taxes and do not pay in full by the filing date are determined delinquent by the IRS.</td>
</tr>
</tbody>
</table>

**Repayment Plans:**
An applicant with delinquent Federal tax debt is ineligible unless they have a repayment plan approved by the IRS. A minimum of three timely payments must have been made. Timely is defined as payments that coincide with the approved IRS repayment agreement. The applicant may not prepay a lump sum at one time to equal three monthly payments to meet this requirement. The lender must retain evidence of the repayment agreement and payment history in their permanent file. No credit exception is required.

**Approved Extension:**
An IRS approved extension to file a tax return does not grant the applicant additional time to pay their taxes due. Applicants must pay their estimated income tax due by the IRS filing date or they are determined delinquent by the IRS. An applicant that has owed taxes on previous filed return(s) exhibits a pattern of taxes due, therefore an estimated tax payment must be made to the IRS by the specified deadline. The applicant may file their return at a later date and remain eligible for a guaranteed loan.

An applicant that has received tax refunds for previous filed return(s) may remain eligible with no estimated tax payment due to the IRS because they would not be determined delinquent. The applicant will remain eligible for a guaranteed loan.
### FEDERAL TAXES (continued)

#### Failure to File:

Applicant’s that are required to file taxes but have failed to do so for the current or previous years by required IRS due dates without approved extensions and/or required tax payments as determined by the IRS are ineligible.

#### DISPUTED ACCOUNTS: NON-DEROGATORY

A disputed account occurs when the applicant questions the validity of a transaction registered to the account. When a dispute is submitted to a creditor, a review is completed to determine if the debt continues to be due from the applicant. Most disputes are reviewed and finalized within 90 days.

**GUS Accept/Accept with Full Documentation files:**
A GUS Accept recommendation may be retained if any of the following are met:
- The disputed tradeline has a zero balance;
- The disputed tradeline states “paid in full” or “resolved” on the credit report;
- The disputed tradelines are 24 months or greater;
- The disputed tradeline is current and paid as agreed;
- The payment stated on the credit report is included in the monthly debts;
- A documented payment from the creditor is included in the monthly debts; or
- Five percent of the stated account balance on the credit report is included in the monthly debts.

**GUS Refer, Refer with Caution, and manually underwritten files:**
The applicant must provide the lender with applicable documentation to support the reason and basis of their dispute with the creditor. Lender’s must determine the impact of the disputed account on the repayment of the proposed mortgage debt. Each account must include the payment stated on the credit report, five percent of the balance of the account, or a lesser amount documented from the creditor. **No credit exception is required.**

#### DISPUTED ACCOUNTS: DEROGATORY

Disputed derogatory accounts that must be considered are non-medical collections and accounts with late payments in the last 24 months.

For all loan types, the lender may exclude the following:
- Disputed medical accounts/collections;
- Charged off accounts,
DISPUTED ACCOUNTS: DEROGATORY (continued)

- Disputed derogatory accounts that are the result of identity theft, credit card theft, or unauthorized use when evidence (police report, attorney correspondence, creditor statement) is provided to support the applicant’s explanation; or
- Accounts of a non-purchasing spouse in a community property state.

**GUS Accept/Accept with Full Documentation files: No credit exception is required.**

GUS Accept files with less than $2,000 in disputed derogatory accounts will require the lender to determine if the disputed accounts may impact the applicant’s ability to repay the proposed mortgage obligation.

Each account (excluding those listed above) must include a minimum monthly payment of:

1. The payment stated on the credit report. if no payment listed, use
2. Five percent of the balance of the account, or
3. A lesser amount documented from the creditor.

GUS Accept/Accept with Full Documentation files must be downgraded to a Refer when the applicant has $2,000 or more collectively in disputed derogatory accounts in the last 24 months.

**Refer, Refer with Caution and manually underwritten files: No credit exception is required.**

The lender must analyze the potential impact to the applicant’s ability to repay the proposed mortgage debt with disputed derogatory accounts. Each account (excluding those listed above) must include a minimum monthly payment of:

1. The payment stated on the credit report,
2. Five percent of the balance of the account, or
3. A lesser amount documented from the creditor.
### GARNISHMENTS

A garnishment is a legal process that instructs a third party to deduct payments directly from a debtor’s wage or bank account for defaulted payments. A garnishment may be deducted by the debtor’s employer and disclosed on earnings statements.

Garnishments must be included in the debt ratio. Garnishments manually added to the Asset and Liabilities GUS application page will not result in a manual downgrade of a GUS Accept/Accept with Full Documentation file underwriting recommendation. Review the debt type paid through the garnishment to ensure the applicant remains eligible for a guaranteed loan.

### NON-FEDERAL JUDGMENT

A judgment is a formal decision made by a court following a lawsuit. The judgment is a legally enforceable court order which could result in various methods to collect the debt.

Court ordered judgments must be paid in full or have evidence of three timely payments made per an agreement with the creditor. Include the monthly payment (if applicable) in the debt ratio. A GUS Accept/Accept with Full Documentation file is not required to be downgraded due to the manual entry of the payment.

Confirm the Declarations in GUS and/or the loan application accurately reflect the presence of a judgment.

### NON-PURCHASING SPOUSE DEBTS (NPS)

Lenders must follow applicable community property state (CPS) lending laws when the applicant(s) and/or property reside in a CPS. The credit history of the NPS is not a reason to deny a loan application. Lenders are responsible to know CPS laws and requirements for the treatment of NPS debts.

The credit report for the NPS must be obtained outside of GUS and uploaded along with the complete loan submission. The NPS debts will be manually entered in GUS by the lender as required by law. Lenders will identify the NPS debts by selecting “Other” as the Account Type Description and entering “NPS debt” in the pop-up box.

NPS debt(s) that the lender has determined to exclude will not be entered into GUS. The lender will retain documentation in their permanent loan file that supports exclusion (a copy of the state statute that allows exclusion of the NPS debt.)

A GUS Accept/Accept with Full Documentation file is not required to be downgraded due to the manual entry of NPS debts.
NON-PURCHASING SPOUSE DEBTS (continued)
The following are identified as community property states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. Puerto Rico and several Indian jurisdictions allow community property ownership. Alaska is an opt-in CPS. Property is separate unless both parties agree to make it community property through a community property agreement or trust.

DEED-IN-LIEU (DIL)
A deed-in-lieu of foreclosure allows the borrower to convey or deed all interest in a property to the lender to satisfy a loan in default and avoid foreclosure. The DIL will be reflected in the applicant’s credit score and public records. Lenders must confirm the Declarations in GUS and/or on the loan application are completed accurately.

A DIL recorded 36 months prior to the date of loan application is not adverse credit.

GUS Accept/Accept with Full Documentation files:
No downgrade or credit exception required.

Refer, Refer with Caution, and manually underwritten loan files:
A credit exception is required for a DIL within the 36 months prior to loan application.

An applicant that has a DIL recorded post-divorce/filed legal separation agreement and the home was awarded to the ex-spouse/remaining party may document the loan was paid as agreed prior to date of divorce decree/legal separation agreement. The payment history on the credit report or other documentation from the loan servicer/lender may be retained to confirm eligibility.

FORECLOSURE OR REPOSSESSION
A foreclosure is the legal process by which a lender takes control of a property, evicts the homeowner (if necessary), and sells the home to attempt to satisfy the mortgage debt. The current homeowner(s) is no longer able or willing to make agreed upon mortgage payments as stipulated in the mortgage contract. Repossessions occur when the borrower cannot or will not remit payment for the collateral secured with the lender. The lender may sell the collateral to satisfy the debt. A deficiency balance may remain. These adverse credit actions will be reflected in the applicant’s credit score and public records as applicable. Lenders must confirm the Declarations in GUS and/or on the loan application are completed accurately.

A foreclosure discharged, or a repossession reported 36 months prior to the date of loan application is not adverse credit.
FORECLOSURE OR REPOSSESSION (continued)

**GUS Accept/Accept with Full Documentation files:**
No credit exception is required.

**Refer, Refer with Caution, and manually underwritten loan files:**
A credit exception is required when the applicant has a foreclosure discharged or a repossession reported within the 36 months prior to loan application.

An applicant that has a foreclosure discharged or a repossession reported post-divorce/filed legal separation agreement and the home was awarded to the ex-spouse/remaining party may document the loan was paid as agreed prior to date of divorce decree/legal separation agreement. The payment history on the credit report or other documentation from the loan servicer/lender may be retained to confirm eligibility.

USDA considers the loss of a timeshare adverse credit of a long-term obligation and not a foreclosure. This loss will be reflected in the credit score. Lenders must review the applicant’s credit history to determine if they are an acceptable credit risk. No credit exception is required for the loss of a timeshare.

**SHORT SALE**
A short sale allows a homeowner to sell their property for less than the balance due on the mortgage. All sales proceeds go to the lender. The lender will either forgive the difference owed or a deficiency judgment may be obtained to require the borrower to repay the lender all or part of the remaining balance. The short sale will be reflected in the applicant’s credit score and public records. Lenders must confirm the GUS Declarations page and/or the loan application are completed accurately.

A short sale closed 36 months prior to the date of loan application is not adverse credit.

**GUS Accept/Accept with Full Documentation files:** No credit exception is required.

**Refer, Refer with Caution, and manually underwritten loan files**
A credit exception is required when the applicant has a short sale closed within the 36 months prior to loan application.

An applicant that has a short sale closed post-divorce/recorded legal separation agreement and the home was awarded to the ex-spouse/remaining party may document the loan was paid as agreed prior to date of divorce decree/legal separation agreement. The payment history on the credit report or other documentation from the loan servicer/lender may be retained to confirm eligibility.
PREVIOUS USDA LOSS

An applicant with a previous Section 502 Single Family Housing Direct or Guaranteed loan that resulted in a loss paid by the Federal government, must provide the lender with the following information:

1. Explain and document the circumstances that led to the loss paid on their behalf. Example: If the loss was due to reduced wages, IRS tax transcripts would document the loss of income. Medical explanations are not required to submit private health information; Explain why the loss is unlikely to recur. Example: Losses due to unemployment and no medical insurance would show a new stable work history with medical benefits; and

The lender must provide the documentation and recommendation for loan approval along with the final and complete application submission. Explain positive aspects of the loan file which attribute to future success. Examples: Stable job time of 2 years or more, low qualifying ratios, reserves available post loan closing, etc. USDA will review the explanation and supporting documentation and make the final determination of the applicant(s) eligibility for a new guaranteed loan.

RENT/MORTGAGE PAYMENT HISTORY

An indicator of future mortgage payment probability is the applicant’s payment of their current rent or housing. Lenders should include the current rent or mortgage payment amounts on the Income and Expenses GUS application page and/or the loan application.

GUS Accept/Accept with Full Documentation files:
No Verification of Rent (VOR) required. No credit exception required.

GUS Refer, Refer with Caution, or manually underwritten loan files:
A VOR may be required. Refer to the GUS Underwriting Findings Report to determine if a VOR is required for a complete loan application. If a full 12-month VOR is not available, lenders may verify the amount of rental history that has been paid. One rent or mortgage payment paid 30 or more days past due in the previous 12 months is significant derogatory credit and will require a credit exception.
CHAPTER 11: RATIO ANALYSIS

11.1 INTRODUCTION

Ratio calculations are used to determine if the applicant’s repayment income can reasonably be expected to meet the anticipated monthly housing expense and total monthly obligations involved in homeownership. The Agency has established standards for principal, interest, taxes and insurance (PITI) and total debt (TD) ratios; however, there is flexibility to apply these standards when valid compensating factors are present.

11.2 THE RATIOS

Ratios are calculated by utilizing the repayment income, as determined by the lender in Chapter 9 Section 2 of this Handbook. To qualify for a guarantee, borrowers must meet the Agency’s standards for both the PITI and TD ratios.

A. The PITI Ratio

Applicants are considered to have repayment ability if their proposed monthly housing expense does not exceed 29 percent of their repayment income. Monthly housing expenses include but are not limited to:

- Principal and interest payment on the mortgage;
- Hazard insurance premiums, whether escrowed or not;
- Real estate taxes, whether escrowed or not;
- Monthly escrow required for annual fee;
- Homeowners association dues and regular assessments;
- Flood insurance premiums, whether escrowed or not; and
- Special assessments.

B. The Total Debt Ratio

Applicants are considered to have repayment ability when their total debts do not exceed 41 percent of their repayment income.
The total debt ratio includes monthly housing expense (PITI) plus other monthly credit or debt obligations incurred by the applicant.

The lender must document an applicant’s debt through various records including but limited to: a credit report, direct or third-party verifications, court documents, verification of deposits, electronic verifications, etc. All applicant open debts/accounts (including non-medical collection accounts and judgments) incurred through the note date must be included in the total debt calculation and documented in GUS and on the loan application as applicable. The following obligation expenses must be included in the monthly debts.

**PITI**

- Principal, interest, real estate taxes, hazard insurance, monthly portion of the annual fee, HOA fees, special assessments, etc.

**Installment accounts**

- Accounts that will be paid in full through a specified number of fixed payments such as auto, personal, secured/unsecured, etc. must have the monthly payment included.

- Installment debt may be paid down to ten months or less of remaining debt.

- If ten or less months of repayment remains per the credit report, creditor verification, etc., the monthly debt may be excluded if the payment does not exceed five percent of the monthly repayment income.

**Revolving accounts**

- Credit cards, lines of credit, secured/unsecured, etc. must include the minimum monthly payment documented on the credit report or other creditor verification in the total debts.

- If the credit report shows an outstanding balance, but no minimum monthly payment, the payment must be calculated as five percent of the balance reported on the credit report.

- The lender may obtain a current account statement or creditor verification to document the actual monthly payment and include that amount in the monthly debts.
• Revolving accounts with no outstanding balance on the credit report do not require an estimated payment to be included in the debt ratio.

• USDA will not require a revolving account to be closed.

30-Day Accounts

• A 30-day account is a credit arrangement requiring the applicant to pay off the full outstanding balance on the account every month.

• The lender may utilize the credit report to document the applicant has paid the outstanding balance for the previous 12 months.

• 30-day accounts that are paid monthly in full are not included in the total debt ratio.

• If the credit report reflects late payments in the last 12 months, the lender must include five percent of the outstanding balance in the monthly debts.

Court Ordered Debts: Child support, alimony, garnishments, etc.

• Court ordered debts must have the payment included in the total debt ratio unless the applicant has a release of liability from the court/creditor and acceptable evidence is documented.

• Lenders will utilize select pages from the applicable agreement/court order to document the required monthly payment due and the duration of the debt.

• Court ordered debts with ten or less payments remaining may be excluded if the payment does not exceed five percent of the monthly repayment income.

• For GUS transactions, the lender will manually enter the obligation(s) as a monthly liability. A manual entry of this monthly obligation does not require an underwriting recommendation of “Accept” to be downgraded to a “Refer.”

• Lenders must confirm repayment agreements are current. Refer to Chapter 10 for court ordered debt guidance and program eligibility.

Child care expenses

• Child care expenses are not required to be included in the monthly debt ratio.
Student loans

Lenders must include the required payment as applicable:

- Fixed payment loans: A permanent amortized, fixed payment may be used in the debt ratio when the lender retains documentation to verify the payment is fixed, the interest rate is fixed, and the repayment term is fixed. The fixed payment will fully amortize/pay in full the debt at the end of the term.

- Non-Fixed payment loans: Payments for deferred loans, Income Based Repayment (IBR), Income Contingent (IC), Graduated, Adjustable, and other types of repayment agreements which are not fixed must use the greater of the following:

  1. One half (.50) percent of the outstanding loan balance documented on the credit report or creditor verification, or

  2. The current documented payment under the approved repayment plan with the creditor.

- Student loans in the applicant’s name alone but paid by another party remain the legal responsibility of the applicant. The applicable payment must be included in the monthly debts.

- Student loans in a “forgiveness” plan/program remain the legal responsibility of the applicant until they are released of liability from the creditor. The applicable payment must be included in the monthly debts.

Mortgages: Rental Property

- A retained dwelling that has been rented for 24 months or longer prior to loan application may have the mortgage obligation omitted when the applicant provides documentation to support the lease history.

- If the rent received does not cover all expenses (principal, interest, real estate taxes, hazard insurance, HOA fees, assessments, etc.), the remaining balance must be included in the monthly debts.

- The manual entry of a rental income loss to the monthly debts in GUS will not require an Accept loan file to be downgraded to a Refer.
If the credit report reflects late mortgage payments on the rental dwelling in the 12 months prior to loan application, the full mortgage liability and all associated costs must be included in the monthly debts.

Refer to Chapter 9 for rental income guidance.

**Mortgages: No Release of Liability**

- Mortgage liabilities disposed of through a sale, trade or transfer without a release of liability (i.e., borrower remains on the promissory note) must be included in the total debt ratio unless evidence can be obtained to confirm the remaining party/new owner has successfully made the payment for the previous 12 months prior to loan application.

- Evidence may be reported through the credit report or verification from the creditor/servicer to document the payment history has been current for the 12 months prior to loan application.

- If there are late payments in the previous 12 months prior to loan application, the full mortgage obligation must be included in the monthly debt.

**Mortgages: Divorce**

- In the case of a divorce, the lender must obtain a copy of the legal separation agreement or divorce decree to document the remaining party/new owner responsible to pay all mortgage debts from the effective date of the decree forward.

- To exclude the mortgage debt, the lender must document the previous 12 months have been paid as agreed prior to loan application through the credit report or verification from the creditor/servicer.

- If there are late payments in the previous 12 months prior to loan application, the full mortgage obligation must be included in the monthly debts.

**Co-signed obligations**
Co-signed debts refer to a debt where the applicant may be a co-borrower, joint obligor, co-signer, guarantor, etc.

Co-signed debts must be included in the monthly debts unless the applicant provides evidence another obligor (party to the debt) has successfully made the payment for the previous 12 months prior to loan application.

Acceptable evidence includes but not is limited to: canceled checks, money order receipts and/or bank statements of the co-obligor.

Late payments reported in the previous 12 months prior to application will require the monthly liability to be included in the monthly debts.

If the applicant can provide conclusive evidence from the creditor that they will not pursue debt collection against the applicant should the other party default, the 12-month payment history of the additional party is not required.

Debts identified as “individual” on a credit report must be included in the debt ratio regardless of who is making the monthly payment (e.g. parents paying car payments on behalf of applicant and the loan is solely in the applicant’s name).

Business debts

Business debts (e.g. car loan) reported on the applicant’s personal credit report may be excluded from the monthly debt if there is evidence the debt is paid through a business account.

Acceptable evidence includes canceled checks or bank statements from a business account for the previous 12 months.

401(k) loans/personal asset loans

Loans pledging personal assets, such as a 401(k) account, retirement funds, savings account or other liquid assets do not require a payment to be included in the monthly debts.

Debts of a non-purchasing spouse (NPS)

Applicants who currently reside or are purchasing in a community property state must include the debts of the NPS unless specifically excluded by state law.

Approved lenders are responsible to confirm state laws are met.
Collection accounts

- Refer to Chapter 10 for collection account guidance.

Judgment accounts

- Refer to Chapter 10 for Federal and non-Federal judgment guidance.

Charge-off accounts

- Charge-off accounts are not required to have a payment included in the monthly debts. Refer to Chapter 10 for charge-off account guidance.

Automobile allowances and expense account payments

- An automobile or allowance will not cancel out a monthly debt for an automobile or expense loan/debt.
- The full monthly payment(s) due must be included in the monthly debt.
- Refer to Chapter 9 for automobile and expense allowance income guidance.

Balloon/deferred payments.

- Deferred debts and balloon debts that will require payment in full upon their due date must have a payment included in the monthly debts.
- If the actual payment on a deferred/balloon loan is unknown, the lender may obtain documentation from the creditor to establish a monthly payment that will be due on a documented payment date or they must use five percent of the outstanding balance on the credit report or creditor verification.

Tax repayment agreements

- Include Federal or State income tax repayment plan payments in the monthly debt.
- If ten or less months of repayment remains per the plan, the monthly debt may be excluded if the payment does not exceed five percent of the monthly repayment income.
- Refer to Chapter 10 for Federal Income Tax agreement eligibility.
Lease payments

- Auto, solar, energy, and additional lease payments must have the payment included in the monthly debt regardless of months remaining to pay on the contract.

11.3 DEBT RATIO WAIVERS AND COMPENSATING FACTORS

An applicant’s PITI ratio may exceed 29 percent and the Total Debt ratio may exceed 41 percent if the lender determines that strong compensating factors demonstrate that the household has higher repayment ability.

A. Purchase Transactions: Debt ratio waivers

GUS Accept loans:

GUS files that receive an Accept or Accept Full Documentation underwriting recommendation do not require debt ratio waivers.

GUS Refer, Refer with Caution, and manually underwritten loans without GUS assistance:

Agency approval of a lender’s request for debt ratio waiver may be granted if the following conditions are met:

1. Acceptable ratio thresholds are met:
   a. The maximum PITI ratio cannot exceed 32 percent, and
   b. The maximum TD ratio cannot exceed 44 percent;
   And:

2. The credit score of all applicant(s) is 680 or greater;
   And:

3. At least one of the acceptable compensating factors listed below is identified and supporting documentation is provided to the Agency.

Acceptable Compensating Factors and Supporting Documentation:
The proposed PITI is equal to or less than the applicant’s current verified housing expense for the 12-month period preceding loan application. Verification of housing expenses may be documented on a verification of rent (VOR) or credit report as noted in Chapter 10. The VOR or credit report must include the actual payment due and report no late payments or delinquency for the previous 12 months. Rent or mortgage payment histories from a family member will not be considered unless 12 months of canceled checks, money order receipts, or electronic payment confirmations are provided. A history of less than 12 months will not be considered an acceptable compensating factor.

Accumulated savings or cash reserves available post loan closing are equal to or greater than three months of PITI payments. A verification of deposit (VOD) or two most recent consecutive bank statements to document the average balance held by the applicant are required as noted in Chapter 9. Cash on hand is not eligible for consideration as a compensating factor.

The applicant(s) (all employed applicants) has been continuously employed with their current primary employer for a minimum of two years. A “Request for Verification of Employment” (VOE) (Form RD 1910-5, comparable HUD/FHA/VA or Fannie Mae form, or other equivalent), or a VOE prepared by an employment verification service (e.g., The Work Number.) must be provided. Applicants that have received Social Security benefits or retirement income for two years may utilize this compensating factor with documentation to support the history of receipt of benefits. This compensating factor is not applicable for self-employed applicants.

Debt Ratio Waiver Request and Agency Approval:

Debt ratio waivers must be requested and documented by the approved lender. The lender requests Agency concurrence with the debt ratio waiver by submitting a signed underwriting analysis that cites one or more of the above acceptable compensating factors. Lenders may utilize Fannie Mae 1008 / Freddie Mac 1077, “Uniform Underwriting and Transmittal Summary,” or similar form. Evidence of the compensating factor, such as a VOR, VOD, and/or VOE, must be submitted to the Agency for approval.

Written approval of the debt ratio waiver request by the Agency is represented if a Conditional Commitment for Loan Note Guarantee is issued.

B. Refinance Transactions: Debt ratio waivers

GUS Accept loans:
GUS files that receive an Accept or Accept Full Documentation underwriting recommendation do not require debt ratio waivers.

**GUS Refer, Refer with Caution, and manually underwritten loans without GUS assistance:**

- Streamlined-assist refinance loans do not require debt ratio calculations, and therefore no debt ratio waiver.
- Debt ratios for refinance loans are not limited to the maximum purchase debt ratio thresholds.
- Non-Streamlined and Streamlined refinance loans require the lender to document the compensating factors that justify a debt ratio waiver.

The following are examples of acceptable compensating factors for debt ratio waiver requests:

- Credit score of 680 or higher for each applicant.
- The borrower(s) has successfully demonstrated the ability to pay housing expenses equal to or greater than the new proposed monthly housing expense for the past 12 months.
- Accumulated savings or cash reserves available post-closing are equal to or greater than three months of the proposed PITI payment. Cash on hand is not eligible for consideration as a compensating factor.
- Continuous employment with the current primary employer.

Written approval of the debt ratio waiver request by the Agency is represented if a Conditional Commitment for Loan Note Guarantee is issued.

### 11.4 MORTGAGE CREDIT CERTIFICATES

Authorized State or local housing finance agencies may issue a mortgage credit certificate (MCC) that provides a Federal income tax credit to a qualified first-time homebuyer and/or low- or moderate-income homebuyer. Refer to Chapter 9 for MCC guidance and GUS data entry.
11.5 FUNDED BUYDOWN ACCOUNTS

Funded buydown accounts are designed to reduce the borrower’s monthly payment during the initial years (temporary buydown) or the full life (permanent buydown) of the loan. Permanent buydowns are fully funded and paid for at loan closing. The interest rate is fixed and will not change for the life of the loan. Temporary buydowns are eligible when the applicable guidelines are met.

Temporary buydown account requirements:

- The mortgage loan must be underwritten at the full note rate;
- Buydown funds may come from the seller, lender or other third party;
- Buydown funds may not come from the borrower;
- The buydown must not reduce the interest rate more than two percent below the full note rate;
- The assistance may increase no more than one percent annually;
- The borrower must agree in writing that the temporary buydown funds will be placed in an escrow and paid directly to the lender each month to reduce the monthly mortgage payment;
- The buydown account must be fully funded at origination; and
- The funds must be placed in an escrow account with a financial institution supervised by a Federal or state agency.

A copy of the escrow agreement, signed by the borrower and the provider of the funds, must be retained in the lender’s loan file.
11.6 SECTION 8 HOMEOWNERSHIP VOUCHERS

Section 8 Homeownership Vouchers may be used for qualifying applicants. Refer to Chapter 9 for voucher guidance and GUS data entry.

11.7 OBLIGATIONS NOT INCLUDED IN DEBT-TO-INCOME RATIOS

Obligations not considered or included in total debt-to-income ratio calculations include:

- Medical collections;
- Federal, state, and local taxes;
- Federal Insurance Contribution Act (FICA) contributions;
- Other retirement contributions such as 401(k) accounts, including the repayment of loans secured by 401(k) funds;
- Automatic deductions to savings accounts, mutual funds, stocks, bonds, certificates of deposit, including the repayment of loans secured by such funds;
- Collateralized loans secured by depository accounts;
- Utilities;
- Insurance, other than property insurance;
- Commuting costs;
- Union dues;
- Open accounts with zero balances;
- Child care; and
- Voluntary deductions.
CHAPTER 12: PROPERTY AND APPRAISAL
REQUIREMENTS

12.1 INTRODUCTION

Lenders must ensure the property to be purchased is eligible for the SFHGLP. The Agency’s minimum property requirements serve to protect the borrower’s interest, minimize the lender’s loss, and reduce the potential risk to the government in the event of liquidation. It is the lender’s responsibility to ensure that the property meets the Agency’s standards.

SECTION 1: UNDERWRITING THE PROPERTY [7 CFR 3555.201]

12.2 OVERVIEW

The lender must ensure the subject property meets the Agency’s site guidelines. In particular, sites must be located in eligible rural areas; meet community standards regarding utilities, including water and wastewater systems; meet street and road access and maintenance requirements; and contain other amenities essential to the continued marketability of the home. This section addresses each of these standards.

12.3 RURAL AREA DESIGNATION [7 CFR 3555.201(a)]

Only loans secured by properties located in areas designated by the Agency as rural are eligible to receive a loan guarantee. This section discusses rural areas designations, how lenders are notified of changes in rural area designations and clarifies rare situations in which loans for properties in areas no longer designated as rural may receive a loan guarantee.

A. Rural Area Definition

An area’s rural designation is determined by the Agency and may be changed as a result of periodic review or after the decennial census of population. The Agency conducts reviews every five years to identify areas that no longer qualify as rural. In areas experiencing rapid growth, and in eligible communities within Metropolitan Statistical Areas (MSAs), reviews take place every three years. Public notification will be given at least 30 days before the date of the final determination in order to give interested parties an adequate chance to comment. Refer to section 3550.10 of 7 CFR 3550 and HB-1-3550 Chapter 5, for additional information regarding rural area designations.
In general, rural areas are defined as:

- Open country that is not part of, or associated with, an urban area;

- Any town, village, city, or place, including the immediately adjacent densely settled area, which is not part of, or associated with, an urban area, and which:
  - Is rural in character with a population of less than 10,000; or
  - Is not contained within an MSA and has a population above 10,000 but below 20,000 and has a serious lack of mortgage credit for lower and moderate-income families. Any area classified as “rural” or a “rural area” prior to October 1, 1990, and determined not to be “rural” or a “rural area” as a result of data received from or after the 1990, 2000, or 2010 decennial census, and any area deemed to be a “rural area” any time during the period beginning January 1, 2000, and ending December 31, 2010, shall continue to be so classified until the receipt of data from the decennial census in the year 2020 if such area has a population in excess of 10,000 but not in excess of 35,000, is rural in character, and has a serious lack of mortgage credit for lower and moderate-income families.

- Two or more towns, villages, cities, or places that are contiguous may be considered separately for a rural designation if they are not otherwise associated with each other, and their densely settled areas are not contiguous.

B. Notification of Rural Area Designation

The public website noted below provides an automated system to allow users to enter addresses and determine property eligibility. Users who utilize the public website will receive one of three property eligibility decisions when an actual address is entered – “Eligible,” “Ineligible,” or “Unable to Determine.” In areas not clearly delineated, users will receive an “Unable to Determine.” With this type of determination, the lender must confirm with Agency staff the property is located in a rural area and eligible for a guarantee prior to requesting an appraisal.

USDA Rural Development Property and Income Eligibility Website: https://eligibility.sc.egov.usda.gov

Attachment 12-A of this Chapter provides guidance on utilizing the public website to determine eligible rural areas.
C. Making Loans in Areas Changed to Non-rural

If an area’s designation changes from rural to non-rural, loans that meet the following criteria may be approved in that area:

- Purchase transactions are eligible if the following requirements are met:
  - The application is dated and received by the lender prior to the area designation change;
  - The Loan Estimate was issued within three days of the application date;
  - The purchase contract is ratified prior to the date of the area designation change; and
  - The applicant and property meet all other loan eligibility requirements.

- Existing conditional commitments that have been issued will be honored provided the commitment was issued prior to the area designation change;

- Existing direct and guaranteed loans that meet all requirements, as outlined in Chapter 12, remain eligible for refinance transactions;

- REO property sold from Agency inventory remain eligible for purchase transactions;

- SFHGLP REO property sales and transfers with assumption may be processed in areas that have changed to non-rural;

- A supplemental loan may be made in conjunction with a transfer and assumption of a guaranteed loan.

12.4 SITE REQUIREMENTS [7 CFR 3555.201(b)]

A qualified property must be predominately residential in use, character, and design. Sites must be developed in accordance with any standards imposed by a State or local government. Therefore, the lender must verify that the following requirements are met at the time of application.
• **Site size.** There is no specific limitation to the size/acreage of the site. The appraiser must provide an explanation in the addendum of the appraisal to explain adjustments to comparable properties, how the subject compares to other properties in the area, etc.

• **Income-Producing Buildings.** The property must not include buildings principally used for income-producing purposes. Barns, silos, commercial greenhouses, or livestock facilities used primarily for the production of agricultural, farming or commercial enterprise are ineligible. However, barns, silos, livestock facilities or greenhouses no longer in use for a commercial operation, which will be used for storage do not render the property ineligible. Outbuildings such as storage sheds and non-commercial workshops are permitted if they are not used primarily for an income producing agricultural, farming or commercial enterprise. A minimal income-producing activity, such as maintaining a garden that generates a small amount of additional income, does not violate this requirement. Home-based operations such as childcare, product sales, or craft production that do not require specific commercial real estate features are not restricted.

• **Accessory Dwelling Unit.** The presence of an accessory dwelling unit (ADU) does not automatically render the property ineligible. The appraiser will determine if the ADU represents a second single family housing dwelling unit. The Agency defers to the appraiser’s professional review of the property and expert opinion of the highest and best use of the subject property as a primary residence. The appraiser will include their evaluation in the site analysis section of the appraisal report if applicable.

• **Income-Producing Land.** The site must not have income-producing land that will be used principally for income producing purposes. Vacant land or properties used primarily for agricultural, farming or commercial enterprise are ineligible.

• **Multiple Parcels.** The lender will ensure the mortgage provides a valid first lien covering each parcel. Each parcel must be conveyed in its entirety and have the same zoning. Parcels must be contiguous unless divided by a road and the remaining parcel cannot be developed i.e. waterfront properties where the parcel without the residence provides access to the water. The entire property will contain only one dwelling but can have non-residential, non-income producing buildings such as a garage.
• **Properties with Solar Panels.** Dwellings with solar panels are not considered an income producing property. If the property owner (seller) is the owner of the solar panels and the solar panels will be included as part of the purchase transaction then standard eligibility requirements apply, i.e. appraisal, insurance, and title. If the solar panels are subject to a lease agreement, power purchase agreement (PPA), or similar type of agreement the following requirements apply:

  o Leases and contracts will vary by company and should be considered on a case by case basis to ensure all terms/regulations are met.

  o First lien position, by the lender, should be protected and maintained.

  o The property should maintain access to an alternative source of electric/gas power that meets community standards.

  o The energy company or lessee should not block any foreclosure or servicing actions.

  o If an agreement for an energy system lease or PPA could cause restriction upon transfer of the house, the property is subject to impermissible legal restrictions and is generally ineligible for the guaranteed loan.

  o The lease agreement or PPA should indicate that any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner is obligated to repair the damage and return the improvements to their original or prior condition.

  o The lease agreement, PPA, or other agreement should indicate that the owner of the solar panels cannot be a loss payee on the homeowner’s insurance policy.

  o If a lease includes payment for equipment it should be considered a debt and included in the total debt ratio. See Chapter 11 for additional guidance.

  o Leased solar panels are considered personal property and are not included in the appraised value.

  o Properties with Property Assessed Clean Energy (PACE) loans or assessments are ineligible for a SFHGLP loan.
• **Site Specifications.** The site must be contiguous to, and have direct access from a street, road, or driveway. Streets and roads must be hard surfaced, or all weather surfaced, with public access or permanent recorded easements.

• **Utilities.** The site must be supported by adequate utilities and water and wastewater disposal systems.

• **Zoning.** The property must comply with applicable zoning and restrictions. If an existing property does not comply with all current zoning ordinances but it is accepted by the local zoning authority, the appraiser must report the property as legal non-conforming. The appraisal must reflect any adverse effect of the legal nonconforming use on the value and marketability of the property.

**SECTION 2: APPRAISALS [7 CFR 3555.107(d)]**

12.5 **RESIDENTIAL APPRAISAL REPORTS**

Approved lenders must ensure appraisals are completed by a qualified appraiser that is independent and objective. Approved lenders are responsible to review all appraisals for integrity, accuracy, and thoroughness, prior to submission of a complete loan application package to USDA. The lender may pass the cost of the appraisal on to the borrower. The appraisal must have been completed within 150 days of loan closing. Appraisals that are older than 150 days prior to loan closing are eligible for an appraisal update as indicated in this Chapter.

**A. Qualified Appraiser.**

Approved lenders must select qualified and competent appraisers that are properly licensed or certified, as appropriate, in the State in which the property is located. The appraiser must comply with the current edition of the Uniform Standards of Professional Appraisal Practice (USPAP). Lenders may verify that an appraiser is licensed or certified by checking the Appraisal Subcommittee website found at: [https://www.asc.gov/Home.aspx](https://www.asc.gov/Home.aspx).

**B. Appraisal Report.**

All appraisals must comply with the reporting requirements of USPAP available at [www.appraisalfoundation.org](http://www.appraisalfoundation.org). All appraisal reports must meet the Uniform Appraisal Dataset (UAD) requirements set forth by Fannie Mae and Freddie Mac. To read definitions of condition and quality ratings, refer to the “Fannie Mae and Freddie Mac
The appraiser will determine the appropriate appraisal form for the subject property. Appraisers must utilize appraisal forms acceptable to Fannie Mae, Freddie Mac, HUD, or VA. Applicable forms may include:

- **Uniform Residential Appraisal Report (FNMA Form 1004/FHLMC Form 70)** for one-unit single family dwellings;

- **Manufactured Home Appraisal Report and addendum (FNMA Form 1004C/FHLMC Form 70B)** for all manufactured homes;

- **Individual Condominium Unit Appraisal Report (FNMA Form 1073/FHLMC Form 465)** for all individual condominium units.

Appraisal considerations:

- Appraiser/client confidentiality under USPAP Ethics Rules does not permit the appraiser to discuss the appraisal with anyone other than the client, without the client’s permission. It is recommended, but not required, that USDA/RD be identified as an intended user with the lender in the appraisal report obtained.

- The market or sales comparison approach is required in all cases. Not less than three comparable sales will be used unless the appraiser provides documentation that such comparable sales are not available. The appraiser must use their knowledge of the area and apply good judgment in the selection of comparable sales that are the best indicators of value for the subject property.

- The appraiser will determine if the cost approach is required. For example, the property is unique, or has specialized improvements, or is new manufactured housing, or if the client requests the cost approach to be completed, then the appraiser will identify the source of the cost estimates and will comment on the methodology used to estimate depreciation, effective age and remaining economic life.

- The income approach is only required if the appraiser determines that it is necessary to develop credible assignment results.
• An appraisal prepared for REO purposes, loan servicing consideration, or any other purpose other than the guaranteed purchase or refinancing transaction is ineligible to be used in the origination of a guaranteed loan. A new appraisal with the intent to arrive at an opinion of value for a purchase transaction must be obtained.

**Photographs.** Photographs in the appraisal report must be in color and be clear and descriptive to identify the property’s condition and quality. Photographs must clearly represent the improvements, any physical deterioration of the property, amenities, conditions and external influences that may have a material effect on the market value or marketability of the subject property. Lenders who utilize the Agency's automated underwriting system, GUS, will upload the appraisal report at the *Application Documents* page, by selecting *10002 Appraisal Report* and uploading as an individual document. An appraisal report with interior and exterior inspection of the subject property must include at least the following:

• A front view of the subject property;

• A rear view of the subject property;

• A street scene identifying the location of the subject property and showing neighboring improvements;

• The kitchen, main living area, bathrooms, bedrooms;

• Any other rooms representing overall condition, recent updates, such as restoration, remodeling and renovation;

• Basement, attic and crawl space;

• Comparable sales, listings, and/or pending sales utilized in the valuation analysis must include at least a front view of each comparable utilized; and

• Condominium projects should include additional photographs of the common areas and shared amenities.

**Appraisal transfer.** An appraisal ordered by another lender for the applicant can be transferred to the lender who will complete the purchase transaction. The initial lender must agree to the transfer of the report. A letter from the initial lender who ordered the appraisal report must be retained in the permanent loan file as evidence the lender transferred the report to the lender completing the purchase transaction. The receiving lender must assume full responsibility for the integrity, accuracy and thoroughness of the
appraisal report, including the methods that the original lender used to acquire the appraisal. The appraisal report must be no older than 150 days at loan closing to be valid.

**Appraisal update.** The validity period of an appraisal report can be extended only one time with an Appraisal Update Report. The appraisal may be expired at the time the appraisal update is requested. However, when the original appraisal is subsequently updated, the appraisal is valid for no greater than 240 days from the effective date of the original appraisal report at loan closing. The purpose of an appraisal update request is to determine if the property has declined in value since the effective date of the original appraisal. An update is not eligible to support a higher appraised value of the property.

USPAP considers the term “Appraisal Update” as a business term, but regardless of the nomenclature used, when a client seeks a more current value or analysis of a property that was the subject of a prior assignment, this is not an extension of that prior assignment that was already completed; it is simply a new assignment. Refer to USPAP Advisory Opinion 3 for additional clarification available at www.appraisalfoundation.org.

USPAP (Advisory Opinion 3) states that there are three ways that the reporting requirements can be satisfied for this type of assignment:

1. Provide a new report without incorporation of the prior report.
2. Provide a new report that incorporates by attachment specified information/analysis from the prior report.
3. Provide a new report that incorporates by reference specified information/analysis from the prior report.

The appraiser may use a pre-printed form or a narrative report to provide the appraisal update, but whichever reporting format is used, it must be in compliance with USPAP.

*Fannie Mae Form 1004D/Freddie Mac Form 442, “Appraisal Update and/or Completion Report”* may be utilized by the lender to report the completion of a repair and/or satisfaction of requirements and conditions noted in the original appraisal report.

**Property flipping.** It remains the lenders responsibility to ensure any recently sold property’s value is strongly supported when a significant increase between sales occur. The lender must perform a thorough review of the appraisal report to validate and support the property’s value and protect the applicants from possible predatory real estate lending.
C. Agency Review.

The Agency will review appraisals for all guarantee loan requests by completing Form RD 1922-15, "Administrative Appraisal Review." If the Agency reviewer detects concerns, the appraisal will be referred to a Regional Agency Appraiser for a technical desk or technical field review. Should the Agency licensed appraisers determine the appraisal is not adequate the lender will be informed of corrections needed prior to issuance of the conditional commitment for loan guarantee. The lender will be required to correct or complete any appraisal returned by the Agency for corrective action. The lender is responsible to communicate and initiate corrective action with the appraiser. The corrected appraisal will be subject to the same review process described in this section. The Agency retains the right to determine an appraiser is ineligible based upon their failure to comply with requirements of this section. The Agency will notify the lender when appraisals completed by ineligible appraisers will no longer be accepted for the SFHGLP.

D. Director of the Origination and Processing Division Responsibilities.

The Director OPD will designate or delegate authority to the supervisory staff of the unit or other qualified personnel to conduct administrative appraisal reviews. Technical appraisal reviews must be completed by an Agency certified or licensed appraiser and need only be licensed or certified in one State or territory to perform real estate appraisal duties as Federal employees in all states and territories. Review appraisers must have recent, documented appraisal experience or other factors which clearly establish their qualifications as a reviewer.

The Director OPD will determine and establish the training needs for Rural Development staff completing appraisal reviews. The Director OPD will also assure that an adequate amount of reviews are being completed.

E. Types of Agency Reviews.

There are three types of reviews for appraisals; "Administrative," "Technical Desk" and "Technical Field." An administrative review will be completed for all transactions involving the submittal of an appraisal report. A sufficient number of technical desk and technical field reviews will be completed to ensure the Agency is getting quality appraisals for the Guaranteed Loan Program. An explanation of the review types are as follows:
1. Administrative Reviews

Administrative reviews are performed by the Agency loan approval official or qualified designee on all appraisals prior to issuance of the Conditional Commitment. This review determines if there are inconsistencies in the appraisal report that may have to be addressed, or if a technical review should be completed by the Agency staff appraiser prior to issuance of the Loan Note Guarantee. Indicators that a technical review may be required will be documented on Form RD 1922-15.

- Administrative reviews are completed by the Agency on Form RD 1922-15. This form will be signed, dated, and retained in the Agency file for scanning. This review should be completed prior to issuance of the Conditional Commitment;

- If there is a deficiency with an appraisal, the loan approval official should communicate the deficiency to the lender. These deficiencies should include items that affect loan security, value conclusions, or unacceptable property conditions.

2. Technical Desk Reviews

A technical review is performed to determine whether the appraisal was complete, was clearly reasoned, and had adequate support for the conclusion of value. Technical reviews are performed by the Agency Appraiser. Technical reviews completed by Agency appraisers must follow current USPAP.

- Technical desk reviews may be documented in any format that complies with USPAP and is acceptable for use by RD. Technical reviews should be selected in a random method. The percent of files randomly selected will be set by the direction of the SFHGLD. Field offices will be advised of these schedules and any changes.

The Director OPD or designated supervisory staff will coordinate with Program Support Staff (PSS) in National Headquarters to establish internal management controls and systems to document and substantiate residential appraisal compliance activities, which will be evaluated during State Internal Reviews, Single Family Housing program reviews, or Management Control Reviews. Technical desk review of appraisals received by the agency provide a method of internal control by the appraisal review staff and ensure that appraisals received by the agency are in compliance with USPAP and Agency regulations. The Director OPD or designated supervisory staff will support completion of technical desk reviews in coordination with PSS to achieve the appraisal quality control requirements of the agency.
A technical review may also be requested by OPD staff when problems are detected on the administrative review that cannot or will not be addressed by the submitting lender or original appraiser. These problems must be significant and result in an appraisal which does not support the value conclusion. OPD staff will document the nature of their concerns on Form RD 1922-15. The appraisal will then be forwarded to the Appraisal Services Branch for a technical and/or field review prior to approval of the loan.

3. **Technical Field Reviews**

Field reviews will involve on-site visits to the subject property and the comparable properties used in the report. Field reviews are completed by Agency Appraisal staff on a random, spot-check basis to determine if the appraiser has followed accepted appraisal techniques and arrived at a logical conclusion.

- USPAP Standard 3 Review is used for technical field reviews. The reviewer may use any reporting format that complies with USPAP and is acceptable for use by RD. The Director OPD or designated supervisory staff and the appraisal review staff are responsible for the administration of residential appraisal compliance and training within the geographic jurisdiction of the State Office. Appropriate actions will be initiated by the Director OPD or designated supervisory staff and appraisal review staff to ensure compliance with USPAP and National Office policies governing the residential appraisal process.

F. **Appraisals in Remote Rural Areas, on Tribal Lands, or in Areas Lacking Market Activity.**

In remote, rural areas, on Tribal lands, or areas with a lack of market activity, as identified by the Director OPD, it may be difficult to obtain adequate comparable sales to appraise a property. When the sales comparison approach cannot be developed for a credible opinion or conclusions regarding value, the lender’s appraiser may use other methods in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP) and perform an appraisal without completing the sales comparison approach to value. Appraisers must explain the exclusion of the sales comparison approach to value and document their efforts to obtain comparable market data along with an explanation for any sales data not used. The primary method that the appraiser is relying on should be summarized to the extent that the user or a review appraiser can understand the reasoning and support of the valuation and conclusions.
Remote rural areas are identified by the Director OPD and are defined as areas with all the following characteristics:

- Scattered population;
- Low density of residences;
- Lack of basic shopping facilities;
- Lack of community and public services and facilities; and
- Lack of comparable sales data.

If the appraiser is using the cost approach, external depreciation based on the remoteness of the site must not be considered; however, factors that impact the site such as immediate proximity to a feedlot, factory, or other similar considerations should be included. If the appraiser is using the income approach, they must explain why the income and expenses used are comparable to the subject property. When a market is established in these areas, the Agency will again require the sales comparison approach to be used.

12.6 WATER AND WASTEWATER DISPOSAL SYSTEMS [7 CFR 3555.201]

The site must have acceptable water and wastewater disposal systems to ensure the property is decent, safe, sanitary, and meets community standards. Public water and wastewater disposal systems are presumed to meet state and local requirements with no additional documentation or inspections. Private well and wastewater systems that meet the requirements in HUD Handbook 4000.1 or meet the requirements of local and/or state health authority do not require additional inspections other than water purity tests as discussed in this section. Evidence will be retained in the lender’s permanent loan file.

A. Water

Water systems, for existing or new construction, that require continuous or repetitive treatment to be safe bacterially or chemically may be used if the individual water system, with purification, meets the requirements of the state department of health or other comparable reviewing and regulatory authority.
1. **Individual Privately Owned**

- Individual water systems are owned and maintained by the homeowner and subject to compliance with all requirements of the local and/or State Health Authority codes. Water quality tests are required as follows:
  
  o The water quality of the well must meet the requirements of the state or local authority. If the state or local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply.

  o The local health authority or a state certified laboratory must perform a water quality analysis. The Safe Water Drinking Act does not apply to private wells. Contact the Environmental Protection Agency (EPA) at (800) 426-4791 for referral to certified labs and other inquiries.

  o The water analysis report must be no greater than 150 days old at loan closing. If the Agency is aware of any recent environmental impacts that may render the previous analysis invalid (for example – chemical spills, natural disasters, etc.) a new report may be required.

- The well location for individual water supply systems must be measured to establish the distance from the septic system. The separation distance between the well and septic systems must meet the SF Handbook (HUD Handbook 4000.1) or be found acceptable by the Local and/or State Health Authority.

- Individual water systems/wells should be located on the subject property site. If located on an adjacent property, evidence of water rights and recorded maintenance agreement must be retained in the lender’s permanent loan file as acceptance of the well as the primary source of water.

2. **Individual Privately Owned Shared**

   If the property is served by a shared well or off-site facility, the lender must ensure the private system will provide a continuous and adequate supply of safe and potable water. The following requirements must also be met:

- The well serves properties that cannot feasibly be connected to an acceptable public or community water supply system. It is the lender’s responsibility to make this determination.
• A shared well must have a valve on each dwelling.

• The water supply is adequate for all families served. A shared well must service no more than four living units or properties unless approved and enforced by the local code authority.

• The water quality of the well must meet the requirements of the state or local authority. If the state or local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply.

• The well must have an agreement that meets the following requirements:
  o Is binding upon all signatory parties and their successors in title;
  o Is recorded or will be recorded no later than the closing date; and
  o Makes provisions for maintenance and repair of the system and the sharing of costs to do so. These provisions must include a permanent easement that allows access for maintenance and repair.

3. **Community Owned**

   If the property is served by a community water system operated by a private corporation or nonprofit property owner’s association, the lender must ensure the following conditions are met:

   • The system and the water supply meet all applicable federal, state and local requirements.

   • The system has the capacity to provide a sufficient water supply during periods of peak demand.

   • The system is operated under a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service.

4. **Required Inspections and Documentation**

   The lender must obtain documentation the water quality meets state and local standards as discussed in this section. Lenders will retain all documentation in their
permanent loan file. Inspection and documentation requirements are discussed later in this chapter.

5. Individual Water Systems in Hawaii and the Western Pacific Region

Due to the limited regulation provided by local ordinances and/or regulations of each jurisdiction in Hawaii and the Western Pacific Region regarding individual water systems (IWS) including rain water catchment systems, the Agency has determined that an IWS is considered an eligible water system if the following conditions are met:

- The property is located in Hawaii or the Western Pacific Region.
- Property does not have an available affordable connection to a public or private community water system.
- The alternative water supply system, rain water catchment system, complies with and/or is not prohibited by ordinances and/or regulations of the local jurisdiction in which the property is located.
- Water quality tests are not required if the state or local authority does not have specific requirements and EPA testing is not available.
- Reliance upon the rainwater catchment system, does not diminish the marketability or value of the property within its marketplace. The system must be typical for the area as described by the appraiser.
- The applicant is required to acknowledge and certify of their responsibility to maintain the rain catchment system.

B. Wastewater

1. Individual Privately Owned

The lender is required to obtain a septic evaluation. A qualified appraiser who certifies the property meets required HUD’s Single-Family Housing Policy Handbook, a government health authority, a licensed septic system professional, or a qualified home inspector may perform the septic evaluation. The septic evaluation may require additional inspections as a result of the inspection. The septic system must be free of observable evidence of failure.
Existing dwellings appraised by a qualified appraiser, who indicates the dwelling meets the required HUD handbook policy does not require further septic certification; however, water supply systems must be measured to establish the distance from the septic system. The separation distance between the well and septic systems must meet the SF Handbook (HUD Handbook 4000.1) or be found acceptable by the local and/or State Health Authority.

If the property is served by an individual sewage disposal system, the lender must ensure the system:

- Meets any applicable requirements of the state or local health authority with jurisdiction;
- Is located entirely on the subject property. If any part of the system is located on an adjacent property (for example leach lines), evidence such as a perpetual encroachment easement must be recorded to establish the rights of the property owner’s permitted use; and
- Is operating properly and has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health.

2. **Community Owned**

If the property is served by a community wastewater system operated by a private corporation or nonprofit property owner’s association, the lender must ensure that the system:

- Meets any applicable requirements of the state or local health authority with jurisdiction;
- Is licensed, operating properly and has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health; and
- Is subject to a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service.

3. **Required Inspections and Documentation**

The lender must obtain documentation the wastewater system meets state and/or local standards. Lenders will retain all documentation in their permanent loan file. Inspection and documentation requirements are discussed later in this chapter.
12.7 STREET ACCESS AND ROAD MAINTENANCE [7 CFR 3555.201]

A. Access

The site must be contiguous to, and have direct access from, a public or private street, road, or driveway. Private roads or streets are acceptable provided each property has vehicular or pedestrian access. Private roads or streets must be protected by permanent recorded easement (non-exclusive and non-revocable easement without trespass from the property to a public street) or the street must be maintained by a homeowner’s association (HOA). Shared driveways must also meet these requirements requiring a permanent recorded easement for ingress and egress. This agreement must be binding to successors and title. A copy of a title report, retained in the lender’s mortgage file, may be used to evidence the easement. Private streets must have a permanently recorded easement or be owned and maintained by a HOA. All evidence of recorded easements or maintenance agreements must be reviewed and approved by the approved lender’s underwriter and documented in the lender’s permanent loan file.

B. Maintenance

Streets and roads must be hard surfaced or all-weather surfaced. An all-weather surface is a road surface over which emergency and the area’s typical passenger vehicles can pass at all times. A publicly maintained road is automatically assumed to meet this requirement. If a HOA is responsible for maintaining streets and roads, it must meet the criteria set forth by Fannie Mae, Freddie Mac, the U.S. Department of Housing and Urban Development (HUD), or U.S. Department of Veterans Affairs (VA).

SECTION 3: DWELLING REQUIREMENTS [7 CFR 3555.202]

12.8 MODEST HOUSING

There are no maximum mortgage limits for property financed under the SFHGLP. Modest housing is defined as a new or existing dwelling that a low- or moderate-income borrower can afford based on their repayment ability. The property must not be primarily designed for income producing activity.

12.9 EXISTING AND NEW DWELLINGS

A. Existing Dwellings [7 CFR 3555.202(b)]

The objective of the SFHGLP is to assist eligible rural households in obtaining an
adequate, safe, and sanitary single-family home. Information regarding financing existing manufactured and modular homes may be found in Chapter 13 of this Handbook.

An existing dwelling may be attached, detached or semi-detached dwellings and must be inspected to determine the dwelling meets the current minimum property requirements of the Single Family Housing Policy Handbook (SF Handbook; HUD Handbook 4000.1, also known as HUD Handbook) or as superseded by HUD. An existing dwelling has defined as been completed for more than 12 months or has been completed less than 12 months but has been previously occupied.

Qualified appraisers are licensed or certified and can attest the property meets HUD Handbook standards. It remains the lender’s responsibility to determine if the appraiser is thoroughly familiar with the HUD Handbook. The appraiser may certify the requirements of the HUD Handbook, have been met on page three of the appraisal form in the “comment” section or in an addendum to the appraisal.

Appraisers who are unfamiliar with the HUD Handbook standards should not certify that a property meets those standards and doing so constitutes a misrepresentation. If the qualified appraiser is unfamiliar with the HUD Handbook standards, the lender should obtain a home inspection report provided by a home inspector deemed qualified by the lender. Regardless of whether the appraisal is performed by a qualified appraiser or not, the appraiser must report all readily observable property deficiencies as well as any adverse conditions discovered performing the research involved in completing the appraisal.

Required repairs under the noted handbooks are limited to those repairs necessary to preserve the continued marketability of the property and to protect the health and safety of the occupants. A property which a qualified appraiser indicates is in average or good condition may be considered in good repair, though repairs may still be required by the lender. Consider the following guidelines:

- Applicants are encouraged to obtain a detailed home inspection of the property independent of the inspection noted above.

- All repair items required by the appraiser or underwriter must be inspected and the clearance documented and retained in the lender’s permanent loan file. As stated in the HUD Handbook, the responsibility for enforcing code rests with the local municipalities.

- Termite/pest inspections are not required unless the lender, appraiser, inspector or State law requires the inspection to confirm the property is free of active infestation.
• An inspection to confirm thermal standards is not required for existing dwellings.

• The Agency may approve dwellings with in-ground swimming pools.

Lenders are responsible to determine if any repairs will be required to meet HUD Handbook standards. Lenders are reminded they are responsible for the acts of their agents, including appraisers When lending to low- and moderate-income borrowers under the SFHGLP, lenders are expected to use professional judgment and rely upon prudent underwriting practices in determining when a property condition requires additional inspections or repairs.

Conditions that would warrant additional repairs include those that pose a threat to the safety of the occupants, jeopardize the soundness and structural integrity of the property, or adversely affect the likelihood of a low- or moderate-income borrower from becoming a successful homeowner.

HUD Handbooks and forms can be downloaded over the internet at https://allregs.com/login/login.aspx or obtained by calling 1-800-848-4904.

B. New Dwellings [7 CFR 3555.202(a)]

New dwellings must be designed and constructed in accordance with certified plans and specifications. Certifications may be accepted from individuals or organizations trained and experienced in the compliance, interpretation, or enforcement of the applicable development standards for drawings and specifications. Information regarding financing new manufactured and modular homes may be found in Chapter 13 of this Handbook.

New Construction Certified Plans and Specifications

The lender’s file must contain evidence the plans and specifications comply with all development standards* applicable to the new construction. Acceptable evidence includes:

1. Copy of the certification from a qualified individual or organization that the reviewed documents comply with applicable development standards. Form RD 1924-25 is an acceptable format but may not be required by the Agency for guaranteed loans.

-OR-
2. Certificate of Occupancy issued by a local jurisdiction.

-OR-

3. Building Permit (or equivalent) issued by local jurisdiction.

The lender may accept certifications from individuals or organizations trained and experienced in the compliance, interpretation or enforcement of the applicable development standards* for drawings and specifications. Plan certifiers may be any of the following:

1. Licensed architects;
2. Professional engineers;
3. Plan reviewers certified by a national model code organization;
4. Local building officials authorized to review and approve building plans and specifications; or
5. National codes organizations.

* Applicable development standards. The current International Code Council (ICC) standards or current state adopted ICC code(s) for residential construction.

Evidence of construction inspections.

The lender’s file must contain copies of the documents described in one of the following three options:

1. Certificate of Occupancy issued by a local jurisdiction that performs at least 3 construction phase inspections, including inspections noted in option 2 below and a 1-year builder warranty plan acceptable to Rural Development.

-OR-

2. Three construction inspections performed when:
   - Footings and foundation are ready to be poured and prior to back-filling;
   - Shell is complete, but plumbing, electrical and mechanical work is still exposed (this is not applicable to new manufactured homes);
   - Final inspection of completed work prior to occupancy;
   - A 1-year builder warranty plan acceptable to Rural Development. Builders may utilize their own warranty form, HUD-92544 or Form RD 1924-19. Applicants who build their own homes cannot provide a self-warranty.
   - New manufactured home construction only requires footing and final inspections.
-OR-

3. Final inspection and a 10-year insured builder warranty.

**Evidence of thermal standards for new construction.**

The lender’s file must contain evidence thermal standards meet or exceed the International Energy Conservation Code (IECC) in effect at the time of construction. Evidence of thermal standards are typically included in the plans and specs to which the dwelling is built. The final inspection or Certificate of Occupancy issued by a local jurisdiction meets this requirement. Otherwise, documentation of conformance may be by one of the following options:

1. The builder may certify confirmation with the IECC standards.

2. A qualified, registered architect or a qualified, registered engineer may certify confirmation with IECC standards.

In general, the lender has primary responsibility for all loan origination activities. The Agency has primary responsibility to review lenders’ actions and monitor participants’ compliance with program requirements. The Agency will not require the lender to routinely submit documentation maintained in the lender’s file regarding new construction that is not required to be submitted under program guidelines, such as:

- Copies of plans, drawings, and specifications;

- Certifications regarding the plans, drawings, and specifications (although lenders may voluntarily elect to use *Form RD 1924-25*, this form is not a required form for the SFHGLP. The certification may be on the plans and drawings, a separate form, or on any document that conveys the necessary information);

- Building permits;

- Copies of new construction inspections;

- Occupancy certificates; and

- Copies of construction warranties.
The Agency has the option to request any of these documents in appropriate situations such as:

- The Agency is performing a processing review of a newly approved lender;
- The Agency is performing a periodic review of the lender’s compliance with program regulations;
- The Agency believes the lender is not fulfilling the obligations of the Lender Agreement and/or program guidelines; or
- The Agency is reviewing a loss claim.

New home purchase transactions that cannot meet the minimum required plan certification, inspections and warranty document requirements outlined in this paragraph are limited to a 90 percent loan to value (LTV). The lender may loan the one-time upfront guarantee fee in addition to the limiting 90 percent LTV.

C. Repair Escrows for Existing and New Dwellings, Post Issuance of the Loan Note Guarantee [7 CFR 3555.202(c)]

Repair escrows, post issuance of the Loan Note Guarantee, are acceptable provided the home is habitable, as determined by the lender. All items of new construction or repairs must be 100 percent (100%) complete in accordance with plans and specifications except for minor items not affecting the livability of the structure or that cannot be completed due to weather conditions. This section does not apply to the Single Close Combination Construction to Permanent Loans or Rehabilitation or Repair Loans. The lender assumes responsibility for completion of repairs in accordance with the conditions set forth in this Section for any repair escrow established.

Repair items will be required to be completed within 180 days of loan closing. This period may be extended, at the discretion of the Agency, for homes that need exterior repairs but are in an area experiencing inclement weather conditions. The maximum exterior repair escrow period when an extension is granted is limited to 240 days. Extensions may be granted beyond 180 days for exterior escrows only.

The Agency may issue a Loan Note Guarantee prior to the completion of interior or exterior repairs provided all the following conditions are met:

- The incomplete work does not affect the livability of the dwelling, nor the health or safety of the occupants;
A signed contract between the borrower and the contractor is in effect for the proposed work;

The funds to be escrowed are not less than 100 percent of the repair cost contract. The loan underwriter may determine the escrow amount, which could exceed the repair cost;

The Closing Disclosure 1 reflects the holdback;

The development will be complete within 180 days of closing, unless an extension is granted by the Agency for inclement weather conditions; and

The escrow account is established in a federally supervised financial institution.

An inspection report certifying the defect/repair has been properly repaired. Certification of completion is required to verify the work was completed and must:

- Be completed by the appraiser;
- State that the improvements were completed in accordance with the requirements and conditions in the original appraisal report;
- Be accompanied by photographs of the completed improvements; and
- The individual performing the final inspection of the property must sign the completion report.

The lender is responsible for monitoring the completion of the work and the release of funds to pay for the work. All documentation supporting the development and confirmation of the completion will be retained in the lender’s permanent mortgage file and is subject to the certification of Form RD 3555-18/18E. Any funds remaining in the escrow account upon completion of the work, that are representative of loan funds or a seller concession as part of the sales contract, will be used to reduce the unpaid principal balance of the mortgage. Personal funds of the applicant utilized to fund the repair escrow (excluding loan funds or a seller concession) may be returned to the applicant. A seller’s personal funds utilized to fund the repair escrow (excluding a seller concession as part of the sales contract) may be returned to the seller.
Escrow completion for interior or exterior repairs on an existing dwelling – without the assistance of a contractor

When a borrower will complete the planned interior or exterior development on an existing dwelling without the services of a contractor, the requirement for an executed contract noted in this section is waived when these three conditions are met:

- The estimated cost to complete the work is not greater than 10 percent of the total loan amount; and
- The escrow amount is less than or equal to $10,000; and
- The lender has determined the borrower has the knowledge, skills and time necessary to complete the work within the maximum 180-day limit.

All remaining requirements as noted at Paragraph 12.9 C are applicable. The lender is responsible for monitoring the completion of the work and the release of funds for payment of the work. All documentation supporting the planned development and completion will be retained in the lender’s permanent mortgage file and is subject to the certification of Form RD 3555-18/18E. Funds remaining in the escrow account upon completion of the work, that are representative of loan funds or a seller concession, as part of the sales contract, will be used to reduce the unpaid principal balance of the mortgage. Personal funds of the applicant utilized to fund the repair escrow (excluding loan funds or a seller concession) may be returned to the applicant. A seller’s personal funds utilized to fund the repair escrow (excluding a seller concession as part of the sales contract) may be returned to the seller.

SECTION 4: ENVIRONMENTAL REQUIREMENTS [7 CFR 3555.5]

12.10 HAZARD IDENTIFICATION

A. Due Diligence

Lenders are required to utilize due diligence with regard to potential environmental hazards to ensure the property is, safe, sanitary, and has sufficient value to adequately secure the loan. The property must be free of known hazards that may have adverse effects on the health and safety of the occupants. The structural soundness of the dwelling must ensure customary use and enjoyment of the property by the occupants. While the Agency does not specify how the lender’s due diligence must be conducted, the level of review must be equivalent to the standards established by Fannie Mae, Freddie Mac, the Federal Housing Authority (FHA), or the United States Veterans Administration (VA).
Appraisers play an important role in identifying potential environmental hazards by notifying the lender of concerns identified during their visit to the property. The appraiser is required to note readily observable conditions. If the lender knows or is informed by another party of a potential hazard, the information must be disclosed to the appraiser. Lenders must follow up on all potential environmental hazards identified by an appraiser to determine the nature and scope of the problem, and the impact the problem is likely to have on the property’s value. If potential environmental hazards are noted, the lender must carefully document the suspected problem and the findings of its investigation.

If the lender’s investigation reveals an environmental hazard does exist, the lender must ensure the hazard is mitigated before requesting the loan guarantee.

B. Flood Hazards

The lender must complete, or arrange for a contractor to complete, *FEMA Form 086-0-32, “Standard Flood Hazard Determination Form (SFHDF)”* to determine whether the dwelling is located in a Special Flood Hazard Area (SFHA) in accordance with the National Flood Insurance Reform Act of 1994.

Existing dwellings located in flood zones are eligible under the SFHGLP if flood insurance, through FEMA’s National Flood Insurance Program (NFIP), is available for the community and flood insurance whether NFIP, “write your own,” or private flood insurance, as approved by the lender, is purchased by the borrower. Lenders are required to accept private flood insurance policies that meet the requirements of 42 USC 4012a (b) (1)(A). Insurance must be obtained as a condition of closing and maintained for the life of the loan for existing residential structures when any portion of the structure is determined to be located in a SFHA, including decks and carports, etc. However, according to the Homeowner Flood Insurance Affordability Act (HFIAA) of 2014, flood insurance is not required for any additional structures that are located on the property but are detached from the primary residential structure and do not serve as a residence, such as sheds, garages, or other ancillary structures. Existing dwellings financed through the SFHGLP are not subject to the requirement within RD Instruction 1970, Subpart F, which requires a search for practicable off-site alternatives to purchasing an existing dwelling within the SFHA.

New or proposed construction in an SFHA is ineligible for a loan guarantee unless:

- A final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) removes the property for the SFHA is obtained from FEMA; or

- The lender obtains a FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 086-0-33). The flood elevation certificate must document that the lowest floor (including the basement) of the residential
building, and all related improvements/equipment essential to the value of the property, are built at or above the 100-year flood elevation in compliance with National Flood Insurance Program (NFIP) criteria. The flood elevation certificate must be prepared by a licensed engineer or surveyor;

- Documentation is included in the file in accordance with RD Instruction 1970 Subpart F, that there is a demonstrated need for the SFHGLP and there are no practicable alternatives to new construction within the SFHA that are acceptable to the applicant(s). Examples include but are not limited to the following: the entire community is located within the SFHA, there are no comparable homes to the proposed new dwelling, the existing housing stock is unacceptable to the applicant, etc.

**Note:** Part of the site may be located in the SFHA without triggering these requirements, as long as no part of the dwelling is located in the SFHA. At the lender’s discretion they may require flood insurance even if the residential building and related improvements to the property are not located within the SFHA, but the lender has reason to believe that the building and related improvements to the property may be vulnerable to damage from flooding.

Flood insurance must cover the lesser of the outstanding principal balance of the loan or the maximum amount of coverage allowed under FEMA’s National Flood Insurance Program (NFIP). Unless a higher amount is allowed by state or federal law (which includes FEMA policies), the maximum deductible clause for a flood insurance policy should not exceed the greater of $1,000, or one percent of the face amount of the policy, or the minimum deductible offered by the borrower’s chosen insurance carrier. Existing dwellings for the SFHGLP are eligible if flood insurance is available.

Existing dwellings and newly constructed dwellings located within the SFHA which are not served by public sewer systems and have on-site septic or sewage treatment systems must have a drinking water supply which is protected from cross contamination from the onsite septic/sewage treatment during flooding. A property serviced by an on-site septic or sewage treatment system is eligible under this Section, provided one of the following can be met:

- The property is served by a publicly provided water supply.

- The property is serviced by a private drinking water well-supply with a fitted sanitary well cap which prevents backflow floodwater from entering the drinking supply well.

- The property is served by a private drinking water well-supply whose opening is located above the base flood elevation of the SFHA. Additional documentation,
such as an elevation certificate, will be required to verify this type of property.

Flood insurance is not required for properties located in unmapped communities. Since these are often newly developed areas where the potential for flooding is unknown, lenders have the discretion to require flood coverage as a condition of the loan.

SECTION 5: CONDOMINIUMS [7 CFR 3555.205]

12.11 CONDOMINIUMS AND PLANNED UNIT DEVELOPMENTS

A. Condominiums

Condominium projects typically consist of multi-unit buildings governed by an HOA. Each unit is individually owned, and the common areas such as hallways and recreational facilities are owned by all the unit owners.

Although less common, it is possible for condominium projects to consist of detached or attached single family dwellings. In these cases, it is the HOA and not the individual unit owner who is responsible for maintaining the exterior of the dwellings in addition to the common areas.

HOA dues for dwellings in a condominium project must be included in total debt-to-income. Units in a condominium project are eligible for a guarantee if the condominium has been approved or accepted by HUD/FHA, VA, Fannie Mae or Freddie Mac. Lenders who meet the conditional authority and who have staff with knowledge and expertise in reviewing and approving condominium projects in accordance with HUD/FHA, VA, Fannie Mae or Freddie Mac, as applicable, may determine the acceptability of the condominium project. Lender representation and certification of project approval may be accepted as long as the lender meets the self-certification criteria set forth by HUD/FHA, VA, Fannie Mae or Freddie Mac and is done so consistently with standards and regulations set forth by each entity. By submitting the request for Conditional Commitment for Loan Note Guarantee, the lender represents the condominium project meets the requirements set forth by HUD/FHA, VA, Fannie Mae or Freddie Mac. Lenders must retain evidence they have reviewed condominium documentation that supports the project’s approval or acceptance by HUD/FHA, VA, Fannie Mae, or Freddie Mac and that the documentation remains available in the lender file for verification purposes. When requested, the lender must provide such documentation to Agency staff for verification of compliance with HUD/FHA, VA, Fannie Mae, or Freddie Mac regulations.
Applicants remain responsible to obtain individual homeowners’ insurance or flood insurance as applicable. The lender is responsible for ensuring that the HOA obtains and maintains adequate flood and hazard insurance for buildings in a condominium project located within a SFHA. A Condominium Rider must supplement the Mortgage or Deed of Trust.

1. Ineligible Condominiums

Certain types of condominium projects are not eligible under HUD, Fannie Mae, Freddie Mac, or VA guidelines. They are:

- Condominium hotels;
- Timeshares;
- Houseboat projects;
- Multi-dwelling unit condominiums that permit an owner to hold title to more than one dwelling by a single deed and mortgage;
- Any project for which the owner’s association is named a party to current litigation or for a project that has not been turned over to the association for which the project sponsor or developer is named a party to current litigation;
- Condominiums that represent a legal, but non-conforming use of the land, if zoning regulations prohibit rebuilding the improvements to current density in the event of their full or partial destruction;
- Investment Securities – A project in which ownership is characterized or promoted as an investment opportunity; and/or projects that have documents in file with the Securities and Exchange Commission;
- Common interest apartments or community apartment projects – Any project or building that is owned by several owners as tenants-in-common or by a HOA in which individuals have an undivided interest in a residential apartment building and land and have the right of exclusive occupancy of a specific apartment in the building;
- A project with non-incidental business operations owned or operated by the owners’ association such as, but not limited to, a restaurant, spa, health club, etc.
2. Site Condominium Eligibility

Project approval may not be required for site condominiums if they meet the following criteria:

- Single Family totally detached dwelling encumbered by a declaration of condominium covenant or condominium form of ownership;

- The unit has no shared garage or any other attached buildings (i.e. archways, breezeways); and

- The condominium unit consists of the entire structure, site and air space and is not considered to be common areas or limited common areas.

Appraisal data will be collected on Individual Condominium Unit Appraisal Report (FNMA Form 1073/FHLMC Form 465). A Condominium Rider must supplement the Mortgage or Deed of Trust. Insurance and maintenance costs will be the responsibility of the unit owner. Site condominiums that do not meet the criteria must follow Section 12.11.A above for condominium approval.

3. Underwriting with a Condominium Unit:

For all loans secured by a condominium unit, in a condominium project, the lender must perform an underwriting review of the condominium project to ensure the unit is approved or accepted by HUD/FHA, VA, Fannie Mae, or Freddie Mac. Participating lenders may certify to Rural Development that they have reviewed the condominium documentation that supports project approval or acceptance, and that the condominium is in compliance with HUD/FHA, VA, Fannie Mae, or Freddie Mac guidelines. The lender may indicate compliance by stating the project classification on the Uniform Underwriting and Transmittal Summary (FNMA Form 1008, FHLMC Form 1077). The lender may utilize Rural Development’s Attachment 12-B to this Chapter, “Rural Development Condominium Certification.” Use of the Condominium Certification Form is optional. Those lenders who utilize the Agency’s automated underwriting system, GUS and receive an “Accept” underwriting recommendation may be requested to present documentation confirming the condominium unit meets the eligibility criteria of this section.

Lenders may refer to HUD/FHA, VA, Fannie Mae or Freddie Mac for additional guidance in performing their underwriting review of the condominium project. Aside from the lender certification to Rural Development, all condominium documentation should remain in the lender’s permanent loan file and should be available upon request. Full documentation will be requested if the lender fails to certify the condominium unit meets the requirements of HUD/FHA, VA, Fannie Mae or Freddie Mac.
Mac project approval or acceptance.

When there is an indication that a condominium unit or project does not meet the requirements of HUD/FHA, VA, Fannie Mae or Freddie Mac, the Agency will request additional documentation from the lender. If the condominium unit or project does not meet the stated requirements as certified or warranted by the lender, the Agency may refuse to issue a conditional commitment or loan note guarantee.

B. Planned Unit Developments [7 CFR 3555.207]

A planned unit development (PUD) is a project or subdivision that includes common property that is owned and maintained by a homeowner’s association (HOA) for the benefit of use by the individual PUD unit owners. A PUD can consist of condominiums, townhomes or detached single family homes that are served by a HOA.

HOA dues for dwellings in a PUD must be included in total debt-to-income calculations.

The mortgage industry, including other Government housing programs like FHA, now recognize that PUD dwellings do not pose any more risk than single family dwellings not part of a PUD. Loans may be guaranteed for PUD single family dwellings the same as for single family dwellings not in a PUD.

SECTION 6: COMBINATION CONSTRUCTION TO PERMANENT LOANS [7 CFR 3555.105]

A combination construction to permanent loan, also known as a “single-close loan,” can be offered to eligible applicants by approved lenders with appropriate construction lending experience and adequate controls for interim construction cost disbursements. The criteria for this type of loan are described in the following sections below.

12.12 SINGLE-CLOSE FEATURES

A single-close loan combines the features of a construction loan, which is a short-term interim loan for financing the cost of construction, and the traditional long-term permanent residential mortgage. The approved lender makes the loan to an eligible applicant. There is a one-time closing prior to the start of construction. At closing, funds are disbursed to cover the cost of land and applicable closing costs, subject to the maximum loan to value. The lender will be responsible for managing the disbursement of the loan proceeds during construction to the builder/contractor from custodial account known as the "lenders construction holdback". Written approval from the borrower must be obtained prior to each draw payment. In GUS, the lender will select Purchase as the
loan purpose type on the Loan and Property Information page. On the Lender Loan Information page, the lender will identify the transaction detail as Construction-Conversion/Construction-to-Permanent and select the Single-Closing radio button.

If the borrower’s current principal residence is pending sale, but the transaction will not be complete prior to the commencement of the borrower’s new SFHGLP construction loan, the existing PITI payment and the proposed PITI payment must be used in qualifying the borrower for the new guaranteed mortgage loan. The lender may exclude the existing PITI payment under the following conditions:

- The new loan is a SFHGLP single close construction loan.
- The lender can document an executed sales contract for the current residence, and
- The lender can confirm that any financing contingencies have been cleared.

The permanent mortgage loan interest rate, which is used for underwriting, is established at closing.

The Loan Note Guarantee may be issued once the interim construction loan is closed without waiting for completion of the subject property. An optional checklist, Attachment 12-C of this Chapter, has been developed to assist lenders with their project review.

12.13 LENDER REQUIREMENTS

Approved lenders will be responsible for monitoring construction of the subject property, overseeing disbursement of mortgage proceeds, and obtaining documentation that confirms the construction of the subject property is complete. The lender must meet the following conditions to offer this loan feature:

- Lenders will ensure the utilization of a fixed price construction contract;
- Provide a fully executed Form RD 3555-16 lender agreement and self-certify that they have staff with two or more years’ experience making and administering construction loans or employ a construction loan management company with two or more years of experience as their agent. Lenders will ensure the builder’s experience is relevant to the type of loan. Repair and renovation experience will not substitute for experience making and administrating new construction loans;
- Conduct investigations and obtain documentation to confirm the eligibility of construction contractors/builders, and their construction loan management company if they contract one;
• Approve construction contractors, construction loan management companies, or builders upon submittal and review of evidence the contractor/builder meets requirements set forth in Paragraph 12.14 of this Chapter;

• Agree to retain evidence of contractor/builder/construction loan management company approval for future review by the Agency;

• For loans closed prior to commencement of construction:
  
  o Loans securitized individually may disburse proceeds for the cost of the land, or the balance owed on the land, and Agency allowed closing costs. Any balance of the mortgage proceeds, including the “custodial reserve account,” must be placed into a reserve account.

  o Lenders utilizing a warehouse line of credit will not be required to disburse all funds at closing nor required to reserve all funds prior to the commencement of construction.

• Approve and disburse mortgage proceeds in accordance with the construction loan agreement, with prior written approval by the borrower and confirmation of work completion prior to disbursement. The lender must maintain a draw and disbursement ledger for each single close loan.

The lender is representing they meet the criteria of this paragraph when requesting a commitment for loan note guarantee.

12.14 CONSTRUCTION CONTRACTOR-BUILDER REQUIREMENTS

A key to the success of the loan feature will be the financial stability and reputation of the builder constructing the home. The approved lender and their agent, if any, will be responsible for approving participating builders. Each builder seeking to participate will be subjected to a process that involves license verification, insurance validation, credit examination, reference verification and a criminal background check. Minimum credit examination will include obtaining a commercial credit report on the business. Owner-builders are ineligible for this loan feature. Lenders are required to document their determination for eligibility of the builder to participate in the Rural Development mortgage transaction as further described in Handbook Chapter 15.

Construction contractors or builders of homes financed with the single close loan must have:
• Two or more years of experience building and constructing all aspects of single-family dwellings similar to the type of project being proposed;

• Evidence of a state-issued construction or contractor license, as required by state law or local law;

• Evidence of commercial general liability insurance with a minimum coverage of $500,000;

• The builder/contractor must have an acceptable credit history being free of open judgments, collections or liens related to previous construction projects. The builder/contractor must not have a previous felony criminal record. A background check will be performed by the approved lender. This information may be obtained by such means as an individual credit report, business report, information published by the Securities and Exchange Commission (SEC), State Corporation Commission (SCC), LexisNexis, or Dun and Bradstreet; and

• Contractors or builders who are constructing their own residence are ineligible.

The lender is representing the builder meets the criteria of this paragraph when requesting a commitment for loan note guarantee.

12.15 ELIGIBLE LOAN COSTS

The loan will be used to finance the construction of a new single-family housing residence, which can include modular and manufactured home construction. Condominiums, including detached condominiums and site condominiums, are ineligible for this type of loan feature.

Any item included in the cost to construct the home must be commonly and customarily included in the cost to construct other homes in the area where the subject property is located. A contingency reserve to cover eligible expenses associated with unplanned problems with construction or change orders may be utilized. If used, the reserve is limited to 10% of the cost of construction (including labor, materials and soft costs). Reserve funds must be deposited into the construction reserve account. The cost to construct must not include items such as furniture, electronic and home entertainment equipment or other personal items.

Loan costs which may be included in the loan amount are subject to the maximum loan to value and will be reasonable and customary construction costs such as:
Land

- Acquisition cost of the land;
- Payoff the balance of land to be utilized in the construction of the dwelling.

Construction Hard Costs

- Costs inside the contract to be detailed on the construction budget agreed upon by the builder and borrower; and
- Costs outside of the contract, paid to subcontractors, for contributive work such as well and septic installation, roads/driveways, utility hookups, landscaping, etc.

Construction Soft Costs

- Appraisal fees
- Inspection fees
- Survey
- Permits
- Plan review fees
- Architecture or design fees
- Engineering fees
- Title updates
- Lender construction administration fees
- Contingency reserve
- Interest reserve including interim interest as accrued, during the construction period, on a warehouse line of credit up to 12 months
- Principal, interest, taxes, and insurance (PITI) payment reserve up to 12 months
- Project review fees
12.16 PLAN AND THERMAL CERTIFICATION

Certification of plans and confirmation of thermal requirements are required in accordance with Paragraph 12.9.B of this Chapter.

12.17 APPRAISALS

The fair market value, as determined by a licensed or certified appraiser in accordance with regulation 3555.107(d), of the proposed (to-be constructed) subject property will be utilized to establish the maximum loan amount. Land value is based on the value as reported in the Appraisal Report, with no seasoning requirement.

12.18 BUILDER WARRANTY

A builder’s warranty will be provided the borrower in accordance with Paragraph 12.9.B of this Chapter.

12.19 LOAN APPROVAL PROCESS

Issuance of a Conditional Commitment will be in accordance with Chapter 15 of this Handbook. The approved lender must submit the construction contract executed by the applicant and builder with each single-close request.

12.20 LOAN CLOSING

Standard industry closing documents are utilized when closing a single-close loan. The lender is responsible for ensuring all applicable security documents, including a valid and enforceable Note, are complete at loan closing. The lender is responsible for any state specific construction related requirements that may influence the validity of the first lien or the construction disbursement process. The date of closing will be the date the interim construction loan is closed. These construction documents may be in any form acceptable to the lender.

At closing, the term of the loan is for thirty years. During construction, interest on the construction loan is payable monthly either directly from the borrower or indirectly
drawn from an established reserve account. If the lender elects to not establish a reserve account and the borrower will pay these expenses directly, clear documentation that they possess the ability to do so must be demonstrated in the application package. The interest rate during the construction period must be a fixed rate. Adjustable interest rates during construction are not allowed.

- Warehouse line of credit lenders may opt for dual loan disclosures to the borrower disclosing the terms of the interim construction period and a separate disclosure for the terms of the permanent loan, or they may choose a single disclosure method that blends the terms of the construction portion and the permanent loan. Lenders may establish an interest only or PITI reserve account. If the lender elects not to collect a PITI reserve account to make the regularly scheduled PITI payment during the construction period, only interest payments on the advanced construction loan balance will be due and paid during the construction phase. Once construction has been completed, excess funds from the contingency reserve account, if any, will be applied as principal curtailment. The loan may be reamortized to achieve full repayment for the remainder of the loan term. When a loan is reamortized via a modification, the lender can also reduce the permanent interest rate. In such cases, the lender must provide an executed loan reamortization agreement (modification agreement) to confirm the existence of the permanent loan and the corresponding amortizing interest rate on the mortgage loan. Amortization must begin no later than the first of the month 60 days from the final inspection.

- Lenders who securitize the loan immediately after loan closing may elect to establish a reserve account for the borrower’s regularly scheduled PITI payment from the original loan closing. The established PITI reserve account will then be utilized to make the monthly loan payments on the amortized loan during the construction period. This alleviates the requirement for a loan modification or reamortization at the end of the construction period and allows the lender to securitize the loan prior to the completion of construction. Once construction has been completed, excess funds from the contingency reserve account, if any, will be applied as principal curtailment.

Annual guaranteed fees will begin to accrue upon loan closing and will be due and payable each year upon the anniversary of the initial loan closing.

At the completion of construction, the lender should obtain the appraiser’s final inspection, a certificate of occupancy, a final endorsement to the title policy clear of all liens and retain evidence in the lender’s permanent case file. The approved lender monitoring the construction of the subject dwelling should retain a certification stating the dwelling has been completed and ready for occupancy, construction phase inspections.
have been conducted and the required warranty coverage has been obtained. Attachment 12-D of this Chapter is an example of a lender certification.

The approved lender (i.e. the lender identified on the Loan Note Guarantee) will finalize the single-close transaction by completing the Single Close Construction/Rehab page in the Lender Loan Closing (LLC) system. Users must have security permissions to access the LLC. Upon logging into the system, the user will be routed to the Single Family Housing Lender Administration List page. The loan can be found by searching on USDA Borrower ID, Borrower SSN, Borrower Name/Property State or Lender Loan Number. Note: User will need to toggle the default selection for Request Type from Obligations to Loans in order to find the borrower/loan. Once the loan is found, user must select Single Close Construction/Rehab from the Action dropdown menu and then select the hyperlinked Borrower ID associated with the request. In the Construction/Rehab Completion Information section of the page, the user will choose from the following options for Completion Type: Principal Reduction Only, Principal Reduction with Loan Modification, or Construction Complete (No Principal Reduction or Loan Modification). The page will dynamically display fields necessary for completion based on the Completion Type selected.

Document upload is required to process the transaction when Completion Type is either Principal Reduction Only (requires evidence of the principal reduction) or Principal Reduction with Loan Modification (requires evidence of the principal reduction and a copy of the Loan Modification Agreement). Documents are to be uploaded via the Lender Upload Document(s) pushbutton located on the SFH Construction/Rehab page. When more than one type of document is to be uploaded, the user must upload each document separately using the Type of Document dropdown to uniquely identify each document being uploaded. Once the page has been completed, the user must select the Submit pushbutton at the bottom of the page to transmit the information to USDA.

12.21 AGE OF DOCUMENTS

Credit and verification documents must be dated within 120 days of the original closing date to be valid. If the documentation exceeds the condition time frame, the lender must obtain updated credit and/or appraisal documents and re-qualify the borrower before the loan note guarantee can be requested and/or issued.

12.22 ISSUANCE OF THE LOAN NOTE GUARANTEE

The loan guarantee may be issued by Rural Development prior to the construction of the home being complete. The loan guarantee will be for the full amount of the loan closed. The guarantee fee structure for a single-close loan will be equal to a purchase transaction. Prior to requesting the guarantee, the lender is responsible for ensuring that the loan is properly closed, closing conditions are met and the guarantee fee is collected.
Loan closing instructions in accordance with Chapter 16 and Electronic Status Reporting (ESR) in accordance with Chapter 17 of this Handbook are applicable.

12.23 CONSTRUCTION DRAWS

Draws and disbursements will be managed by the approved lender. The lender is required to maintain a draw and disbursement ledger for any loan guarantee request. The borrower and lender will be jointly responsible for approving disbursements to the builder during the construction phase. Total disbursements should not exceed the value of the realized material cost and the percentage of work in place with the exception of an initial disbursement to commence construction. When funds are disbursed, the lender is warranting to Rural Development the work was done as specified. The lender will maintain documentation in their file evidencing the work was completed for the draw which was disbursed. At a minimum, documentation should include evidence of a third-party inspection, signed conditional lien waiver from the contractor/builder, and a title insurance endorsement for each draw.

12.24 CHANGE ORDERS

Lenders will approve any change orders during construction. The borrower(s) will be responsible for any costs related to change orders that exceed available funds in the contingency reserve account, or for ineligible loan purposes that occur post loan closing. Proposed changes, during the course of construction, should not affect the scope of the project and/or affect the appraised value.

12.25 CASH BACK TO BORROWER

The borrower is not to receive funds after closing. Lenders must apply any excess funds from the construction proceeds to reduce the principal balance of the permanent loan. In the event funds remain after closing from unused prepaid expenses including, but not limited to per diem interest to the end of the month on the new loan, hazard insurance premium deposits, and/or real estate tax deposits needed to establish the escrow accounts, the borrower may receive cash back if the borrower paid these items from their personal funds and they do not represent loan funds. Funds that remain in the contingency reserve account, after the completion of construction, may be utilized for an eligible loan purpose or applied to the principal balance of the permanent loan.

12.26 MORTGAGE FILE DOCUMENTATION

The lender’s permanent mortgage file must contain the following information to support the single close transaction, in addition to documentation outlined in this Handbook:
Sufficient documentation to validate the actual cost to construct the subject home. (For example, purchase contracts with the builder, Construction Loan Agreement, plans and specifications, receipts, invoices, lien waivers, etc.);

All closing disclosures and closing documents executed by all parties to the transaction and evidencing all costs to the homebuyer and property seller at the time of loan closing;

A final title insurance policy endorsement ensuring the lender remains in a first lien position and that no junior liens exist against the property;

All canceled checks, paid receipts, draw requests, lien waivers, change orders, title endorsements, etc. for all property-related requirements for new construction;

The appraiser’s certificate of completion and a photograph of the completed property; and

All third-party inspections and warranties as defined in this Chapter.

12.27 UNPLANNED CHANGES DURING CONSTRUCTION

Should a life change occur with the borrower, such as loss of job or death occurs, the lender remains responsible to work with the builder to complete the home. The loan will be serviced in accordance with Chapters 18 through 20 of this Handbook, as applicable.

12.28 REHABILITATION AND REPAIR WITH PURCHASE OF EXISTING DWELLINGS

The rehabilitation and repair feature of the SFHGLP allows borrowers to finance the cost of repairs to improve an existing dwelling at the time of purchase. The maximum loan amount cannot exceed the cost of acquisition plus the cost of repairs up to the as-improved market value, plus the guarantee fee, if financed. The borrower obtains one loan at a fixed interest rate to finance both the acquisition and the rehabilitation of the property. The loan is guaranteed after the loan has closed, prior to the completion of the repairs which minimizes the risk to the lender. In GUS, the lender will select Purchase as the loan purpose type on the Loan and Property Information page. On the Lender Loan Information page, the lender will identify the transaction as Renovation, Construction-Conversion/Construction-to-Permanent and select the Single-Closing radio button. On the Additional Data page, “Purchase is” field equals Existing.
Unless otherwise specified, the rehabilitation and repair construction loan process should be closed and managed following the same procedures described in the single-close feature for new construction.

A. Type of Loans

1. *Non-Structural Repairs up to $35,000*

   This feature allows borrowers to finance up to $35,000 for repairs such as those identified by a home inspector or appraiser. There is no required minimum repair amount. The repairs must be non-structural, and the home must be considered habitable at the time of closing to be eligible for this feature. Since the dwelling is habitable, the loan is not eligible for reserve accounts for PITI payments during the construction period.

2. *Structural Repairs and Repairs Exceeding $35,000*

   This feature allows borrowers to finance structural repairs or improvements greater than $35,000 for extensive rehabilitation. If the dwelling is not habitable at the time of closing, reserves for principal, interest, taxes and insurance may be established to cover the mortgage payments for up to 6 months or until the home is determined to be habitable by a third-party inspector deemed qualified by the lender during the construction period.

B. Property Eligibility

New construction or incomplete constructions are not eligible. Evidence that the home has been completed for 12 months or older must be obtained. Evidence of completion such as a Certificate of Occupancy or documentation from local taxing entities is acceptable.

If the dwelling must be demolished as part of the rehabilitation, the complete existing foundation must still be in place and will be used. Properties where the foundation has been demolished or where only the footings remain, are not eligible. Evidence by a licensed engineer that the existing foundation is structurally sound and supports the proposed construction will be required.

1. *Prohibited Loan Purposes*

   - Installation of new inground swimming pools, hot tubs, or saunas;
• Repairs to new or existing manufactured homes;

• Repairs to condominiums;

• Converting structures to SFH dwellings (barns, schoolhouses, etc.);

• Alterations that allow income-producing features;

• Installation of luxury items (exterior fireplaces and kitchens, etc.); and

• Repairs or improvements to common space areas (community meeting rooms, playgrounds, etc.).

2. **Eligible Loan Costs**

Loan proceeds must be used for the acquisition of the land and dwelling plus the total amount for repairs that include but are not limited to:

• Removing safety and health hazards;

• Making the dwelling accessible to persons with disabilities;

• Repair or installation of septic system and water wells;

• Additions, structural alterations or reconstruction of an existing;

• Addition of a garage, attached or detached;

• Modernizations (kitchens and bathrooms, interior floor cover, exterior siding, etc.);

• Installation of energy conservation or weatherization features;

• Repairs to existing swimming pools, hot tubs, or saunas; and

• Repairs to accessory dwelling units.

Applicable soft costs as defined in Paragraph 12.15 are allowable in addition to:

• Contingency reserves; 10% when utilities are on, 15% when they are off for all transactions;
• Principal, Interest, Tax and Insurance payments for up to six months for reserves, when applicable; and

• Inspection/Consultant fees, if applicable.

C. Managing Construction

Originating lenders do not need to have construction experience if the servicing lender will administer the construction phase. Servicing lenders must meet the requirements outlined in Paragraph 12.13 of this Handbook. Builder/contractors must meet the requirement outlined in Paragraph 12.14. The borrower may not act as the general contractor. A pre-construction conference with all parties is strongly encouraged.

The lender may engage any inspector or consultant deemed qualified by the lender to evaluate the property, write up the necessary improvements, conduct periodic inspections, and to act as a liaison between the borrower, builder, and lender.

• **Inspector/Consultant fees**: For structural repairs and those exceeding $35,000, an inspector will perform a thorough inspection of the property and prepare a detailed write-up of the work to be repaired and include estimated costs for labor and materials and associated fees that are customary and typical for the area. This write-up will be used to obtain cost estimates from contractors. Inspectors or consultants are selected by the lender. An inspector or consultant is not required for non-structural repairs of $35,000 or less.

• **Cost Estimate**: The borrower must obtain a detailed and fixed cost estimate that fully describes the work being performed to include itemized costs for labor and material. The cost estimate must identify the borrower’s name, subject property address, contractor’s name, contact information and license number, where applicable. For work repairs $35,000 or less, the cost estimate must indicate that the repairs are non-structural.

• **Appraisals**: The appraisal report must support the “As Improved” market value of the property with the assumption that all repairs are completed. A copy of the original write-up, or the cost estimate including reserves will be provided to the appraiser.

• **Construction Period**: The Construction period should typically not exceed 6 months from the date of closing for all transactions. However, contract deadline extensions may be approved at the lender’s discretion.
• **Construction Contract:** The lender must ensure the utilization of a fixed price contract. The total amount in the construction contract must match the total cost breakdown of the bid proposal, must have a start and end date, must be signed by the contractor and borrower(s) and must be referenced and made part of the Security Instrument.

• **Additions:** New structures or additions to the existing dwelling must comply with local codes and applicable national codes.

• **Unpermitted work:** When unpermitted work is discovered in the existing dwelling, the lender must ensure that the owner and/or contractor contact the appropriate code enforcement office to obtain retroactive permitting or devise a plan to permit the previous construction. The lender must ensure that the borrower obtains a rehabilitation loan permit certification prior to the loan closing so that all permit fees associated with the new and/or previous construction are included in the total bid.

• **PITI Reserve:** The lender will be responsible for making the borrower’s monthly PITI payments, during the period of rehabilitation up to a maximum of 6 months or when the dwelling is determined to be habitable by a qualified third-party inspector.
ATTACHMENT 12-A  
Determining Eligible Areas Using the Public Website

https://eligibility.sc.egov.usda.gov

Select “Single Family Housing Guaranteed” from the menu.

![Image showing the USDA website for determining eligible areas]

The additional menu options for the guaranteed loan program will be available. The “Property Eligibility Disclaimer” will be displayed. Read the disclaimer and select “Accept.”

![Image showing the additional menu options]

Enter the address of the property to determine if it is located in an eligible rural area. Every effort is made to ensure eligible rural areas inquiries are provided an accurate response. If a property is deemed “Ineligible” or “Unable to Determine”, please contact your USDA State Office where the property is located for additional assistance.
The eligibility determination is returned. It may be Eligible, Ineligible, or Unable to Determine. In the example below the property is eligible.

The map view may be changed by selecting the “Switch Basemap” option.
If an exact address is unknown, the user may click on a State from the U.S. map to review eligible and ineligible areas.
This is a closer look at Texas. A double click will enhance zoom. The darker colored areas will provide users with a good idea of eligible and ineligible areas.

All property eligibility determinations will be made by USDA. Questions regarding property eligibility determinations made from this online tool should be directed to the Policy, Analysis and Communications Branch at sfhgd.program@usda.gov to obtain additional clarification.
ATTACHMENT 12-B

RURAL DEVELOPMENT CONDOMINIUM CERTIFICATION

This warranty certifies the dwelling served by the homeowner’s association and identified below has been approved or accepted by HUD, VA, Fannie Mae, or Freddie Mac. Documentation supporting this certification will be maintained in the lender’s files and will be available for inspection by Rural Housing Service, United States Department of Agriculture upon request.

Borrower(s): __________________________  __________________________

Property Address:

Lender: __________________________

Lender Representative Name: __________________________

Representative Signature: __________________________

Date: __________________________
ATTACHMENT 12-C

PROJECT REVIEW

☐ Documentation of contractor-builder requirements.

   See Paragraph 12.14 of Chapter 12.

☐ Budget – Cost Breakdown

   • Must match Construction Contract.
   • Must be eligible loan costs. See Paragraph 12.15.
   • Contingency reserves are limited to 10% of construction costs.

☐ Plans, Drawings and Specifications

   • Must be certified in accordance with Paragraph 12.9B.
   • Must fully describe work to be completed.

☐ Construction Contract

   • Evidence of all pages.
   • Must contain a time frame for work to be completed (start/end).
   • The cost of change orders will be the responsibility of the borrower.
   • Must be signed by the contractor-builder and borrower.
   • Amount must match the total amount of budget-cost breakdown.
In accordance with Paragraph 12.20 of Chapter 12, HB-1-3555, I include a copy of the loan amortization agreement if the loan was reamortized or modified after construction. In addition, whether the loan was reamortized or not, I certify the following:

1. Construction is complete in accordance with approved plans, specifications and change orders.
2. The property can be occupied by the borrower.
3. The following is complete. Evidence is retained in our permanent loan case file for further review by Rural Development:
   a. Plans, drawings and specifications have been certified in accordance with Paragraph 12.9B of Chapter 12, HB-1-3555. Evidence is retained in the lender’s permanent loan case file;
   b. Required construction phase inspections have been completed in accordance with Paragraph 12.9B of Chapter 12, HB-1-3555. Evidence is retained in the lender’s permanent loan case file;
   c. Thermal standards meet or exceed the 2009 International Energy Conservation Code (IECC) or subsequently issued code. Evidence is retained;
d. Construction warranties have been issued to the borrower;
e. Evidence of the construction contract, cost breakdown and
cost ledger related to the construction of this home.

Approved Lender Certification:

I am duly authorized to represent this organization. I certify that we have
originated, underwritten, closed and monitored the completion of new construction
of the above loan in accordance with all Agency loan requirements of 7 CFR 3555.

_________________________________________
Lender’s Signature

_________________________________________
Title of Lender’s Representative

_________________________________________
Date Executed

_________________________________________
Name of Approved Lender
CHAPTER 13: SPECIAL PROPERTY TYPES

13.1 INTRODUCTION

This chapter describes the requirements for processing loans for special property situations. Section 1 of this Chapter deals with processing requirements for community land trusts and leasehold estates. Section 2 describes the specific processing requirements for loans made for manufactured homes. Section 3 outlines loan processing requirements for modular housing.

SECTION 1: SPECIAL FORMS OF OWNERSHIP

13.2 OVERVIEW

This section discusses processing requirements for guaranteed loans for dwellings that fall under two types of special ownership: Community land trusts and leasehold estates. Unless otherwise indicated in this section, the same basic requirements for loan guarantee approval discussed elsewhere in this Handbook applies to these loans.

13.3 LOANS FOR UNITS IN A COMMUNITY LAND TRUST [7 CFR 3555.206]

Loans to finance the purchase of dwellings located on land owned by a community land trust may be guaranteed if the conditions described in this paragraph are met, and if the applicant and the property otherwise meet the requirements outlined in this Handbook.

A. Definition

A community land trust is defined as a private nonprofit community housing development organization that owns and leases land at affordable prices. A community land trust sells the property improvements (i.e., buildings, streets, sewers) that normally increase the land’s value, but leases the land under a long-term ground lease to low- and moderate-income households. The organization must:

- Be organized under State or local laws.
- Have no part of its net earnings benefiting any member, founder, contributor, or individual.
- Comply with financial accountability.
Maintain, through significant representation on the organization’s governing board, accountability to low-income community residents regarding decisions on the design, siting, development, and management of affordable housing.

Have its corporate membership open to any adult resident of a geographic area specified in the by-laws of the organization.

Be established to carry out all the following activities:

- Acquire parcels of land, held in perpetuity, primarily for conveyance under long-term ground leases.
- Transfer ownership of any structural improvements located on such leased parcels to the lessees.
- Retain a pre-emptive option to purchase any such structural improvements at a price determined by a formula that is designed to ensure that the improvement remains affordable to low- and moderate-income people in perpetuity.

The lender must ensure that the lease contains provisions for continued use of the land for low- and moderate-income housing.

- The lender’s mortgage file must contain documentation that the community land trust has received local market acceptance, as evidenced by market acceptance of comparable community land trust projects in the area.
- The lender must verify that the community land trust has broad-based community representation, and that the Community Land Trust has a two-year record of providing affordable housing.

B. Protection of Lender Rights and Lien Position

The relevant legal documents must contain language that ensures that all restrictions relating to community land trusts will automatically and permanently terminate upon foreclosure or lender acceptance of a deed in lieu of foreclosure. Language that merely subordinates the restrictions to the mortgage is not sufficient. The restrictions also cannot be forced upon subsequent purchasers following resale by the lender.

C. Restrictions on Resale Price

Restrictions on the limits to the resale price of the property or recapture of equity are permitted. A maximum sales price may be imposed or the sales proceeds due the
borrower may be limited, with any excess payable to a governmental body or nonprofit organization for reuse in the community land trust. When such restrictions apply, the requirements listed below must be met.

- The borrower must be permitted to recover at least the original purchase price, sales commission, and cost of capital improvements when the borrower sells the property.

- If the program permits the borrower to sell the property at market value but recaptures part of the equity, the Agency considers a reasonable share of appreciation to be at least 50 percent. The Agency does not object to situations whereby the borrower’s share of appreciation is on a sliding scale beginning at zero, provided that within two years the homeowner would be permitted to retain 50 percent of the appreciation.

- The borrower must be permitted to recover a reasonable amount of appreciation as determined by the lender. Appreciation is measured by the difference between the original purchase price and the actual price at which the property is resold.

- If the program sets a maximum sales price restriction, the borrower must be permitted to retain 100 percent of the appreciation.

D. Right of First Refusal

One method to ensure that housing remains part of an affordable housing program is for the community land trust to hold a “right of first refusal” or an “option right” that can be exercised when the borrower proposes to sell the home to a purchaser not eligible for the program benefits. Such a provision is permitted if all the requirements listed below are met.

- The rights must be held only by a governmental body or eligible nonprofit organization and exercised by them or someone they have identified as an eligible purchaser.

- Any right must be exercised within 45 days after the holder of these rights may exercise them (for example, the rights are often triggered by a notice of sale from the borrower).

- Any option price must allow the borrowers to recover their investments plus reasonable shares of appreciation.
E. Appraisals

A property located on a site owned by a community land trust must be appraised as a leasehold interest.

13.4 LOANS ON LEASEHOLD ESTATES [7 CFR 3555.203(b)]

Loans to finance the purchase of dwellings located on leasehold estate may be guaranteed if the conditions described in this paragraph are met, and the applicant and the property otherwise meet the requirements outlined in this Handbook.

A. Definition

A leasehold estate is the right to use and occupy real estate for a stated term and under certain conditions that have been conveyed by a lease. In most cases, improvements to real estate are purchased in fee simple, subject to ground rent. Rent is paid for the right to use and occupy the land.

The lender’s mortgage file must have documentation indicating that the appropriate legal documents have been reviewed for compliance with Agency regulations.

B. Lease Requirements

Mortgages subject to leasehold estates must meet the following conditions:

- The mortgage must cover both property improvements and the leasehold interest in the land.
- The leasehold estate must constitute real property, be subject to the mortgage lien, and be insured by a title policy.
- The estate’s term runs fifteen or more years beyond the maturity date of the loan closing, except in the case of properties located on American Indian restricted land where the lease must have an unexpired term at least equal to the term of the loan. Leases on American Indian land for a period of 25 years which are renewable for a second 25 years are permissible.
- The leasehold estate must be assignable or transferable.
- The lease cannot be terminated except for nonpayment of lease rents.

The lease must:
• Provide for lender notification of any default by the borrower and the option to cure the default.

• Provide that the borrower will pay taxes, insurance, and association dues on the land and retain voting rights in the association.

• Provide that the leasehold can be transferred, mortgaged, and sublet without restriction.

• State rental increases in exact dollar amounts.

• Be recorded and constitute an interest in real estate.

• Permit mortgaging of the leasehold.

• Provide for written notice of default.

• Provide renewal options for the leasehold mortgagee.
SECTION 2: MANUFACTURED HOMES
[7 CFR 3555.208]

13.5 DEFINITION

Manufactured homes are single-or multi-width units constructed partially off-site and transported to a site to be completed and anchored to a permanent foundation. Manufactured homes are structures built to the Federal Manufactured Home Construction and Safety Standards (FMHCSS) and are not the same as a modular home.

Unless, otherwise specified in this section, the guidelines and procedures outlined in Chapters 6 and 12 for new construction should be followed.

13.6 AUTHORIZED LOAN PURPOSES

The following are eligible loan purposes for the financing of manufactured homes:

- Site development work that conforms to the standards imposed by the state and local government.

- Purchase of an eligible new unit, transportation, and set-up costs. The following criteria outlines an eligible manufactured unit for guarantee with the SFHGLP:
  - Must be a new unit in stock that has never been installed or occupied at any other site or location. Manufactured units may be moved only from the manufacturers or dealer’s lot to the site on which the unit will be financed.
  - Must have a floor area of not less than 400 square feet.
  - Must be placed on a permanent foundation built to FHA guidelines in effect at the time of certification. Guidelines are presently published in the “Permanent Foundation Guide for Manufactured Housing” (HUD-4930.3G) which is found at http://www.huduser.org/portal/publications/destech/permfound.html.
  - Meet or exceed the Federal Manufactured Home Construction and Safety Standard (FMHCSS) Uo Value Zone for the geographic area the unit will be placed. The Uo Value Zone will be indicated on the Comfort Heating and Cooling Certificate. Builder must certify thermal requirements at time of purchase have been met.
• Financing of an existing unit due to a transfer of an existing Section 502 Direct or Guarantee loan or purchase of a Real Estate Owned (REO) property. Repairs associated with these transactions may be included.

13.7 LOAN RESTRICTIONS

The Agency will not guarantee loans to finance the following:

• The purchase of a unit without an eligible site.

• Repairs not associated with a transfer, Real Estate Owned (REO) sale, or unit that is already financed with a Section 502 loan.

• Furniture, including movable articles of personal property such as drapes, beds, bedding, chairs, sofas, divans, lamps, tables, televisions, radios, stereo sets, and other similar items of personal property. Furniture does not include wall-to-wall carpeting, refrigerators, ovens, ranges, washing machines, clothes dryers, heating or cooling equipment, or other similar equipment.

• Additions and modifications on new or existing units are prohibited except for porches, decks, or other structures built to engineered designs and inspected and approved by a local building code official.

• Purchase of a unit to be moved from a site other than the manufacturer/dealer lot to the site securing the mortgage loan.

• Manufactured home units with a manufacture date exceeding 12 months of the purchase agreement contract.

• A unit with a tow hitch or running gear remaining.
13.8 CONSTRUCTION AND SITE REQUIREMENTS

The borrower will contract with a licensed manufactured dealer. Manufactured homes must meet the site and other requirements for new dwellings in accordance with Chapter 12 of this Handbook. The lender’s permanent file must contain the following:

- An itemized cost breakdown of the total package, including the base unit, eligible options, site development, installation, set-up, lot costs, and any credit for wheels and axles.

- Dealer certification that any cash payment or rebate as a result of the purchase will be deducted from the price of the unit and not paid directly to the applicant.

- Dealer certification that proposed cost is the full price of the unit. If furniture is being purchased by the applicant with personal funds, a lien will not be filed against the security property.


- Plot and site development plans.

- Inspections in accordance with Chapter 12 of this Handbook.

- Contractor certification that multi-sectioned units were properly joined and sealed according to the manufacturer's specifications and the home sustained no damage during transportation and set-up.

13.9 LOAN CLOSING FOR MANUFACTURED HOUSING

Loan closing procedures are the same whether the guarantee is made for the purchase of a manufactured home or another type of single-family home. However, the lender should be aware of the following requirements.

A. Warranty Requirement

A dealer must provide the borrower with a copy of all manufacturer warranties. The warranty must identify the unit by serial number. A copy of all warranties and certifications will be retained in the lender’s permanent file.
B. Certification Requirements

Lenders may utilize Attachment 13-A to document manufactured dealer certifications required of this Chapter and Attachment 13-B to document contractor certifications required of this Chapter.

C. Lien Release Requirements

The dealer must furnish a manufacturer's certificate of origin indicating that the unit is free and clear of all legal encumbrances. A copy of the manufacturer’s statement or certificate of origin will be retained in the lender’s mortgage file.

D. Real Estate Tax Requirement

As required by the local taxing authority, the unit and site must be classified, zoned, and taxed as real estate. Certificate of title to the manufactured home must be surrendered to the appropriate state government authority, if state law permits.

E. Title and Lien Requirements

Both the unit and the site must be evidenced by a recorded mortgage or deed of trust. A combination of a chattel and real estate mortgage is not acceptable. If the certificate of title cannot be surrendered, the lender must indicate its lien on the certificate of title.

SECTION 3: MODULAR HOMES

Modular homes are sectional prefabricated houses that consist of multiple modules or sections which are typically manufactured in a remote facility and delivered to their site of intended use. They differ from manufactured homes largely in their absence of axles or frame. Modular dwellings are commonly transported to their site by means of flat-bed trucks and set in place with the assistance of a crane. Modular homes are considered stick-built homes; therefore, the guidance outlined in Chapter 12 of this Handbook will be followed for new and existing modular homes.
ATTACHMENT 13-A
Dealer Certification – New Manufactured Home

Name(s) of Purchaser/Owner: ____________________________

Manufactured Home Dealer Name, Address and Telephone: ____________________________

Property Address: ____________________________

Manufacturer, model, data plates of unit purchased: ____________________________

The undersigned hereby certifies:

- that any cash payment or rebate as a result of the purchase of the manufactured unit identified has been deducted from the price of the unit and was not paid to the identified purchaser/applicant.
- The proposed cost of the identified unit represents the full price of the unit, excluding any purchase with personal funds by the purchaser for furniture.
- If furniture was purchased in conjunction with this transaction, we certify a lien will not be filed against the security property.
- Thermal requirements in effect at the time of purchase have been met.

Signature: ____________________________

Title: ____________________________ Date: ____________________________
ATTACHMENT 13-B

Certification of Builder/Contractor

Name(s) of Purchaser/Owner:  Builder/Contractor’s Name, Address and Telephone:

Property Address:

Manufacturer, model, data plates of unit purchased:

The undersigned hereby warrants:

- The manufactured unit identified has been erected on the subject identified property.
- The property development complies with construction plans.
- The unit, if manufactured in separate sections were properly joined and sealed according to the manufacturer’s specifications.
- The manufactured home sustained no hidden damage during transportation and erection.

Signature:

Title:  Date:

(03-09-16) SPECIAL PN
CHAPTER 14: FUNDING
[Official Agency Use Only]

14.1 INTRODUCTION

Congress appropriates funds to the Agency for loan guarantees for each fiscal year basis (October 1 through September 30) and not as funds are needed. If Congress has not approved appropriated funds at the beginning of a fiscal year, the program may continue to be authorized and delivered under a Continuing Resolution until appropriated funds for the fiscal year are approved by Congress. Fund distribution under a Continuing Resolution may be based upon the previous year actual obligations during the Continuing Resolution, compared to each state’s obligations during the same time frame of the previous funding year.

This chapter describes the funding priority process and Agency actions when funds are limited. It also outlines the Agency procedure to request funds from the National Office reserve.

14.2 PROGRAM FUNDING PROCESS

Funds are allocated and distributed to the Agency at the beginning of each fiscal year through the Program Funds Control System (PFCS). Upon receipt of the annual allocation, the National Office distributes funds to each state based on a predetermined formula. A pooling date is established when funds are allocated and distributed to the Agency at the beginning of each fiscal year. The pooling date, if utilized, typically occurs at FY end. Pooling of funds is a technique used to ensure that available funds are used in an effective, timely and efficient manner. At the time of pooling those funds within a State’s allocation for the fiscal year that has not been obligated by the State are placed in the National Office reserve. Pooling funds permits funding requests to be processed on a first-come first-serve basis. This process allows all states to have access to available funds as long as funds remain available.

After the pooling date, if unallocated funds remain, the National Office will provide specific direction to states as to usage of the remaining funds. When adequate funds remain to allow distribution to all states, the National Office will do so. The National Office will keep lenders and Agency staff apprised of the potential for a shortage of available funds with advance notice.
14.3 PRIORITIZATION OF FUNDING

When funding is not sufficient to fund all applications, a priority system is used to ensure that applicants who meet the priorities established for the program are selected for processing first. The priority system is used to determine the order in which applications will be processed. If funds are limited the Agency will prioritize requests to first-time homebuyers or veterans. In the case of applications with equivalent priority status that are received on the same day, preference in funding will be given to those qualifying for veteran’s preference. The following outlines the criteria to meet the prioritization:

1. **Households that Qualify for First-Time Homebuyers Preferences**

A household qualifies for a first-time homebuyer preference if any applicant meets any one of the following criteria:

- An individual who has had no ownership interest in a principal residence during the three-year period ending on the date of loan closing.

- An individual, who is a displaced homemaker and who, except for owning a home with a spouse, has had no ownership interest in a principal residence during the three-year period ending on the date of loan closing. A displaced homemaker is unemployed or underemployed, and experiencing difficulty in obtaining or upgrading employment. In recent years they have worked primarily without remuneration to care for the home and family and have not worked full-time, full-year in the labor force.

- An individual, who is a single parent and who, except for owning a home with a spouse, has had no ownership interest in a principal residence during the three-year period ending on the date of loan closing. Single parents include any individual who is unmarried or legally separated from a spouse; and has custody or joint custody of one or more children, or is pregnant.

2. **Households that Qualify for Veterans Preferences**

A household qualifies for a veteran's preference if any applicant has served on active duty and has been discharged or released from the active forces on conditions other than dishonorable from the United States Army, Navy, Air Force, Marine Corps, or Coast Guard. The preference applies to the serviceperson, or the family of a deceased serviceperson, who died in service before termination of such war or such period or era. The applicable time frames are:

- During the period of April 6, 1917, through March 31, 1921;
During the period of December 7, 1941, through December 31, 1946;

During the period of June 27, 1950, through January 31, 1955;

For a period of more than 180 days, any part of which occurred after January 31, 1955, but on or before May 7, 1975;

During the period beginning August 2, 1990 through January 2, 1992; or

Any other prescribed by Presidential Proclamation or law.

14.4 AGENCY ACTIONS – SHORTAGE OF FUNDS

The following actions will be taken by the Agency when program funding is limited:

A. Agency Actions When Funds Are Not Available - Pooling

The National Office will keep lenders and Agency staff apprised of the potential for a shortage of available funds. Once funds are pooled, the Agency will redistribute remaining funds in accordance with the date of loan guarantee request as follows:

1. Before the pooling date.

If the request is made before the pooling date, the Agency office will place the request on a waiting list and notify the lender that a delay is expected. Applicants, who qualify for a preference as a first-time homebuyer or as a veteran, will be placed on the waiting list above those without such a preference, in the order received. All other applicants will be placed on the waiting list in date-order below those who qualify for preferences.

Loan guarantee requests will remain on the waiting list until funds become available or the lender withdraws the request, whichever is first.

2. After the pooling date.

If the request is received after the pooling date, the Agency will notify the lender that loan guarantee requests may be deferred until the following fiscal year. Approval officials will keep lenders aware of actions to be taken between the pooling date and the annual allocation dates. If there is a possibility that funds will soon be available, the request for guarantee may be reviewed. The lender should be notified, by phone or fax, if the Agency cannot honor a one-day process.
Complete applications received after pooling will be reviewed and funded (as appropriate) on a “first-come first-served” basis. Incomplete applications will be returned and may be resubmitted. Lenders should be advised why the application is being returned and of what is required to complete the application. The approving office is responsible for keeping the lender abreast of the status of applications submitted and any availability of funds received once pooling has occurred.

B. Agency Actions When Funds Are Not Available – Conditional Commitments Subject to Availability of Funds

When funds are not available, the National Office may authorize issuing Conditional Commitments “Subject to receipt of congressionally appropriated funds.” In such cases, when in the best interest of the Government, the Agency will continue to issue Conditional Commitments.

When issuing Conditional Commitments “subject to the availability of Congressionally appropriated funds,” Agency personnel will include a condition regarding the non-availability of funds and the subsequent actions of lenders during the interim period. The statement utilized will be issued by the National Office when authorizing the issuance of commitments subject to funding.

Lenders may close these loans provided they fulfill all the conditions stated on the Conditional Commitment. The Agency will not be able to issue a Loan Note Guarantee until funding becomes available. When funding becomes available, the lender must make a certification there has been no adverse change in the borrower’s financial condition since issuance of the Conditional Commitment. A lender must certify to the Agency, using the process provided for on Form RD 3555-18, “Conditional Commitment for Single Family Housing Loan Guarantee,” that there have been no adverse changes in the borrower’s financial condition since the Conditional Commitment was issued by the Agency. The lender will assume all risk of loss until the Agency issues the Loan Note Guarantee.

14.5 LENDER WITHDRAWAL OF APPLICATION

If at any time the lender determines that an existing request is not needed, the lender should notify the Agency immediately. The Agency will remove the loan guarantee request from the system, releasing the funds back to the allotment for the state. Releasing funds allows the Agency to fund as many guarantee requests as possible. If a lender fails to notify the Agency that funds are not needed, pending applicants on the waiting list may be deprived of an opportunity to obtain a loan guarantee.
Some common reasons for withdrawing a loan guarantee request are:

- Lender rejection of the borrower’s application;
- Change in property; or
- Choice of a loan program other than the SFHGLP Loan Program.

14.6 AGENCY ACTION - REQUESTING FUNDS FROM THE NATIONAL OFFICE RESERVE

Funds may be retained by the National Office during a FY to meet program needs or Agency objective. To request funds from the national office reserve, Agency employees will:

- E-mail the SFHGLP funding mail box at sfhglp@wdc.usda.gov.
- Request actual funding needs, by type of assistance code.

If the type of assistance is refinance, each funding request must summarize the individual request of the cumulative total request for the State.

14.7 AGENCY ACTION – REQUEST FOR RESTORATION OF FUNDS

The Program Funds Control Branch (PFCB) of the National Finance and Accounting Office Center (NFAOC) in St. Louis, Missouri will review and approve/deny all restoration of funds requests. The following actions are required to submit a request for restoration of funds:

1. A fully completed “Request for Restoration of Funds form a Prior Fiscal Year” form.

- Agency personnel will complete the form electronically via Adobe.
- The form will be electronically signed with your LINC Pass (PIV) card.
- The form should be saved (not printed and scanned).
- Find the fillable form on the Agency’s SharePoint website under the folder “Funding”.

2. A copy of all Conditional Commitments issued for the loan.

3. If the Agency extended the Conditional Commitment, documentation pertaining to the lender’s request and the Agency’s approval must be included with the restoration request. Dates are required.

4. A detailed explanation must be entered on the form to indicate whether the Agency or lender is at fault.

5. If the restoration request is for a higher obligation amount than the original obligation, then additional document is required. The Agency must demonstrate that the loan request was reviewed for repayment at the higher amount and the loan amount does not exceed the maximum amount based on the property’s appraised value.

6. If the request is for a restoration of funds where the lender did not comply with regulatory requirements, an exception to the regulatory requirement will be required. Submit a request in accordance with Chapter 1, Section 1-9 of this Handbook. A copy of the approved exception must be submitted with the request for a restoration of funds.

7. Completed “Request for Restoration of Funds from a Prior Fiscal Year” forms and all documentation must be submitted electronically to the technician in St. Louis who is assigned your State at the Housing Services Branch (HSB/NFAOC).
CHAPTER 15: SUBMITTING THE APPLICATION PACKAGE
[7 CFR 3555.107]

15.1 INTRODUCTION

It is the lender’s responsibility to work with the applicant to ensure all necessary documentation is obtained to satisfy the requirements for loan eligibility. Lenders may utilize industry standard forms when assembling the application package. The loan must be underwritten and approved by the lender prior to submission to the Agency. The Agency recommends that lenders use the Guaranteed Underwriting System (GUS), the Agency’s automated underwriting system, for all supported loan products. Lenders will certify upon a “final” underwriting submission that the loan has been reviewed, underwritten, and all data entered in GUS is true, complete, accurate, and retained. Lenders must review the GUS Underwriting Findings Report to ensure all requirements are met. Refer to Attachment 15-A, Guaranteed Rural Housing – Loan Origination Checklist for a list of required items to be provided to the Agency for a complete loan application package.

15.2 LENDER RESPONSIBILITY

The originating lender is responsible for the accuracy of all information used to obtain a Rural Development guarantee in accordance with 7 CFR 3555 and this Handbook. The permanent loan file must contain all information that supports household eligibility for the SFHGLP and the lender’s approval of the loan request.

Lenders are not authorized to close loans prior to the issuance of the Conditional Commitment. Closing a loan prior to obtaining a Conditional Commitment from the Agency can render that loan submission ineligible for a Loan Note Guarantee and may affect the lender’s approval status to participate in the program.

15.3 LOAN APPLICATION PACKAGE

A. Manually underwritten loans

Manually underwritten loans are defined as:

- GUS applications that receive an underwriting recommendation of “Refer” or “Refer with Caution”, or
- Applications reviewed and approved that are not supported in GUS, including Streamlined Assist Refinance transactions and select pilot programs. These loan application packages must be emailed to the appropriate Rural Development Production Team. The applicable email inbox address can be found on the SFH Guaranteed Lender webpage at https://www.rd.usda.gov/page/sfh-guaranteed-
lender. Lenders must ensure all personally identifiable information (PII) is protected.

B. Guaranteed Underwriting System - GUS Accept loans

1. Streamlined Documentation Loan Files

Lenders that utilize GUS will experience streamlined delivery, review, and issuance of a Conditional Commitment. Loans underwritten with the assistance of GUS that receive an underwriting recommendation of “Accept” may allow the lender to submit streamlined documentation to request a Conditional Commitment. Information regarding processing procedures are located in the GUS User Guide posted to the following resource site: https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library.

2. Full Documentation Loan Files

GUS “Accept with Full Documentation” loan files require additional items to be submitted to the Agency. Full documentation submissions are not re-underwritten by the Agency. Full documentation loan files will undergo a review to compare the data entered by the lender to the submitted documentation. Any discrepancies identified by the Agency will be reviewed with the approved lender before the file is released for correction or denied.

15.4 ELECTRONIC SIGNATURES

Rural Development will accept electronic signatures for origination, loan closing, and servicing documents unless otherwise prohibited by law or program. This guidance is limited to lenders. Agency staff will continue to follow internal policy.

The 7 CFR 3555 rule does not prohibit or consent to electronic signatures. Lenders may use electronic signatures when the lender perfects and maintains a first lien position, an enforceable promissory note, and meets all other agency requirements. This includes electronic promissory notes (eNotes), deed of trust and other documents relevant to the loan transaction. Lenders should be familiar with the securitization requirements of government sponsored enterprises (GSE), such as Ginnie Mae, regarding the transferability of eNotes.

Lenders who choose to accept electronic signatures must meet the standards and requirements set forth in the E-Sign Act, as well as all other applicable federal and state regulations and guidelines. Lenders are charged with the same responsibility of due diligence with electronically signed documents as they are with paper documents.
If any electronically signed document is deemed unenforceable (e.g. the promissory note, mortgage or deed of trust) and is connected to any fraud, misrepresentation or negligent servicing, the lender bears the risk that any loss claim submitted in relation to the unenforceable document will be denied or reduced in accordance with applicable regulations. The lender’s failure to collect on the promissory note or enforce the security instrument because of its electronic signature will be treated as negligent servicing under SFHGLP regulations.

Failure to comply with any Federal statute or regulation could result in the denial of a loan guarantee or claim, withdrawal of lending authority and/or debarment from Federal programs.

15.5 AGENCY REVIEW OF APPLICATION PACKAGE

The Agency’s automated system will track the date and time the application package is received. Agency review of the application package is completed in the order it is received. As outlined below, there are circumstances which may require a more thorough review by the Agency. In these situations, the Agency will contact the lender.

A. Content of Standard Review

In general, the Agency will review applications to determine that all program requirements have been met. The lender has sole responsibility to properly underwrite the loan and ensure program requirements have been met. Agency review of the application does not relieve the lender of these responsibilities. Agency staff must determine if the loan:

- Is made to an eligible applicant(s),
- Is located in an eligible rural area,
- Meets the adjusted annual income limit,
- Has appropriate collateral value to support the loan request,
- Meets environmental requirements of RD Instruction 1970, and
- Meets applicable requirements of 7 CFR 3555 and this Handbook.

Agency staff will utilize the SFHGLP Documentation and Processing Checklist in their review of Conditional Commitment requests, which assists in the review, processing, and closing of a guaranteed loan.
B. Agency Review of Lender’s Underwriting Decisions

It is the approved lender’s responsibility to underwrite loans, however, under limited circumstances, the Agency may determine that a more thorough review of the lender’s submission should be performed. The Agency must notify the lender in writing of the additional review. The Agency may review the lender’s underwriting decisions under the following circumstances:

1. **Lenders who are new to the program**

   When a new lender is approved for participation in the program, the initial application submissions will receive a thorough Agency review, including a review of the lender’s underwriting decisions. The purpose of these reviews is to provide training and ensure that the lender has a complete and accurate understanding of the Agency’s requirements. The Agency will continue to review new lender underwriting decisions until the Agency is confident that the lender is performing satisfactorily. Additional training is provided when incomplete or deficient packages are received during initial submission.

2. **Lenders that submit incomplete or inaccurate applications**

   If a lender submits incomplete applications or applications with inaccurate information, the Agency may choose to review the lender’s underwriting to ensure that they understand the Agency’s requirements. Thorough reviews will continue until the lender demonstrates their ability to submit complete and accurate application packages on a regular basis.

3. **Lenders with significant loan review findings**

   Lenders that exhibit above average default, foreclosure, and loss claim activity may have their current loan submissions reviewed more thoroughly by the Agency. The lender will be referred to the Lender Oversight Branch for continued monitoring.

C. Conditions for the Loan Guarantee

Agency staff will determine if any conditions must be met for the loan to qualify for a guarantee. Terms and conditions will be listed and issued to the lender on Form RD 3555-18 or Form RD 3555-18E, Conditional Commitment for a Single Family Housing Loan Guarantee.

15.6 **LENDER NOTIFICATION ON REQUEST FOR LOAN GUARANTEE**

The Agency will notify the lender of the results of the application review. The following are possible results of the review:
A. The Request for a Loan Guarantee is Approved

If the loan file meets Agency requirements, the Agency will issue Form RD 3555-18/18E, Conditional Commitment for Single Family Housing Loan Guarantee via email. The Conditional Commitment establishes conditions for issuing the Loan Note Guarantee. In order to receive the Loan Note Guarantee, the lender must submit any required documents and certify to all conditions noted on Form RD 3555-18/18E (including any attachments to the form). Chapter 16 of this Handbook provides additional guidance to obtain the Loan Note Guarantee.

B. Return of Incomplete Application

If the application request is missing information specified in Attachment 15-A and/or the final GUS Underwriting Findings Report, the Agency will suspend the application and request the missing documentation from the approved lender. Once the file is complete, it will be placed in line for Agency review. If the lender cannot provide the necessary information, the lender should request to withdraw the loan file from GUS. Agency staff will not withdraw loan files without first contacting the lender to request the missing documentation.

C. The Request for a Loan Guarantee is Denied

The loan guarantee request will be denied if the proposed loan fails to meet program requirements. The Agency will notify the lender in writing of the reason for the denial and will provide review and appeal rights as indicated in Appendix 3 of this Handbook. The Agency must properly process the loan in the Agency’s internal Guaranteed Loan System (GLS) database to record the loan denial.

15.7 LENDER RESPONSE TO CONDITIONAL COMMITMENT

The lender has three responses to the issuance of Form RD 3555-18/18E; the lender may accept the terms and conditions, decline the terms and conditions for loan guarantee, or request that the terms and conditions be altered.

A. Accepting the Conditions

If the lender understands and agrees to accept the conditions listed on Form RD 3555-18/18E, no further communication with the Agency is required until the lender is ready to request the loan guarantee. The loan must close in accordance with Form RD 3555-18/18E which includes:

1. A loan amount equal to or less than the authorized amount,
2. An interest rate equal to or less than the authorized amount, and
3. Compliance with all stated conditions.
B. Declining the Conditions for Loan Guarantee

If the lender determines that the terms and conditions stated on Form RD 3555-18/18E cannot be met, that the loan guarantee is not needed, or that the loan will not go to closing, the lender must inform the Agency in writing as soon as possible. The funds for that loan request are reserved for the transaction until the expiration of the Conditional Commitment. Upon being informed that the lender intends to decline the conditions for loan guarantee, Agency staff will cancel the loan guarantee obligation in GLS. This will release the committed funds for reallocation to a new commitment.

C. Requesting Changes in Conditions

Requests to close the loan at a lower loan amount or interest rate than those authorized on the issued Conditional Commitment do not require any action. If the lender believes that there are erroneous conditions and requirements on Form RD 3555-18/18E that should be altered, the lender can contact the Agency and propose alternatives. The request must be made in writing (email is acceptable) and must not affect the eligibility of the loan.

Modifications that adversely affect the loan, such as an increase in loan amount, interest rate, monthly liabilities, real estate taxes and homeowner’s insurance (that exceed the allowed threshold); or lower repayment income, assets, etc. require a new underwriting review. Refer to the resubmission policy outlined in Chapter 5 of this Handbook. The lender is not authorized to close the loan until a new Form RD 3555-18/18E is issued.
ATTACHMENT 15-A

Guaranteed Rural Housing

Loan Origination Checklist

Lender Instructions: Submit the identified documents for the applicable loan type. To expedite loan review, please submit only the identified documents. Documents must not exceed the maximum allowable age set forth in the 7 CFR 3555 and Handbook 1-3555. Rural Development will consider all documents submitted as the certified and true copies of the original documents retained in the lender’s permanent file. Electronic delivery to Rural Development is the preferred method. See electronic delivery information in the SFHGLP Lending Partner Webpage: https://www.rd.usda.gov/page/sfh-guaranteed-lender. In the subject line include the following:
Loan Origination: Borrower Last Name, First Name

<table>
<thead>
<tr>
<th>General Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applicant(s):</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan Origination Checklist</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranteed Underwriting System (GUS) - Purchase and Non-Streamlined and Streamlined Refinance Transactions</td>
</tr>
<tr>
<td>Underwriting Recommendation: ACCEPT</td>
</tr>
</tbody>
</table>

When submitting documents in GUS, the appraisal report must be uploaded separately.

☐ Form RD 3555-21, Request for Single Family Housing Loan Guarantee
  Include all pages from the current published version
  Executed by applicant(s) and lender

☐ FEMA Form 086-0-32, Standard Flood Determination Form
  New construction properties located in 100-year flood plains require additional documentation, including confirmation the base flood elevation (BFE) is below lowest habitable floor

☐ Mortgage Payoff Statement: If refinance transaction

☐ Evidence of qualified alien: If applicant(s) is not a U.S. Citizen
  For Non-Streamlined and Streamlined Refinance transactions evidence is required when adding a new borrower who is not a U.S. Citizen.

☐ Credit Report for Non-Purchasing Spouse (as applicable)
  Applies to applicant or property located in a community property state: AZ, CA, ID, LA, NV, NM, TX, WA, WI

☐ Uniform Residential Appraisal Report (URAR)
  FNMA 1004/FHLMC 70 or applicable report as determined by appraiser (not required for most streamlined refinances)
When submitting documents in GUS, the appraisal report must be uploaded separately.

<table>
<thead>
<tr>
<th>Checklist Item</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form RD 3555-21, Request for Single Family Housing Loan Guarantee</td>
<td>Include all pages from current published version. Executed by applicant(s) and lender.</td>
</tr>
<tr>
<td>Underwriting Analysis: FNMA 1008/FHLMC 1077, or similar form</td>
<td>Executed by the approved lender’s underwriter. Documentation of annual and repayment income calculations. Credit waiver explanations, debt ratio waiver compensating factors, and overall loan file comments may be documented on this form.</td>
</tr>
<tr>
<td>Uniform Residential Loan Application: FNMA 1003/FHLMC 65</td>
<td>Not required to be signed by applicant(s) or lender. Loan amount is not required to match the loan request in GUS or on Form RD 3555-21.</td>
</tr>
<tr>
<td>Income Verification Documentation: Applicable methods</td>
<td><strong>Streamlined: Non self-employed:</strong> Written/Electronic VOE + 1 earning statement with YTD figures. <strong>Full Documentation: Non self-employed:</strong> 2 years W-2s + 4 weeks of earning statements with YTD figures. <strong>Self-Employed:</strong> 2 years personal and business filed income tax returns or IRS transcripts with all schedules + YTD profit and loss statement. <strong>Additional Income Types:</strong> SSI, VA Benefits, Pension, Retirement, etc. Refer to Chapter 9 for acceptable verification documents.</td>
</tr>
<tr>
<td>Asset Documentation:</td>
<td>Documentation for all applicable household members per 3555.152(d). VOD’s, bank or investment statements, gift letters, etc. Refer to Chapter 9 for acceptable verification documents.</td>
</tr>
<tr>
<td>Credit Report: (as applicable)</td>
<td>Credit Report: For loans submitted outside of GUS. GUS loans will have the credit report uploaded. Non-Traditional credit tradelines, as applicable. Credit supplements, if utilized to support data adjusted from credit report.</td>
</tr>
<tr>
<td>Credit Report for Non-Purchasing Spouse (as applicable)</td>
<td>Applies to applicant or property located in a community property state: AZ, CA, ID, LA, NV, NM, TX, WA, WI.</td>
</tr>
<tr>
<td>Verification of Rent:</td>
<td>NOT APPLICABLE FOR GUS ACCEPT FULL DOCUMENTATION. May be applicable for manually underwritten loans with credit scores less than 680.</td>
</tr>
<tr>
<td>Mortgage Payoff Statement:</td>
<td>If refinance transaction.</td>
</tr>
<tr>
<td>FEMA Form 086-0-32, Standard Flood Determination Form:</td>
<td>New construction properties located in 100 year flood plains require additional documentation, including confirmation base flood elevation (BFE) is below lowest habitable floor.</td>
</tr>
<tr>
<td>Evidence of qualified alien:</td>
<td><strong>If applicant(s) is not a U.S. Citizen</strong> For Non-Streamlined and Streamlined Refinance transactions evidence is required when adding a new borrower who is not a U.S. Citizen.</td>
</tr>
<tr>
<td>Uniform Residential Appraisal Report (URAR)</td>
<td>NOT APPLICABLE TO MOST STREAMLINED OR STREAMLINED-ASSIST REFINANCES. FNMA 1004/FHLMC 70 or applicable report as determined by appraiser.</td>
</tr>
</tbody>
</table>
### Loan Origination Checklist
#### Streamlined Assist Refinance Manual Underwrite Review

- **Form RD 3555-21, Request for Single Family Housing Loan Guarantee**
  - Include all pages from current published version
  - Executed by applicant(s) and lender

- **Underwriting Analysis: FNMA 1008/FHLMC 1077, or similar form**
  - Executed by the approved lender’s underwriter
  - Documentation of annual and repayment income calculations

- **Uniform Residential Loan Application: FNMA 1003/FHLMC 65**
  - Not required to be signed by applicant(s) or lender
  - Loan amount is not required to match the loan amount on Form RD 3555-21

- **Income Verification Documentation: Required for Annual Income Calculations**
  - **Streamlined Documentation: Non self-employed:**
    - Written/Electronic VOE + 1 earning statement with YTD figures
  - **Full Documentation: Non self-employed:**
    - 2 years W-2’s + 4 weeks of earning statements with YTD figures
  - **Self-Employed:**
    - 2 years personal and business filed income tax returns or IRS transcripts with all schedules + YTD profit and loss statement
  - Additional Income Types: SSI, VA Benefits, Pension, Retirement, etc.
    - Refer to Chapter 9 for acceptable verification documents

- **Asset Documentation: Annual Income Calculations**
  - Documentation for all applicable household members per 3555.152(d)
  - VOD’s, bank or investment statements, gift letters, etc. Refer to Chapter 9 for acceptable verification documents.

- **Mortgage Payment History for previous 12 month period**
  - Credit Report or Verification of Mortgage

- **Mortgage Payoff Statement**

- **Evidence of qualified alien status is required when adding a new borrower who is not a U.S. Citizen.**

- **Uniform Residential Appraisal Report (URAR)**
  - Only applicable to current Direct Loan borrowers for the purpose of calculating subsidy recapture.
CHAPTER 16: CLOSING THE LOAN AND REQUESTING THE GUARANTEE
[7 CFR 3555.107]

16.1 INTRODUCTION

The lender is required to comply with all conditions stated on Form RD 3555-18/18E, Conditional Commitment for Single Family Housing Loan Guarantee and any attachments, as applicable. The loan must close under the same terms as underwritten and approved for in the Conditional Commitment.

16.2 CLOSING THE LOAN

Required Closing Timeframe:

- Purchase transactions—the lender has 90 days from the issuance of Conditional Commitment to close the loan with an opportunity for one 90-day extension. The extension must be requested prior to the expiration of the Conditional Commitment.

- Construction transactions—the expiration date for new construction, other than the “combination construction permanent loan” option outlined in Chapter 12, should correspond with the estimated project completion date but cannot exceed 12-months.

- The Agency must grant any approved extensions in writing. If approved, a new Conditional Commitment will be issued reflecting new expiration date. The Guaranteed Loan System (GLS) application page will be updated with the commitment extension.

Closing in Compliance with Conditional Commitment Approval:

- The loan must close under the same terms as underwritten and approved for on the Conditional Commitment; any changes in the loan terms, characteristics of the applicant, or characteristics of the property, between the issuance of Conditional Commitment and loan closing requires the lender to notify the Agency in writing.

- Adverse changes may require the release of application submitted in the Guaranteed Underwriting System (GUS) to the lender for correction and resubmission to ensure no impact to the underwriting recommendation.
The Agency must verify in writing prior to loan closing that the changes are acceptable. Failure by the lender to obtain approval from the Agency may result in denial of the Form RD 3555-17E, Loan Note Guarantee.

**Signatures:**

- All individuals applying for the loan and assuming responsibility for the mortgage debt must sign the Uniform Residential Loan Application and any addenda.

- Any individual whose signature is required by state law (e.g. a non-purchasing spouse) must sign the security instruments and/or note to create a valid first lien, to pass clear title, or to waive inchoate rights. All owners to be vested in title must sign the security instruments except as noted in this section.

- Additional signatures on the security instruments for individuals who have not been reviewed during the mortgage credit analysis may jeopardize issuance of the Loan Note Guarantee.

- Lenders should not encourage borrowers to sign blank or incomplete documents.

A Power of Attorney (POA) may be used when the mortgagee verifies and documents that the following applicable requirements have been satisfied:

- Any specific or general POA must comply with state law and allow for legal enforcement of the mortgage note.

- For military personnel, a POA may only be used for one of the applications (initial or final), but not both:
  - when the service member is on overseas duty or on an unaccompanied tour;
  - when the mortgagee is unable to obtain the absent borrower’s signature on the application by mail or via fax; and,
  - where the attorney-in-fact has specific authority to encumber the property and to obligate the borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.
For incapacitated borrowers, a POA may only be used where:

- a borrower is incapacitated and unable to sign the mortgage application;
- the incapacitated individual will occupy the property to be guaranteed; and,
- the attorney-in-fact has specific authority to encumber the property and to obligate the borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.

Electronic signatures in accordance with the conditions outlined in Chapter 15 of this Handbook may be accepted.

**Interest Credit Closing.** To reduce the burden on borrowers whose loans were scheduled to close at the end of the month, but did not due to unforeseen circumstances, lenders and borrowers may agree to credit the per diem interest to the borrower and have the mortgage payments begin the first of the succeeding month.

**Lender Certification.** The lender will certify that the loan has been underwritten and closed in accordance with 7 CFR 3555.107, that it meets all conditions set forth from Conditional Commitment, and that all documentation has been submitted to Rural Development. The lender acknowledges that upon receipt and acceptance of the conditions of the Conditional Commitment and the required fees in the appropriate amount, Rural Development will execute and issue the Loan Note Guarantee.

### 16.3 REQUESTING THE LOAN NOTE GUARANTEE

The lender must provide evidence the loan was properly closed and remit the upfront loan guarantee fee and the USDA technology fee within 30 days of closing the loan. A Loan Note Guarantee may not be issued beyond 30 days of the loan closing if the account is in default at the time the lender executes the Lender Certification.

The lender will utilize one of the methods described below to request the Loan Note Guarantee.

**A. Electronic Closing – Preferred Method**

Rural Development offers approved lenders the ability to submit all guaranteed loan closing transactions to the Agency electronically via the Lender Loan Closing (LLC) System, eliminating the need for lenders to manually complete and submit Form RD
1980-19, Guaranteed Loan Closing Report, the Lender Certification portion of Form RD 3555-18/18E, and a paper check.

Lenders are required to execute and submit a Lender Loan Closing User Agreement to the Agency prior to gaining access to the system. Individual user access requires a Level 2 eAuthentication ID and password. User guides for gaining access to and using the LLC system can be found at: https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library.

Lenders must upload the following documentation in the LLC system to receive a Loan Note Guarantee:

- Final Closing Disclosure. The closing date listed on the Closing Disclosure must be entered on the Add Loan Closing screen in the LLC system. The Closing Disclosure is not required to be signed;
- Promissory Note; and,
- Any other necessary documentation as specified in the Conditional Commitment.

In addition to uploading documentation, lenders are required to enter basic loan closing information (e.g. loan closing date, promissory note amount, etc.) into the system and authorize electronic payment of the upfront guarantee fee and the USDA technology fee through the Pay.gov interface.

B. Non-Electronic Closing

The non-electronic closing process exists for lenders who are unable to use the LLC system. The Agency highly encourages all lenders to sign up to use the LLC System. The advantages of utilizing the LLC include quicker receipt of the Loan Note Guarantee, ability to pay fees electronically, and easier submission of required closing documents. User guides for gaining access to and using the LLC system can be found at https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library.

Lenders choosing the non-electronic closing option must follow the Non-Electronic Closing and Paper Check Guide found at https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library under the Lender Loan Closing/Administration Tab. To receive the Loan Note Guarantee in a timely fashion, it is vital that the steps in the guide are followed precisely.

16.4 UPFRONT LOAN GUARANTEE FEE

The lender will pay the Agency the upfront guarantee fee, which may be passed to the borrower and is an eligible loan purpose.
If a lender is not submitting electronic loan closings, as outlined in Paragraph 16.3 above, the fee must be paid by a lender or closing agent’s check payable to the Treasurer of the United States, United States Department of Agriculture, Rural Development, or other reasonable variation such as USDA, USDA - Rural Development, or to Rural Development. Agency employees will process fees paid by check in accordance with RD Instruction 1951-B.

Lenders who participate in the submittal of electronic loan closings will pay the upfront guarantee fee through the LLC system interface with Pay.gov.

If the Agency is unable to issue the Loan Note Guarantee, the fee may be returned to the lender. Once the Loan Note Guarantee is issued, the fee is not refundable.

The upfront guarantee fee amount is published in Exhibit K, of RD Instruction 440.1, available in any Rural Development office or on the Rural Development website: http://www.rd.usda.gov/publications/regulations-guidelines/instructions. The fee is subject to change to maintain a subsidy neutral program required by Public Law 111-212.

A. Calculation of Upfront Loan Guarantee Fee

The maximum loan amount for a guaranteed loan is 100% of the appraised value plus the upfront guarantee fee. Eligible closing costs may also be included in the loan amount up to 100% of the appraised value. Additional guidance on eligible closing costs is outlined in Chapter 6 of this Handbook.

There are three options for payment of the upfront guarantee fee:

<table>
<thead>
<tr>
<th>Pay the entire upfront guarantee fee at loan closing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowers are not required to finance the upfront guarantee fee and may elect to pay the entire fee at loan closing from personal funds, seller concessions, or eligible gift assistance at settlement.</td>
</tr>
<tr>
<td>Example:</td>
</tr>
<tr>
<td>$100,000 x 1% = $1,000.00 upfront guarantee fee paid at loan closing.</td>
</tr>
</tbody>
</table>
Finance part of the upfront guarantee fee

The borrower may elect to finance only a portion of the upfront guarantee fee. In these cases, the borrower will pay an upfront fee that corresponds to the total loan amount that includes a portion the upfront fee. The remaining amount of the upfront guarantee fee not financed, will be paid by the borrower from personal funds, seller concessions, or eligible gift assistance at settlement.

Example:
$500 of the 1% fee will be financed; therefore, the total loan amount will be $100,500 $100,500 x 1% = $1,005.00 (Guarantee fee)

In this scenario, the applicant will borrow $100,500.00 which includes $500.00 of the upfront guarantee fee. The borrower will pay the remaining $505.00 of the guarantee fee from personal funds at settlement ($1,005.00 total fee minus the $500.00 financed = $505.00)

Finance the entire upfront guarantee fee

The appraised value may only be exceeded by the amount of the upfront guarantee fee financed. Therefore, the entire upfront guarantee fee may be financed into the total loan. (Examples assume a 1% upfront fee)

Example: The appraised value of the subject property is $100,000. The purchase price of the property is $98,000. The borrower has elected to finance $2,000 in eligible loan closing costs that does not include the upfront guarantee fee.

Begin with the base loan amount of $100,000 ($98,000 purchase price plus $2,000 eligible closing costs). Calculate the total loan amount including the entire upfront guarantee fee being financed as follows:

$100,000 / .99 = $101,010.10 (total loan amount including the upfront guarantee fee)

Refer to Chapter 6 of this Handbook for assistance in determining the maximum loan amount allowed for each applicable refinance loan program.

An upfront fee calculator is available for use by lenders and employees at: https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library.
16.5 ANNUAL FEE

The servicer will electronically pay the Agency the annual fee on all purchase and refinance transactions which may be passed to the borrower. The servicer responsible for payment is required to enter into a User Agreement to electronically receive billing notifications and submit payments. The annual guarantee fee amount is published in Exhibit K, of RD Instruction 440.1, available in any Rural Development office or on the Rural Development website: https://www.rd.usda.gov/publications/regulations-guidelines/instructions. The fee is subject to change to maintain a subsidy neutral program required by Public Law 111-212.

Information for gaining access to the Agency’s Guaranteed Annual Fee (GAF) system can be found at https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library.

A. Amount of Annual Fee

The servicer will pay an annual fee to the Agency which is calculated on the average scheduled unpaid principal balance of the mortgage.

B. Calculation of Annual Fee

The amount of the annual fee is calculated from the original amortization schedule of the mortgage at loan closing. The annual fee does not include delinquent payments, prepayments, agreements to postpone payments, or loan modifications to the original mortgage.

C. Due Date of Annual Fee

The annual fee is due and payable to the Agency on the 1st day of the billing month with a grace period to payments credited through the 15th day of the billing month. Electronic payments submitted on a business day prior to 7:00 p.m. Central Time will be credited the next business day. Electronic payments after 7:00 p.m. Central Time, or on a non-business day, will credit two business days later.

D. Payment of Annual Fee

The servicer is responsible for the payment of the annual fee to the Agency.
E. Advance Notice, Billing, and Reconciliation of the Annual Fee

Servicers will receive advance notice, two months prior to the current annual fee due date, documenting the annual fee amount due in the subsequent year to allow the servicer to adjust a borrower’s escrow collection to accommodate the next scheduled billing period. Advance notices are generated on the first business day of the month.

The annual fee billing file will be available to the servicer on the anniversary closing month of the loan each year. Payment of any annual fee billed is due to the Agency on the 1st day of the month following the anniversary date of loan settlement.

The billing file will outline the current annual fee amount due, all past due annual fee amounts, and all late charge amounts due for each individual loan in the servicer’s portfolio that are subject to an annual fee.

F. Late Charge on Unpaid Annual Fee

Payments received by the Agency after the payment dates prescribed in this section and supported by §3555.107(i) of 7 CFR 3555 shall include a late charge of four percent of the unpaid fee amount.

In addition to the initial late charge provided, the lender may be assessed an additional late charge on any annual fee remaining unpaid after the last day of the month in which payment was due. This additional late charge will be one percent of the unpaid annual fee amount. Annual fee late charges cannot be passed on to the borrower.

G. Period Covered by Annual Fee

The initial annual fee shall cover the period effective with the first day of the calendar month following the settlement date and ending on the last day of the settlement anniversary month. Subsequent annual fee payments shall cover the twelve-month period preceding each subsequent anniversary date.

H. Duration of Annual Fee

The servicer shall pay the annual fee to the Agency until termination of the Loan Note Guarantee. Termination may be any of the following:

- When the mortgage reaches maturity;
- At prepayment. The borrower paid the mortgage in full prior to the maturity date or by an approved short payoff;
• Foreclosure. The property was acquired by a lender or third party at a foreclosure
sale; or

• Voluntary conveyance. The property was conveyed to the lender through an
approved deed-in-lieu of foreclosure agreement.

A termination event must be reported to the Agency within 15 days of occurrence.

I. Pro rata payment of the annual fee

If the Loan Note Guarantee is terminated prior to the due date of the annual fee due,
the servicer shall pay a prorated portion of the fee. The annual fee is prorated monthly
beginning with the month proceeding the settlement date. The servicer must determine
how many months of the scheduled annual fee period have elapsed at the time of
termination. Regardless of what day of the month the loan is terminated, the entire
month in which termination occurs will be included in the prorated calculation.

If the Loan Note Guarantee is terminated after the due date of the annual fee payment,
the servicer shall pay a prorated portion of the annual fee. The calculation will be
prorated from the due date of the last annual fee to the date of termination.

A pro rata annual fee will also be due and payable after a foreclosure is complete.
The lender shall pay a portion of the annual fee prorated from the due date of the last
annual fee to the date of settlement.

J. Method of Payment of the Annual Fee

Payment of the annual fee will be remitted electronically. Implementation and
technical guides to explain electronic payment of the annual fee may be found on the

K. Nonpayment of the Annual Fee

If for any reason the servicer fails to pay the scheduled annual fee payment, submitted
loss claims may be reduced by the cumulative amount of unpaid annual fees, late fees
and/or additional late charges due the Agency.

Servicers are subject to termination of their eligibility to participate in the SFHGLP
due to nonpayment of the annual fee in accordance with §3555.52(c)(1) of 7 CFR 3555
and Chapter 3 of this Handbook.
16.6 TECHNOLOGY FEE

Lenders will pay the Agency a technology fee, which may be passed to the borrower as an authorized loan purpose, when the request for loan guarantee is submitted via the Agency’s Guaranteed Underwriting System (GUS). The fee can be included in the loan amount subject to maximum loan-to-value thresholds. The technology fee will be collected through the Agency’s LLC system interface with Pay.gov when the lender submits the loan closing package electronically.

A. Amount of Technology Fee

The Agency will notify all lenders via the Agency website and GovDelivery of the required technology fee amount. The technology fee is nonrefundable once the loan is closed and the Loan Note Guarantee has been issued. Failure to pay the technology fee at the time of closing will result in denial of the Loan Note Guarantee.

B. CFPB Forms: Loan Estimate and Closing Disclosure

When the technology fee is passed on to the consumer, it will be disclosed on the Loan Estimate and Closing Disclosure as "Services You Cannot Shop For/Services Borrowers Did Not Shop For” in accordance with 12 CFR 1026.37(f)(2) and 1026.38(f)(2).

These items should be titled as “USDA Technology Fee” on both disclosures when applicable.

16.7 AGENCY REVIEW OF CLOSING DOCUMENTS AND ISSUANCE OF THE GUARANTEE

The Agency will review the required loan closing documents to ensure the lender has completed and fulfilled all requirements specified on the Conditional Commitment have been satisfied.

A. Incomplete Closing Documents

If the Agency determines that the closing documentation is incomplete or has correctable errors, the lender should be granted up to 30 days to correct the situation. The lender will be notified of incomplete packages by telephone, in writing, typically by e-mail, and, if necessary, by regular mail. Agency staff should make every effort to contact the lender and determine the time required to provide the necessary documentation. While the burden of submitting a complete loan closing package is on the lender, Agency staff should be cognizant that the lender cannot satisfy investor requirements without possession of the Agency’s Loan Note Guarantee. If the loan package is not complete within 30 days, and the account is in default, the Agency will not issue a Loan Note Guarantee.
Guarantee. The Agency will return the loan closing package if corrections cannot be made within 30 days.

B. Acceptable Closing Documents

Lenders:
Lenders that utilize the electronic method of loan closing will:

• Submit their upfront guarantee fee and technology fee electronically through the Pay.gov interface with LLC;

• Submit all required documentation through the LLC system; and,

• Retrieve and print the Loan Note Guarantee within the LLC system.

Lenders that submit non-electronic loan closings will:

• Submit paper checks for the upfront guarantee fee and technology fee (for paper check delivery instructions download the Non-Electronic Closing and Paper Check Guide found at https://www.rd.usda.gov/programs-services/lenders/usda-line-training-resource-library)

• Submit all required documentation by encrypted email to the Production Team which issued the Conditional Commitment; and,

• Receive the Loan Note Guarantee electronically.

Agency Staff:

• Will review and determine if the closing documents are acceptable and issue the Loan Note Guarantee within 10 business days of receipt of the closing package;

• Process the upfront guarantee fee and technology fee paid by check in accordance with RD Instruction 1951;

• Enter loan closing information into the Guaranteed Loan System (GLS);

• Provide Form RD 3555-17/E and the Loan Amortization Schedule, to the lender and,

• Retain a copy of Form RD 3555-17 for the Agency’s imaging repository.
NOTE: The Loan Note Guarantee does not take effect until Form RD 3555-17/E is executed or issued by the system generated method.

C. Unacceptable Closing Documents

The Agency will not issue the Loan Note Guarantee if there are errors in the closing documents, the loan does not meet all program requirements, does not meet any conditions set forth on the Conditional Commitment, or if the applicant receives cash back at closing in excess of the amount borrower paid out of pocket for costs such as a deposit, earnest money, an appraisal, or other allowable items that may be financed with the loan being guaranteed.

Loan funds and/or seller paid concessions may not be disbursed to the applicant(s). Lenders can correct oversights and unauthorized use of loan funds. If the lender can make the necessary corrections, the Agency will ensure the loan meets regulatory requirements prior to issuance of the Loan Note Guarantee.

Frequently asked questions regarding corrections after the loan has closed can be answered in Attachment 16-B.

<table>
<thead>
<tr>
<th>Corrections of loans closed for higher loan amounts and/or interest rates than authorized on the Conditional Commitment:</th>
<th>Correction of loans that have released unauthorized loan funds to the borrower at closing:</th>
<th>Correction of loans submitted to the LLC but prior to issuance of the LNG:</th>
<th>Corrections of loans after issuance of the LNG:</th>
</tr>
</thead>
<tbody>
<tr>
<td>See page 5 of Attachment 16-B</td>
<td>See page 4 of Attachment 16-B</td>
<td>See page 5 of Attachment 16-B</td>
<td>GUS/GLS will not be released. See pages 4-5 of Attachment 16-B for self-reporting instructions.</td>
</tr>
</tbody>
</table>

If the Agency determines the Loan Note Guarantee cannot be issued, the Agency will notify the lender of the reasons and provide review and appeal rights as described in Appendix 3 of this Handbook. Guaranteed loan funds will not be de-obligated until all appeal rights have expired, even if the process continues across fiscal years. If the Agency is upheld on appeal, Agency staff will de-obligate the funds in GLS. If the Agency’s decision to deny the loan is overturned, the approval official will immediately take the necessary steps to issue the Loan Note Guarantee.
16.8 CLOSING DATE

The date of closing will be defined as the closing date listed on the Closing Disclosure and entered on the GLS Add Loan Closing screen.

Borrowers may elect an interest credit settlement, where interest will be paid at closing to the previous first day of the month. The maturity date for this type of settlement will be slightly less than 30 years. Example: Borrower closes loan on October 3, 2019. For most loan closing settlements, interest would be paid from the settlement date to the beginning of the next month, November 1, 2019. The first payment would be due December 1, 2019. The maturity date would be November 1, 2049. Should the borrower elect an interest credit settlement, fewer funds are required at closing. Interest would be paid to the previous first day of the month, October 1, 2019. The first payment would begin November 1, 2019 and the maturity date would be October 1, 2049 in this example.

16.9 DUPLICATE LOAN NOTE GUARANTEE

Lenders utilizing the LLC system can retrieve a reissued Loan Note Guarantee from the LLC system. Occasionally a lender may request a certified copy or a duplicate original of Form RD 3555-17. Many investors accept a certified copy, or scanned copy, while others require a duplicate original. A lender’s request for a certified copy, scanned copy or duplicate original of Form RD 3555-17/E will be honored.

16.10 TRANSFERRING LOANS AND/OR SERVICING RIGHTS

Lenders may transfer guaranteed loans to other USDA approved lenders by following the requirements described in Chapter 4 of this Handbook.

16.11 ACCEPTABLE LIEN POSITION

The guaranteed loan must have first lien position at closing; however, the lender may permit liens junior to the guaranteed loan if:

- The lien will not interfere with repayment of the loan and has been considered in the underwriting process.
- The total value of all liens on the property is less than or equal to the property’s market value, except when a “soft-second” for down payment and/or closing costs assistance creates the overage.
• The junior lien is for an authorized loan purpose.

16.12 OWNERSHIP REQUIREMENTS

A. Lender and Agency Responsibilities

After closing, the lender must compare the deed of trust or real estate mortgage with the title opinion to assess lien priority, assure the collateral is accurately covered, verify the date and time record, and ensure that the loan closing instructions have been followed. The Agency does not set policy for survey requirements; however, it is the lender’s responsibility to ensure that ownership interest that protects the security property has been obtained after the loan is closed. If the borrower defaults on the loan, the lender must be able to foreclose on the property to settle the debt. If the lender failed to obtain all required security, the originating lender may be subject to indemnification if a loss claim request is made to reflect the lender’s failure to meet the lien requirements.

B. Acceptable Forms of Ownership

The two forms of ownership acceptable to the Agency are fee-simple and secure leasehold.

1. Fee-Simple Ownership

The most common form of ownership is fee-simple where the borrower holds a fully marketable title to the property. This title is evidenced by a deed that vests full interest in the property to the borrower as mortgagor.

2. Secure Leasehold Interest

Although fee-simple ownership is preferable, the borrower may have a secure leasehold interest in the property. Leasehold interests are acceptable when all the following conditions are met:

• The applicant must be unable to obtain fee-simple title to the property,

• The rent charged for the lease must not exceed the rate paid for comparable leases, And

• The appraisal documents these conditions.

The lessor must own the fee-simple title. This provision does not apply to a lessor who is a Native American possessing a leasehold interest on restricted land. Trust or restricted land must remain in trust or restricted status. In these cases, the mortgage, deed of trust, leasehold interest or other security interest must be approved by the
Secretary of the Interior. For those loans to Native Americans on restricted or trust land, the lender must obtain:

- Evidence that the tribe has enacted legally binding and effective foreclosure procedures and will enforce those procedures upon notice of default from a lender.

- Evidence that the tribe has enacted legally binding and effective eviction procedures and will enforce those procedures upon notice of default from a lender.

- Evidence that the tribe has adopted procedures ensuring that the guaranteed loan will always have first lien priority (if applicable) and will be satisfied before all other property debts (excepting tribal taxes) OR has adopted legislation requiring the tribe to follow state or local priority of lien procedures.

- A copy of the tribe’s lease for use on residential land.

- The lender will adhere to the Tribe’s mortgage, foreclosure and eviction ordinances and the terms of the lease and the lender can only sell the leasehold interest to the Tribe, the tribally designated housing entity, or another tribal member. The lender and RD staff should consult with the Tribe to ensure they adhere to the Tribe’s ordinances, the terms of the lease, and may exercise flexibility as directed by the Tribe. The Agency’s Native American Coordinators should also be contacted for additional assistance.

For all other leasehold interest:

- Leasehold estates are an accepted practice and readily marketable in the area where the subject property is located.

- Neither the leasehold nor the fee-simple title may be subject to a prior lien unless the Agency authorizes acceptance of the prior lien before loan approval.

- The lease must be in writing, recorded and contain all the following provisions:
  - The lessor’s consent to allow the lender’s mortgage.
o The right of the lender to foreclose and sell the property without restrictions that adversely affect the market value of the property.

o The right of the lender to bid at a foreclosure sale or to accept voluntary conveyance of the property in lieu of foreclosure.

o The right of the lender to occupy, sublet, or sell the property should the leasehold be acquired through foreclosure, voluntary conveyance, or abandonment.

o The right of the borrower to transfer the leasehold and lender mortgage to an eligible transferee who will assume the lender’s debt if the borrower defaults or is unable to continue with the lease.

o A negotiated agreement with the lessor before the leasehold interest is approved regarding the lender’s obligation to satisfy unpaid rent or other charges accrued before or during the time the lender has possession of or title to the leasehold. During negotiations, the lender should consider the length of time it will take to foreclose, how much the Agency would be responsible for, and when the lender would have to pay.

o Fair compensation to the borrower for any part of the property taken by condemnation.

o The unexpired term of the lease must be at least 150 percent of the term of the mortgage.

• The language regarding amendments to mortgages with leasehold interests, specified in Attachment 16-A of this Chapter, must be inserted in the mortgage.

C. Insurance Policy Requirements

1. Hazard Insurance

   Until loans are paid in full, lenders must ensure that borrowers continuously maintain hazard insurance on the collateral to protect against fire and weather-related damage. A hazard insurance policy must be in force at the time the loan is closed. A policy must document if the dwelling is on a leasehold to ensure state laws regarding insurance requirements are met.
Lenders should adopt accepted industry standards for hazard insurance as noted below:

- Hazard insurance providers should have ratings in accordance with the most recent Government Sponsored Enterprise (GSE) requirements.

- Hazard insurance policies should conform to the GSE coverage requirements of “the standard extended coverage endorsement,” which states that a policy cannot be accepted that in whole or part excludes wind, hurricane or catastrophe insurance unless the coverage is provided in another policy with the same coverage limits as the hazard policy.

- Borrower occupied properties should have replacement cost coverage in an amount equal to the guaranteed value of the improvements or the unpaid principal balance, whichever is less. Deductible(s) should not exceed the greater of $1,000, one percent of the policy coverage, or the minimum deductible offered by the borrower’s chosen insurance carrier.

2. **Flood Insurance**

   If a dwelling is in a Special Flood Hazard Area (SFHA) as identified by the FEMA, the property must be located within a National Flood Insurance Program (NFIP) participating community and the borrower must obtain flood insurance. The lender must ensure the borrower continuously maintains flood insurance for the life of the loan and that the policy is in force at the time of loan closing.

   Flood insurance must cover the lesser of the outstanding principal balance of the loan or the maximum amount of coverage allowed under NFIP. Unless a higher amount is allowed by state or federal law (which includes FEMA policies), the maximum deductible clause for a flood insurance policy should not exceed the greater of $1,000, one percent of the face amount of the policy, or the minimum deductible offered by the borrower’s chosen insured carrier. Existing dwellings for the SFHGLP are eligible if flood insurance is available.
ATTACHMENT 16-A

AMENDMENTS TO MORTGAGES WITH LEASEHOLD INTEREST

The following paragraphs must be inserted in the mortgage. The first paragraph should be placed directly before the legal description of the real estate.

“All borrower’s right, title, and interest in and to the leasehold estate for a term of ____ years beginning on _____________, 20__, created, executed and established by certain Lease dated ______________, 20__, by ____________________, Page ____ of ____ Records of said County and State, and any renewals and extensions thereof, and all borrower’s right, title, and interest in and to said Lease, covering the following real estate.”

“Borrower will pay, when due, all rents and all other charges required by said Lease, will comply with all other requirements of said Lease, and will not surrender or relinquish any of borrower’s right, title, or interest in or to said leasehold estate or under said Lease while this instrument remains in effect.”
Guaranteed Rural Housing

Loan Closing Reference Guide

Q: I am trying to access the LNG from the Single-Family Housing Lender Administration List page in the LLC system the USDA LINC website, but nothing is coming up when I search for the Borrower/Loan.

A: Verify the lender is using the correct Borrower ID number. Ensure the lender is selecting the correct “Request Type” which is “Loans.”

Q: I did not receive the email with a link to the LNG. Can you resend it to me?

A: The LNG can be accessed by the lender anytime once it is issued by USDA. Lenders can retrieve a copy from GUS by accessing the Application Documents Page. The LNG is also available via the LLC System. See below steps:
Q: Where can I find instructions for submitting the lender loan closing?
A: The USDA RD LINC Training and Resource Page includes the “Lender Loan Closing (LLC) User Guide”. Scroll down the resource page to the “Lender Loan Closing/Administration” section of the page. There are many helpful resource aids in this section.

Q: How do I change the LLC roles of my associates? How do I modify or delete Security Administrators?
A: The LLC Administrative Guide is available on the USDA RD LINC Training and Resource Page under the “Loan Closing / Administration” section. There are step by step instructions to add, modify, or delete existing users. Adding or removing a Security Administrator is accomplished by completing the “Additional Lender Security Administrator” form located under the “Security” portion of the USDA RD LINC Training and Resource Page.
Q: It has been over 30 days since the loan closed, but our company forgot to submit the loan closing package. Is it too late?

A: No. USDA will continue to accept complete loan closing submissions to assist the lender to obtain an LNG. If repayment of the loan has commenced, be sure to upload a payment history with the loan closing package to ensure the loan is not delinquent.

Q: I think I submitted the loan closing, but I am unsure how to confirm. Can you check for me?

A: The easiest way to check on a submitted loan closing if to log into GLS and check the “Add Loan Closing” screen. Scroll towards the bottom to see if the upfront fee payment information is completed/accepted. If the lender asks this question on the same day, they submitted the LLC, the payment will reflect “pending” until the next day. The LNG cannot be issued by USDA until the payment status changes to “settled”.

Q: I submitted the loan closing, but I did not receive the loan closing confirmation screen. Our company requires us to print this for our files.

A: Lenders may still get a copy of this confirmation. Go to the Single Family Housing Lender Administration List page in the LLC system. Enter the Borrower ID. Ensure the “Request Type” is set to “Obligations”. When the correct Borrower has been identified, select the “Action” as “Lender Loan Closing Confirmation”. Click on the Borrower ID hyperlink.
Q: Unauthorized loan funds were released to the borrower at closing. How can we correct this?

A: Lenders have two possible solutions:
   1. Lender may apply the amount of the unauthorized loan funds to the principal loan balance. Documentation of the amount applied must be submitted to USDA.
   2. Loan fees paid by the applicant(s) with credit cards or other short-term loans may not be reimbursed at closing. If the lender is required to reimburse an applicant as the result of erroneous preparation of the Loan Estimate funds may be provided directly to the applicant since it represents a penalty due from the lender.

Q: I have received the Loan Note Guarantee, but our quality control/investor/etc. will not accept the loan until X is corrected. Can you please release the file back to me for correction of GUS?

A: No. Once USDA has issued an LNG, GUS will not be released. LNG’s will not be revoked. Once they are issued, they remain valid per §3555.108(a). The lender may submit a “Self-Report” to the Agency for review and response. A self-report must include:

- Borrower ID/GUS Application ID and last name to select the correct file
- Description of the issue
- Provide supporting documentation, if applicable
• Lender/Servicer contact information

Submit this information via email SFHGLD.Compliance@usda.gov. Response time is dependent on the issue and number of submissions received by USDA. It is the responsibility of the lender to ensure their investor will accept responses from USDA for investor delivery.

Q: The loan has closed for a higher loan amount and/or interest rate than what was authorized on the Conditional Commitment. What can I do?

A: The lender may perform a loan modification to rectify the loan amount and/or interest rate to match the issued Conditional Commitment. If that is not an option, the lender must request USDA to release the GUS loan back for correction. Once the loan amount and/or interest rate has been corrected, a new underwriting submission may be performed. USDA will issue a new Conditional Commitment.

Q: I need to have GUS released for correction after an automated loan closing has been submitted but prior to issuance of LNG.

A: Prior to de-obligation of funds, Agency employees must ensure that the fiscal year funds utilized for the loan were not prior year funds. If the funds are from the current year, follow the instructions on how to reverse an LLC transaction prior to the issuance of an LNG found in the SharePoint site >3555 One Stop Shop>Guides and Technical Bulletins>Agency>Reversing Closing Prior to LNG Guide.

Loans obligated with prior year funds cannot be released in GUS. Agency staff must follow the guidance in Chapter 14 of this handbook to process restoration of prior fiscal year funds. The Loan must be submitted manually in order to be re-obligated.

Please Note: The GRH fee was paid when the lender submitted their previous loan closing. When the closing is deleted from GLS the fee they have paid does not get returned to the lender. Instead, it goes into a pending state until USDA recloses the loan in GLS. Do not ask the lender to resubmit the upfront Guarantee Fee.
17.1 INTRODUCTION

Servicers are responsible for servicing SFHGLP loans and protecting security interests and servicing accounts in a reasonable and prudent manner. This Chapter provides additional guidance about the ways in which servicers are expected to service loans that are either current, or less than 20 days past due. Servicing non-performing loans is described in Chapter 18 of this Handbook.

Section 1 defines the requirements associated with servicing current accounts, such as collecting payments, escrowing funds, processing interest assistance agreements, and loan reporting functions. Section 2 defines how the servicer should consider borrower requests for partial releases of security, and transfers and assumptions.

The holding lender is responsible for ensuring that the loan is properly serviced, even if servicing functions are contracted out to a sub-servicer. The phrase “the lender” applies to any organization associated with the origination and servicing of a loan. It is up to the holding lender and the servicer jointly to determine how each responsibility will be fulfilled.

A. Selling SFHGLP Loans – 7 CFR 3555.54

Lenders may sell SFHGLP loans to any USDA approved lender. While the guarantee is transferred with the loan, the originating lender will be held to the responsibilities in accordance with Section 4.9, Indemnification, of Chapter 4 regarding omissions, unresolved review findings stemming from problems at loan origination when a loss claim is requested. Requirements for loan sales are described in Chapter 4 of this Handbook.

B. Contracting for Servicing of SFHGLP Loans

The holding lender may choose to contract with a third party to service its loans. The lender remains responsible for the quality of the servicing and for monitoring the third-party provider.
C. Notifying the Agency of Loans Sales or Servicing Transfers

Whenever lenders sell SFHGLP loans or contract servicing responsibilities to a third party, the transferring lender must inform the Agency within 15 days of the occurrence. The Lender must send Form RD 3555-11 to the National Financial and Accounting Operations Center (NFAOC). See Appendix 4 for this mailing address.

SECTION 1: SERVICING PERFORMING LOANS

17.2 REQUIRED SERVICING ACTIONS

In addition to collecting regularly scheduled payments, servicers are also responsible for a wide variety of servicing activities including, but not limited to, the following actions.

A. Ensuring Payment of Loan

Servicers should have a system of record to record loans, monitor payment activity, and the history of borrower accounts. Lenders are responsible for monitoring activities completed by third party servicing providers.

B. Handling Late Payments and Fees

Servicers may assess late payment charges to a borrower’s account when appropriate; however, these charges will not be covered by the loan guarantee. Late payment charges are subject to the following restrictions.

- The late payment charge must not exceed a rate that is reasonable and customary, as governed by state law, the percentage of the payment due as prescribed by HUD, or the percentage of payment as prescribed by Fannie Mae or Freddie Mac.

- For borrowers receiving interest assistance, payment will be made by the Agency directly to the servicer on or before the 15th day of each month regardless of the date a borrower’s loan payment is due. Late fees are limited to the borrower’s portion of the payment and never against the interest assistance owed by the Agency.
C. Ensuring Payment of Taxes and Insurance

Servicers must have adequate internal control processes to ensure that real estate taxes, assessments, and flood and hazard insurance premiums are paid as required for all property securing a guaranteed loan. Escrow funds may be used only for the purpose for which they were collected.

- **Servicers with escrow capacity.** Servicers that have the capacity to escrow funds for the payment of taxes, assessments, and insurance must do so. Escrow accounts for all guaranteed loans must be administered in accordance with all applicable regulations and must be insured by the FDIC or the NCUA insurance fund.

- **Servicers without escrow capacity.** Servicers that do not have the capacity to escrow funds must follow their Agency approved plan for confirming that such obligations are paid on time. Rural Development may revoke the acceptance of the servicer’s plan if loan performance indicates that delinquency and loss rates are impacted by the servicer’s inability to escrow for taxes, assessment, and insurance. Rural Development will not include any taxes or insurance amounts that accrued prior to due date of last paid installment in any potential loss claim.

- Third party servicers must have the capacity to escrow funds.

D. Nonpayment of Taxes and/or Insurance

If real estate taxes and hazard insurance premiums are not paid, servicers must perform the following functions:

- Servicers must notify the borrower upon discovery of nonpayment and request evidence of payment within 30 days of such notice.

- Servicers may advance funds and arrange with the borrower for repayment if the borrower does not provide proof of the payment within the specified time or indicates an inability to make payments. The servicer must then begin to collect funds for future tax assessments and hazard insurance premiums and hold them in escrow.
E. Maintaining Hazard and Flood Insurance

Until the loan is paid in full, servicers must ensure that borrowers continuously maintain hazard and, if applicable, flood insurance in an amount sufficient to protect the property securing the guaranteed loan. Servicers should adopt accepted industry standards for hazard and flood insurance as noted in Chapter 16 of this Handbook.

- Servicers must administer hazard insurance claims involving property damage in an expeditious manner. All payments for insured losses must be applied to the restoration of the security or to the loan balance.

- Insurance claims for structural damage may be paid directly to the homeowner to advance funds to contractors, provided all of the following conditions are met:
  - The mortgage is current;
  - The borrower’s payment history does not show delinquencies of two payments or more;
  - The property is occupied by the borrower;
  - The released funds may not exceed $20,000.00; and
  - The borrower must execute an affidavit in which the borrower expressly agrees to apply the released funds promptly to repair or reconstruct the residence.

- For insurance claims that do not meet the criteria required above, servicers must supervise the insurance funds if a loss to the insured property occurs. All repairs and replacements using the insurance proceeds must be planned, performed and inspected in accordance with Agency construction requirements and procedures. Chapter 12 of this Handbook describes policies for obtaining plans, specifications and completing construction inspections involving repairs. See Chapter 18 of this Handbook for additional information regarding insurance claims involving property damage.

- In the case where the borrower cannot demonstrate adequate hazard insurance, the servicer can place a policy with coverage in accordance with Chapter 16 of this Handbook with a deductible level of no greater than $1,000 or 1 percent of the policy limit.
F. Assessing Eligibility for Interest Assistance

Servicers must annually review the income of borrowers who are receiving interest assistance to ensure that they are receiving the appropriate amount. Appendix 6 of this Handbook includes the Agency’s policies for annual reviews of a household’s income and for providing interest assistance during the loan.

G. Addressing Unauthorized Assistance or Overpayment of Interest Assistance

The servicer is responsible for notifying the borrower of the Agency’s determination of unauthorized assistance or overpayment of interest assistance. If the Agency determines that the borrower received unauthorized assistance or an overpayment, the servicer must surrender the guarantee, in the case of unauthorized assistance, or collect the excess assistance, in the case of an overpayment. Appendix 6 of this Handbook outlines the policies for Agency determinations of unauthorized assistance and the actions the servicer may be required to take.

H. Obtaining Final Payments and Recapture of Shared Equity

The servicer must not satisfy a borrower’s account and release the security instruments until full payment of all amounts owed; including unpaid principal and interest, protective advances, overpayment of interest assistance, and shared equity has been received and verified. For those borrowers who have received interest assistance, even if the borrower repays the full outstanding account balance, the account is not considered paid in full until shared equity is paid, as described in Appendix 6 of this Handbook.

Upon full satisfaction of the borrower’s account, the servicer will return the Loan Note Guarantee to the Agency approving office marked “cancelled.” If the Loan Note Guarantee is not available, the servicer must advise the Agency in writing that the loan has been satisfied by payment in full.

I. Handling Borrowers in Bankruptcy

The servicer is responsible to take appropriate action during bankruptcy proceedings to protect the borrower and the government’s interest. Upon receipt of a bankruptcy notice, the servicer must:

- Obtain a copy of the bankruptcy petition;
- Complete and file a proof of claim within the time set by the bankruptcy court;
Maintain copies of all documents associated with the bankruptcy;

Review the proposed repayment plan;

Comply with all applicable laws and regulations;

Monitor the bankruptcy proceedings;

Monitor receipt of post- and pre-petition payments; and

Determine that tax and insurance payments are current or determine if additional funds are necessary to maintain an escrow account.

The servicer must refer the account to an attorney when the account becomes 30 days or more delinquent. Refer to Chapter 18 for more detailed information on delinquent accounts in bankruptcy.

J. Complying with the Servicemembers Civil Relief Act (SCRA)

The Servicemembers Civil Relief Act requires that the interest rate charged a borrower who enters full-time active military duty after a loan is closed not exceed six percent if the borrower’s military obligations are affecting their ability to pay. The borrower should supply the servicer with documentation of their active duty status. Active military duty does not include participation in a military reserve or the National Guard unless the borrower is called to active duty.

1. Change of Active Military Status

The servicer will cancel the six percent interest rate and resume the promissory note interest rate when notified by the borrower that he or she is no longer on active military duty. The servicer may process a new payment assistance agreement if the borrower is eligible according to Appendix 6 of this Handbook.

2. Amount of Assistance

According to Appendix 6 of this Handbook, after reduction of the interest rate to six percent, the amount of payment assistance received during the period of active military duty will be the difference between the amount due at the subsidized rate for principal and interest and the amount due at the six percent interest rate. The six percent interest rate will be effective with the first payment due after the servicer confirms active military status of the borrower.
The Agency will not include interest on a loss claim filed in excess of six percent for
the period the veteran was eligible, nor for any period of time the servicer failed to
establish the note rate after notification by the borrower of non-active military service.

K. Approving Borrower Actions

During the term of the guaranteed loan, the borrower may ask the servicer for
permission to undertake actions that could affect the value of the security property.
Section 2 of this Chapter provides guidance to servicers regarding such actions as a
partial release of security or a transfer and assumption of an outstanding guaranteed loan.

17.3 REPORTING REQUIREMENTS

All servicers must report all SFHGLP loans in their portfolio. Servicers with more
than 100 loans in their portfolio must submit monthly status reports via Electronic Status
Reporting (ESR) to the NFAOC. Servicers with less than 100 loans have the option to
submit monthly status reports through Web Reporting Input screens. New servicers, as
part of the lender approval process as outlined in Chapter 3, will enter into an agreement
to electronically report the status of SFHGLP portfolio serviced. Servicers’
documentation can be found at:

Scroll to “Electronic Status Reporting.”

If a lender is unable to sell a loan or retains the loan they must contact the NFAOC
at rd.nfaoc.hsb@stl.usda.gov to initiate the process for monthly status reporting and
annual fee payment. Failure to submit timely loan status reporting or annual fees is a
violation of a lender’s participation agreement and could result in a reduced or denied
loss claim payments (Appendix 8 of this Handbook).

A. Monthly Reports

The servicer must transmit EDI Transaction Set 203 reporting on the status of each
guaranteed loan in the servicer’s portfolio and EDI Transaction Set 264 identifying each
borrower with a loan that is 30 or more days delinquent by the sixth government workday
of each month. For example, a payment that is due on April 1 and remains unpaid on
April 30 will be included on the default report submitted by the sixth working day in
May. These reports will be transmitted following the EDI documentation found at:

Scroll to “Electronic Status Reporting.”
The servicer must continue to report on each loan until:

- The default is cured;
- The mortgage is paid-in-full; or
- The account is liquidated through foreclosure sale, pre-foreclosure sale, or a deed-in-lieu of foreclosure until the servicer is in receipt of the loss claim payment.

B. Non-Compliance

Failure by the lender to comply with the Agency’s reporting requirements or other program guidelines, or failure to provide high quality origination, underwriting, or servicing can result in the following Agency actions: withdraw the lender’s approval; transfer its portfolio of SFHGLP loans; require the lender to indemnify the Agency if a loss is paid; deny or reduce future loss claims; and/or withdraw the loan guarantee. The Agency will notify the lender in writing of non-compliance and provide appeal rights, if necessary, in accordance with Appendix 3. Failure to comply with the reporting requirements and other lender responsibilities outlined in Chapter 4 could indicate non-compliance.

17.4 PROTECTIVE ADVANCES [7 CFR 3555.302]

Servicers may advance funds to pay for emergency expenses necessary to protect the security property and charge the cost against the borrower’s account. If the borrower is unable to repay the advance in a lump sum with the next scheduled payment, the servicer may schedule repayment consistent with the borrower’s ability to pay if the borrower can make regular payments and bring the mortgage account current within 18 months or less. In most cases, the servicer should be able to arrange with the borrower to bring the account current within 120 days.

A. Advances for Property Repairs

Servicers must ensure that borrowers immediately notify them of any loss or damage to insured property and collect the amount of the loss from the insurance company. Because protective advances are covered by the guarantee, servicers should advance funds only to pay for emergency repairs to protect the security value of the property. Protective advances for repairs should be considered only if the borrower informs the servicer that an additional loan or reimbursement from an insurer cannot be obtained in an appropriate timeframe, or if the borrower has abandoned the property.
Protective advances that are not reimbursed through insurance coverage are covered by the guarantee with proper documentation as to why the advance was not covered by insurance, if the advance was other than for taxes and insurance premiums.

Either the borrower or the servicer may identify the need for repairs of the security property. All repairs, replacements, and new construction must be planned, performed, and inspected in accordance with the standards specified in Chapter 12 of this Handbook. If the servicer is unsure whether the repairs would affect the security value of the property, the servicer should request that an inspector examine the property to assess whether repairs are necessary. Based on the value of the property, the servicer must determine whether the repairs are cost effective and document this assessment in the servicer’s file. Protective advances exceeding $2,000.00 require Agency concurrence.

**B. Advances for Taxes and Insurance**

The servicer is responsible for maintaining escrow funds in a reasonable and prudent manner assuring real estate taxes, insurance and assessments are paid timely even if a shortage exists requiring the servicer to advance funds on behalf of the borrower exists. The Servicer will notify the borrower in writing of any escrow shortages and document the decision in the servicer’s file. Servicers are encouraged to adopt accepted industry standards for hazard and flood insurance as noted in Chapter 16 of this Handbook. Servicers may also advance for unpaid association dues to protect the status of the lien when necessary.

**17.5 INSURANCE PROCEEDS**

When insurance funds remain after payments for all repairs, replacements, and other authorized disbursements have been made and the repairs have been inspected in accordance with Agency construction requirements noted in Chapter 12 of this Handbook, the funds must be applied in the following order:

- Prior liens (including past-due property taxes);
- Past-due amounts;
- Protective advances; and
- Released to the borrower if the servicer’s debt is adequately secured.
Hazard insurance proceeds cannot be held to pay an existing arrearage without written consent of the borrower.

SECTION 2: BORROWER ACTIONS REQUIRING SERVICER OR AGENCY APPROVAL

17.6 OVERVIEW

A borrower must obtain approval from the servicer before taking actions that may affect the security value of a property. In certain circumstances, the servicer does not need to obtain Agency approval before consenting to a transaction involving a partial release of the security; however, servicers must obtain approval from the Agency before consenting to a transfer with an assumption of the outstanding debt. Specific guidelines for each type of action are provided below.

17.7 PARTIAL RELEASE OF SECURITY

If a servicer consents to a transaction affecting a security property, such as selling or exchanging security property, or granting a right-of-way across the security property, the servicer must ensure that certain conditions are met and that the mortgage file is carefully documented.

A. Conditions for Partial Release

1. Adequate Compensation

The borrower must receive adequate compensation.

- The sale of any part of the security property must result in a payment equal to the value of the security being released or rights granted;

- The exchange of security property must result in another parcel of property acquired that has value equal to or greater than that being released; or

- The granting of an easement or right-of-way must result in benefits that are equal to or greater than the value of the security property being released.
2. **Net Proceeds**

The net cash proceeds must be used to reduce the principal balance of the outstanding debt or be used to improve the property. Unless the outstanding debt is paid in full the borrower should receive no cash from the transaction. All net proceeds should be applied in the following order:

- Pay customary and reasonable cost related to the transaction owed by the borrower;
- To a prior lien debt, if any;
- To the outstanding balance or used for improvements to the security property. If the funds are to be used for property improvements, the servicer should release the funds as the improvements are completed. The servicer must ensure that the proceeds are used as planned.
- Any funds remaining after the improvements are completed must be applied as a principal curtailment.

3. **Program Standards**

After the transaction is completed, the security property must meet program standards.

4. **Ability to Repay the Loan**

The borrower's ability to repay the guaranteed debt must not be jeopardized. The guaranteed loan should be current and in good standing.

B. **Servicer Delegation**

USDA approval is not required for the voluntary or involuntary release of the security if all the following conditions are met:

- The portion of the property being conveyed does not exceed $10\%$ of the area of the mortgaged property;
- There is no damage to existing structures or other improvements;
• There is no unrepaired damage to sewer, water, or paving;

• All of the payment received as compensation for the taking of the property is applied to reduce the unpaid principal balance of the mortgage; and

• The conveyance occurs after the mortgage loan was guaranteed.

C. Processing a Partial Release - Servicer

To process a partial release under the delegation authority described above, the servicer must complete and/or document the following actions. If the servicer eventually files a loss claim, the claim must be accompanied by the servicer’s certification that all requirements have been met.

• The borrower’s reason for requesting the servicer to make the release, including information regarding the contemplated use of land to be released;

• The monetary consideration, if any, to be received by the borrower;

• Confirm the mortgage loan is in good standing, the amount of principal balance owed and the due date of unpaid installment. If delinquent, confirm the number of delinquent payments;

• Determine the value of the property if a release is processed, taking into consideration any improvements being completed. An appraisal of the security property will be conducted if the most current appraisal is more than 1 year old or if it does not reflect current market value. The appraisals must reflect the value of the property prior to the release of partial security and the value of the remaining property once the release of partial security occurs;

• Complete any forms required by state law;

• A list of unpaid special assessments, if any, and the total amount payable;

• Update the legal descriptions of the property, as necessary;

• Report any restrictions to be imposed on the land to be released;

• Provide a survey or sketch of the property showing dimensions of the portion to be released, the location of the existing and proposed improvements, and the relation of the property to surrounding properties;
• Plans and specifications, including cost estimates, of any alterations proposed for the remaining property after release;

• For an exchange of all or a portion of the security property, obtain title clearance for the new security before the release of the existing security. Security instruments must be obtained for the new property;

• For a sale of all or a portion of the security property, deliver the release when full payment is received; and

• Notify the Agency of any reduction in the outstanding principal balance through monthly default or quarterly status reporting.

D. Processing a Partial Release - Agency

If Agency approval is required and the servicer is nationally approved, the request will be sent to the National Office as listed in Appendix 4. State approved servicers will send requests to the state contact in which the property is located. In such cases the servicer should send evidence of all completed actions to the agency for review. National and state contact information can be found in Appendix 4 of this Handbook.

The approval official will analyze the servicer’s request for partial release and consider the following:

• Estimate of value prior to the proposed release;

• Estimate of value after the proposed release;

• Loss in value attributed to the proposed release;

• The use or purpose(s) to which the released property would be put to;

• The estimated cost of proposed improvements to the remaining property;

• The estimated value of the remaining property after any proposed improvements are completed; and

• Consideration if the remaining mortgage security is less marketable as a result of the release.
Notification of approval/denial will be communicated to the servicer. Any denial must state the reason(s) for denial in detail.

17.8 TRANSFER AND ASSUMPTION

Servicers must obtain written concurrence from the Agency before consenting to a transfer of a property securing a guaranteed loan with an assumption of the outstanding debt to an eligible program applicant. Transfers between family members do not require Agency concurrence since the transferee is not required to assume the debt.

A. Transfer without Assumptions

If the borrower transfers the security property and the transferee does not assume the debt, the servicer does not need to seek Agency approval but must simply notify the NFAOC at rd.nfaoc.hsb@stl.usda.gov to withdraw the loan guarantee.

B. Transfer with Assumption

Servicers must obtain approval from the Agency before consenting to a transfer with an assumption of the outstanding debt. The Agency will review the application as it does any other request for a loan guarantee and will issue a conditional commitment if it approves the transfer. To request a transfer and assumption, the servicer must submit the following to the approving state office:

- A written request for a transfer and assumption, which will distinguish the package from an application for a new loan. The request must state the applicant’s credit worthiness, income eligibility, and include an executed underwriter’s analysis; and

- A fully documented application for guaranteed loan assistance for the prospective purchaser, as described in Chapter 15 of this Handbook. The use of the Agency’s automated underwriting system, GUS, is unsupported on a transfer with an assumption of an outstanding debt.

1. Requirements for an Assumption

The Agency may approve a transfer with an assumption of the outstanding debt if all of the following conditions are met.

- The transferee must:
  - Assume the entire outstanding debt and acquire all of the property securing the guaranteed loan balance; and
• Be an eligible applicant.

• The transferor must:
  • Remain liable for the debt; and
  • Acknowledge continued liability for the debt in writing.

• The property must meet the site, dwelling and environmental requirements described in Chapter 12 or are brought to those standards. Guaranteed loans secured by properties located in areas that are no longer considered rural may still be transferred and assumed.

• The priority of the lender’s existing lien securing the guaranteed loan must be maintained or improved.

• If the account is delinquent at the time of transfer, the servicer may review the transferee for loss mitigation and if eligible execute a modification agreement concurrently with the assumption.

• Any new rates and terms must not exceed the rates and terms allowed for new loans under Chapter 7 of this Handbook, and the interest rate must not exceed the interest rate on the initial loan.

• The transferor must pay any recapture owed at the time of the transfer and assumption, if applicable.

• If additional financing is required to complete the transfer and assumption or to make needed repairs, the Agency may approve a supplemental guaranteed loan if the total outstanding principal balance does not exceed the market value of the property.

• The market value of the security being acquired by the transferee must be at least equal to the secured indebtedness against the property.

• A new guarantee fee must be paid to the Agency. The fee is calculated based on the remaining principal balance, plus any supplemental loan.
2. **Closing a Transfer with an Assumption of the Outstanding Debt**

Once the servicer obtains Agency approval, the servicer may proceed with closing the transaction as it would for any other guaranteed loan. Along with all other required loan closing documents, the servicer must provide the Agency with a conformed copy of the executed assumption agreement. The servicer must process the assumption on a form approved by Fannie Mae, Freddie Mac, HUD, VA or FCS (for FCS lenders only).

The existing *Form RD 3555-17, “Loan Note Guarantee”* will remain in effect. The servicer should note the date, amount assumed, and name(s) of the assuming party on the original *Form RD 3555-17* and provide a copy to the Agency’s approving office.

**C. Garn-St. Germain**

In the following limited cases, which generally involve transfers of title between family members, the Agency will continue to honor the guarantee regardless of whether the transferee assumes the outstanding debt. The due-on-sale clause will not be triggered in the following cases as defined by the Garn-St. Germain Depository Institutions Act of 1982:

- A transfer from the borrower to a spouse or children not resulting from the death of the borrower;
- A transfer to a relative, joint tenant, or tenant by the entirety resulting from the death of the borrower;
- A transfer to a spouse or an ex-spouse resulting from a divorce decree, legal separation agreement, or property settlement agreement;
- A transfer to a person other than a deceased borrower’s spouse who wishes to assume the loan for the benefit of persons who were dependent on the deceased borrower at the time of death, if the dwelling will be occupied by one or more persons who were dependent on the borrower at the time of death, and there is a reasonable prospect of repayment; or
- A transfer into an inter vivos trust in which the borrower does not transfer rights of occupancy in the property.

When a transferee obtains a property with a guaranteed loan through a transfer of title as noted above, the following actions will occur:

- The servicer will notify Rural Development of the transfer.
• Rural Development will continue with the guarantee, whether or not the transferee assumes the guaranteed loan.

• The transferee may assume the guarantee loan on the rates and terms contained in the promissory note. If the account is past due at the time an assumption agreement is executed, the loan may be modified to bring the account current in accordance as described in Chapter 18, Attachment A, “Loss Mitigation Guide.”

• The transferee may assume the guaranteed loan under new rates and terms if the transferee applies and is eligible. Any new rates and terms must not exceed the rates and terms allowed for new loans and the interest rate must not exceed the interest rate on the initial loan as described in Chapter 7 of this Handbook.

• Any subsequent transfer of title, except upon the death of the inheritor or between inheritors to consolidate title, will trigger the due-on-sale clause.

D. Unauthorized Sale or Transfer

For transfers falling under the Garn-St. Germain rule, the transferee is not required to assume the debt. In all other cases, the Agency will withdraw the guarantee if the security property is transferred without an assumption of the debt. If a servicer becomes aware that a borrower has transferred title to a property without the servicer’s knowledge and the transfer does not fall under the Garn-St. Germain rule, the servicer must take one of the following actions:

• Obtain Agency approval for the transfer with assumption if the applicant is eligible to assume the loan;

• Liquidate the guaranteed loan and submit a claim for any loss; or

• Notify the Agency of the transfer and continue with the loan without the guarantee.

E. Modification to Promissory Note and Security Instruments

If the repayment schedule or interest rate changes as a result of the transfer and assumption, the transferor will remain liable for the debt and, therefore, must approve any changes. The rates and terms must not exceed the rates and terms allowed for new guaranteed loans and must not exceed the interest rate on the initial loan. The following will apply:
The debt must not exceed the remaining amount due on the original loan; and

The term of the loan must not exceed thirty years from the date of the transfer and assumption.

The servicer must request and obtain prior approval for the transfer and submit an explanation of the reasons for the proposed change in rates and terms.

17.9 MINERAL LEASES

Servicers must obtain approval from the Agency before consenting to the lease of mineral rights.

A servicer may consent to the lease of mineral rights and subordinate its lien to the lessee’s rights and interests in the mineral activity provided the subordination of the guarantee loan to a mineral lease does not entitle the leaseholder to any proceeds from the sale of the security property and the following are met:

- The security property will remain suitable as a residence;
- The lender’s security interest will not be adversely affected; and
- Rural Development’s environmental requirements are met.

If the proposed activity is likely to decrease the value of the security property, the servicer may consent to the lease under the following conditions:

- The borrower must assign 100 percent of the income from the lease to the servicer;
- Proceeds will be utilized to reduce the principal reduction of the loan; and
- The total rent to be paid is at least equal to the estimated decrease in the market value of the security property.

If the proposed activity is not likely to decrease the value of the security property, the servicer may consent to the lease if:

- The borrower agrees to use any damage compensation received from the lessee to repair damage to the site or dwelling, or
- Assign the proceeds to the servicer to reduce the principal balance.
The servicer remains responsible for documenting their approval and oversight of the above activity and borrower request.

17.10 UNAUTHORIZED ASSISTANCE

Refer to Chapter 1 of this Handbook for information regarding unauthorized assistance.
CHAPTER 18: SERVICING NON-PERFORMING LOANS – ACCOUNTS WITH REPAYMENT PROBLEMS
7 CFR 3555.301

18.1 INTRODUCTION

The servicer is required to employ an experienced and knowledgeable staff, follow accepted industry servicing practices, and maintain a servicing platform that keeps records of all servicing actions. Servicers are fully responsible for complying with this Chapter regardless of any sub-servicing arrangements. Chapter 17 of this Handbook outlines the servicer’s responsibility to report to the Agency all loans through Electronic Status Reporting (ESR).

When a loan becomes past due, the servicer must take prompt and aggressive action to help the borrower bring the account current. The servicer should work closely with the borrower to resolve any delinquency as early as possible to prevent further collection activity. In cases where the borrower is unable or unwilling to repay the loan, the servicer must take prompt action to liquidate the loan, either by encouraging the borrower to liquidate voluntarily or through foreclosure.

Section 1 of this Chapter states the minimum actions the servicer is required to take to bring past-due accounts current. Section 2 of this Chapter describes various alternatives to foreclosure that the servicer will pursue, including traditional and special loan servicing actions. Section 3 of this Chapter describes the policy on custodial property requirements. Section 4 describes the requirements within the foreclosure process. Section 5 provides servicers with requirements when a property is in a county, parish or municipality that has been declared by the President of the United States to be a major disaster area where federal aid in the form of individual assistance is being made available.

SECTION 1: COLLECTION EFFORTS AND REQUIREMENTS [7 CFR 3555.301]

18.2 OVERVIEW

A goal of the Agency is to provide a borrower the maximum opportunity to remain a successful homeowner and the servicer should approach loan servicing as a preventive as well as a curative action. Prompt counseling and follow-up with a borrower who is late with a monthly payment, especially the first payment, is key to enhancing the likelihood of success. The servicer should identify any servicing actions that could aid a borrower who is experiencing repayment problems.
18.3 MINIMUM REQUIREMENTS [7 CFR 3555.301]

When a borrower’s account becomes past due, the servicer must, at a minimum, take the collection efforts described below. Each delinquency should be treated individually using collection techniques that fit the individual circumstances. Additionally, the Agency recommends making personal contact with a delinquent borrower until the delinquency is cured. Debt collection efforts may be suspended when applicable laws restrict creditor action to collect a debt or take action. An example that may be a violation of an applicable law is if the commencement of debtor’s bankruptcy case occurs.

A. Initial Contact

The servicer must attempt to make verbal or written contact with the borrower on or before the day an account becomes 20 days past due. The servicer must send a letter to the borrower if unable to reach the borrower by telephone. This contact must solicit enough information to evaluate the borrower’s ability to cure the default and to help determine the additional servicing actions to be taken. At a minimum, the servicer must attempt to establish and document the following:

- The borrower’s current mailing address and telephone number;
- The reason for the default;
- Whether the reason is temporary or long-term;
- The borrower’s attitude toward the debt;
- The borrower’s present income and employment status;
- The borrower’s current monthly expenses and debt obligations; and
- A realistic and satisfactory arrangement for curing the default.

B. Notify Credit Repository

The servicer must provide an accurate and complete file of the status of mortgages in its Agency-guaranteed loan portfolio to a minimum of three credit repositories each month with the goal of avoiding disputes that could arise from inaccurate or inconsistent reporting.

C. Send Certified Letter to the Borrower

The servicer must send a certified letter to the borrower before an account becomes 60 days past due and the borrower has not made arrangements for payment. The letter should emphasize the importance of meeting the debt obligation, negative impact of non-repayment on the borrower’s credit history and request an interview with the borrower to resolve the past due account and avoid foreclosure.
The information required at the initial contact should be requested in the certified letter if initial contact was not made.

D. Inspect the Property

On or before an account’s 60th day of delinquency and before initiating a liquidation action, the servicer must take the following steps:

- Physical Condition and Occupancy – Assess and document the physical condition of the property and determine the occupancy status of the dwelling. This will include identifying any actions essential to protect and preserve the property;

- Abandoned property – The servicer will document the servicing file outlining the abandonment determination using indicators such as property and yard condition, posted “for sale” signs, presence of personal property or vehicles, last known mailing address, or absence of a power meter. The servicer will refer the loan for acceleration within 15 days of the date of the inspection report confirming the property was abandoned. Additional guidance regarding management methods and activities of custodial properties can be found in section 18.7.A of this Chapter.

- Inspections – The servicer should inspect the mortgaged property at least monthly to verify occupancy and ensure the property is being adequately maintained. Generally, curbside inspections are inadequate to make these determinations and are acceptable to the Agency only if there is danger to the inspector or there are legal restrictions preventing access to the property. Inspection records must be retained in the mortgage file and address at a minimum, the condition of the property, occupancy status, any necessary repairs to protect an abandoned property, the date of inspection, and who performed the inspection.

E. Proceed with Liquidation

When the account becomes 90 days past due and the borrower has been non-responsive or has declined all available foreclosure prevention options, the servicer must initiate liquidation proceedings considering any applicable notice and waiting period under state law.

18.4 DOCUMENTATION REQUIREMENTS AND PENALTIES [7 CFR 3555.301]

A. Collection Records

The servicer must maintain records of all collection efforts and must make them available upon request by the Agency. These records may either be in the form of servicing logs and/or copies of letters sent to the borrower. The records must indicate the following:
• Reason for the default;
• Date(s) and content of written notification(s) to the borrower;
• Dates and results of personal contacts with the borrower to resolve the debt both by telephone and/or in-person;
• Dates and documentation of property inspections; and
• Date liquidation action was initiated.

B. Grace Period for Completing Collection Action

The servicer is required to take all collection actions within the time frames described in Paragraph 18.3 of this Chapter. However, the Agency may allow a grace period of five business days for completing each required collection action. Thus, no penalty will be assessed if the servicer takes the required action before the end of the grace period.

C. Penalties for Failure to Fulfill Collection Obligations

If the servicer fails to take the minimum collection efforts in Paragraph 18.3 and experiences a loss on the loan, the loss claim amount will be reduced. The Agency may apply the penalties below for a servicer’s failure to take the required collection actions. These penalties are described in greater detail in Chapter 19 and Appendix 8 of this Handbook and include the grace period offered by the Agency as noted in Paragraph 18.4 B above.

• The claim may be denied if the servicer failed to attempt to make any contact with the borrower before the loan was 65 days past due.
• The claim may be denied if the servicer failed to notify the Agency, in accordance with Chapter 17 of this Handbook, when the account was in default.
• Accrued interest for the claim will be reduced by 50 percent if the servicer failed to attempt to make a first contact with the borrower within 25 days past the due date, but within 65 days past due.
• If the servicer fails to order an inspection of the property within 65 days past due, but no loss results, the accrued interest will be reduced by 10 percent.
• The servicer is required to protect and preserve the property. The loss claim will be reduced by the dollar value of the loss attributable to the servicer’s failure to inspect and secure an abandoned property as documented by an appraisal.
SECTION 2: LOSS MITIGATION
[7 CFR 3555.301, 3555.303 and 3555.305]

18.5 LOSS MITIGATION OPTIONS

The servicer will make every possible effort to assist borrowers who are experiencing an involuntary inability to pay their mortgage and show cooperation to resolve default situations using appropriate loss mitigation tools. Loss mitigation options include informal repayment agreements, special forbearance agreements, or loan modifications. Special forbearance agreements and loan modifications should be used when information in the servicing file supports the borrower’s ability and willingness to pay. Voluntary liquidation methods such as pre-foreclosure sales and deed-in-lieu of foreclosure may be used to protect the Government’s interest once the servicer has examined other servicing options and determined the borrower cannot continue with the loan obligation. Traditional/standard loss mitigation options must be exhausted prior to use of Special Loan Servicing Options. Consideration must be given to all options prior to initiation of liquidation.

The servicer must attempt to obtain information on the borrower’s financial condition and make an informed determination of the borrower’s ability to repay the arrearage and continue making mortgage payments as scheduled. Details on consideration and processing the below actions are located in the Attachment 18-A, Loss Mitigation Guide:

- Servicing Early Delinquent Loans;
- Informal Repayment Agreement;
- Loss mitigation overview;
- General policies, procedures and minimum actions that constitute effective loss mitigation techniques;
- Special Forbearance;
- Traditional Loan Modification;
- Special Loan Servicing Options;
- Pre-foreclosure Sale;
- Deed-in-Lieu of Foreclosure;
- Servicing plan, checklists; disposition cost benefit analysis; and
- Reporting – ESR and status of mortgage codes.

Loans dated prior to October 1, 1992, may be eligible for interest assistance to help resolve a borrower’s payment problems. Interest assistance is offered to adjust the monthly payment to an amount that the borrower can afford and should be used in conjunction with other loss mitigation alternatives to assist a delinquent borrower. Refer to Appendix 6 of this Handbook for additional information regarding interest assistance.

SECTION 3: CUSTODIAL PROPERTY  
[7 CFR 3555.306]

18.6 INTRODUCTION

Custodial property is borrower-owned property that is vacant or abandoned and in the possession of the servicer for the purposes of property inspection, preservation and protection. The Agency holds the servicer accountable for all servicing and property management responsibilities associated with custodial property. This section outlines the requirements for managing these types of properties.

18.7 PROPERTY MANAGEMENT METHODS AND ACTIVITIES [7 CFR 3555.306 (e) and (f)]

The servicer and Agency share a common interest to ensure that properties are managed and maintained. Attachment 18E of this Chapter outlines the maximum allowable costs for property preservation and maintenance costs. Costs higher than the published amounts for maintenance and preservation may be appropriate in some extenuating circumstances such as very rural areas, extreme neglect, or amounts of debris and are subject to approval by the Agency at loss claim time on a case by case basis. Justification for the higher cost must be documented with color photos and detailed invoices at loss claim time.

A. Vacant or Abandoned Properties

The servicer may need to take custody of the security property when it has been determined that a security property is vacant or has been abandoned. The servicer must inspect the property within 30 days or sooner upon awareness that the security property is abandoned to confirm occupancy and document its condition. When the inspection reveals the property is vacant, the servicer should take the following actions:

- Try to locate the borrower to determine the reason for vacancy; and
- Take immediate action to protect the property from vandalism and the elements in accordance with local laws.

Preservation and protection requirements for custodial property are as follows:

- Perform monthly interior and exterior inspections to document the general condition of the property and any actions required to adequately protect and
preserve the property. The servicer will maintain adequate documentation to support servicing decisions.

- Take necessary actions to prevent unauthorized entry unless otherwise prohibited by state law.

- Secure windows and doors. Boarding the property should be avoided unless it is necessary to avert vandalism to the property. The servicer may post a notice with contact information, however, should not post large signs or take other actions that might call attention to the vacant property.

- Determine if any emergency repairs are necessary to adequately preserve and protect the property. Emergency repairs will be completed by the servicer as quickly as possible to avoid property deterioration and does not require prior Agency approval. Servicers will retain documentation of all repairs, including photos of before and after work, for submission with any loss claim.

- File a claim under the borrower’s insurance policy for insurable damage.

- Protect plumbing and other operating systems from freeze damage.

- Remove any interior or exterior debris that poses a health, environmental, fire, or safety hazard. Examples include, but are not limited to, highly flammable chemicals, decaying food, dead animals, broken glass or other sharp objects, and large quantities of paint or paint products.

- Mow lawns, maintain shrubs, and perform snow removal.

- Maintain receipts and invoices for all costs incurred for preservation and protection of custodial properties. Services associated with preservation and protection of properties must be typical and reasonable.

- Notify the insurance carrier regarding the vacancy to ensure appropriate insurance coverage is maintained.

A mortgage may be current or delinquent when a servicer becomes aware a borrower may have abandoned the security property. If the borrower redeems a property, the redemption amount should include all advances including emergency repairs. When an inspection reveals that the property is vacant or abandoned on a delinquent loan and liquidation is not already in progress, taking custodial possession should immediately initiate the foreclosure process.
18.8 ENVIRONMENTAL HAZARDS [7 CFR 3555.306(e)]

If environmental issues impact the property’s value at the time of liquidation, the servicer must document when and how the hazard developed. If the environmental hazard was caused by activities that took place after the loan guarantee was issued, or by factors that could not reasonably have been detected with appropriate due diligence, the Agency will allow for costs from any resulting loss in the loss claim calculation.

If it appears that it would be cost effective to determine the lien valueless because of an environmental hazard, the servicer should submit documentation to support this request to the Agency for concurrence.

SECTION 4: ACCELERATION AND FORECLOSURE
[7 CFR 3555.306]

18.9 ACCELERATION

When a servicer determines that a borrower is unable or unwilling to meet loan obligations and there is no reasonable prospect of resolving the delinquency the servicer should initiate liquidation proceedings. A demand letter should be sent to the borrower within five days of when the borrower missed their third consecutive payment and will include the following:

- Reason the notice is being sent (e.g. default or abandonment);
- The action required to cure the default; and
- A date established to cure the default.

18.10 THE FORECLOSURE PROCESS [7 CFR 3555.306]

A. Initiation of Foreclosure - Referral

The servicer must refer the case to an attorney or trustee for foreclosure within 180 days of the due date of the last paid installment unless there are legal requirements that cause a delay in the foreclosure action. The servicer must exercise due diligence and manage the process by ensuring that all required actions are completed timely.

Attachment 18-B, Acceptable State Foreclosure Time Frames, lists the recommended method of foreclosure and the first public action required by law to initiate foreclosure. In states where more than one foreclosure method is available, but only one option is listed, the Agency selects the method that is most cost effective in reducing legal fees and accrued interest expense. The Agency does not intend to prohibit the payment of loss claims where the servicer obtains title through a method of foreclosure other than what is recommended. For example, if the recommended foreclosure method is non-judicial, but
judicial foreclosures are required to preserve the servicer's right to a deficiency judgment, the servicer may demonstrate that recovery on a deficiency judgment is expected after considering the time and cost of litigation. In such case, the judicial foreclosure method should be considered acceptable.

B. The Foreclosure Sale

Servicers must exercise due diligence in completing the liquidation process. This due diligence should include an estimate of the total debt, whether the security value is sufficient to cover that debt, and the potential recovery of any deficiency.

- Total Debt – Includes unpaid principal, protective advances, interest accrual through the liquidation process, and other potential costs such as liquidation and real estate owned (REO) expenses.

- Security Value – will be based on the current market value of the property in “as is” condition with a 90-120-day marketing time frame. If security property is inaccessible, the valuation will be based on exterior inspection only. If a significant (20 percent or more) decline from the value established at loan origination and the pre-foreclosure valuation is evident, the servicer is encouraged to review the value determination in accordance with established quality controls and be prepared to support the decline in value.

- Recovery Potential – consider the borrower’s other assets, ability to pay the deficiency, and other sources of recovery such as insurance claims or pending litigation.

- Foreclosure Bid – the servicer should consider state statutory requirements and the relationship of the outstanding debt and potential REO costs to the market value of the property. When the total debt, including the cost of acquiring, managing and disposing of REO property, is greater than the gross proceeds expected from a foreclosure sale at the market value of the security property and potential recovery from our sources, third-party bidding is encouraged by entering a foreclosure sale bid less than the value of the property. Servicer should use Attachment 18-D, USDA Individual State Based Bidding Chart, with the goal of avoiding REO and its associated management and disposition costs. The Agency does not concur on foreclosure bids.

- Auction Services – servicers are encouraged to use non-affiliated auction companies during the foreclosure process including marketing the property and bidding services. The Agency will reimburse servicers for auction service fees in an amount not exceeding five percent of the property net sales price when the property is sold to a third party. Properties must be marketed for a minimum of 15 days prior to the scheduled sale date and sold for an amount equal to or greater than the “Net Value Bid.”
C. Reinstatement of Account

Unless required otherwise by state statute, the servicer may reinstate an accelerated account if the borrower meets the following conditions:

- Pays the total amount delinquent, including protective advances, accrued interest, and any foreclosure related costs and other expenses incurred by the servicer, in a lump sum;
- Has the documented ability to resume scheduled payments on the loan; and
- Has not received an overpayment of interest assistance from the Agency based on false information as described in Appendix 6 of this Handbook.

18.11 MANAGING THE FORECLOSURE PROCESS [7 CFR 3555.306]

The servicer must manage the foreclosure process so that the property is liquidated in a cost effective, expeditious, and efficient manner. Servicers must send additional documentation to an attorney or trustee within five business days of receiving the request.

A. Acceptable Foreclosure Time Frames

Foreclosure must be initiated within 90 days of the date the decision to liquidate is made unless the foreclosure has been delayed by law or an alternative to foreclosure is recommended to resolve the delinquency. Initiation of foreclosure begins with the first public action required by law, such as filing a Complaint or Petition, recording a Notice of Default, or publication of a Notice of Sale. The Agency adheres to the Housing and Urban Development’s (HUD) foreclosure time frames available on their website. These time frames are measured from the first legal action to the foreclosure sale date. The Agency foreclosure time frames start with the date of the first legal action required by law, ends with the foreclosure sale date, and does not include post-sale redemption periods or sale confirmations.

- Redemption Period – since redemption periods may be adjusted under state laws based on the circumstances surrounding a property, such as the amount of unpaid principal still owed or the occupancy status of the property, reasonable time frames for redemption periods and sale confirmations should be established on a case-by-case basis in accordance with state law. Reimbursement of accrued interest may be reduced in accordance with Chapter 19 of this Handbook for each day that the foreclosure continues past the prescribed time frame unless the servicer presents a valid reason that justifies the delay.
- Processing Delays – servicers must document any delays to the foreclosure timeline when submitting the loss claim package. Acceptable delays can include bankruptcy petitions filed after foreclosure initiation, contested foreclosures, and court scheduling delays or delays in obtaining service.
• Chapter 7 Bankruptcy – Servicers may be authorized a 90-day extension to the allowable time frame for compliance with state law when a Chapter 7 bankruptcy delays the completion of foreclosure. To determine the impact of a bankruptcy filing on the foreclosure time frame, the total number of days from first action to foreclosure sale will be calculated. The total number of days between the bankruptcy filing date and the date of bankruptcy release or dismissal for each applicable bankruptcy case will then be subtracted from the total number of foreclosure days. The resulting number of days will be compared to the Agency foreclosure time frame plus an automatic 90-day extension to determine if the time frame was met.

• Chapter 13 Bankruptcy – Additional time allowed for a Chapter 13 bankruptcy delay shall not exceed 90 days from the date the payments under the bankruptcy plan became 60 days delinquent. The servicer must make prompt and accurate notification to the bankruptcy court and closely monitor the payment required by the bankruptcy court. If the borrower becomes 60 days delinquent in payment under the Chapter 13 plan, the servicer will ensure prompt legal action is taken to resolve. Any delay beyond 90 days from the date the account became 60 days delinquent under the terms of the bankruptcy plan must be supported by documentation.

• Prompt Referral – Servicers must exercise reasonable due diligence requirements by resolving a dismissal of the bankruptcy, termination of the automatic stay, or trustee abandonment of all interest in the secured property. The servicer’s claim review documentation must indicate the case was promptly referred to the foreclosure attorney after bankruptcy filing. Any delay beyond 90 days from the date of the bankruptcy filing must be supported by documentation supporting the delay. Submit documentation with the loss claim, as described in Chapter 19 of this Handbook. Failure to submit the documentation supporting the extended foreclosure timeframe will result in denial of additional accrued interest request.

B. Acceptable Liquidation Fees and Costs

Agency regulations authorize the reimbursement of actual liquidation fees and costs that are paid by the servicer for liquidated loans that result in a loss to the servicer within the limits of the guarantee. Reasonable liquidation costs like those charged for like services in the area will be allowed. It is not the Agency’s intent to regulate the amounts that servicers pay for services performed, but to limit the extent to which the Agency reimburses the servicer for attorney fees incurred for loss claims filed in accordance with Chapter 19 of this Handbook. The Agency will publish a Schedule of Standard Attorney/Trustee's Fees for foreclosure, deed-in-lieu of foreclosure and bankruptcy and this will be utilized as the basis for determining reasonable and customary attorney fees. Attachment 18-C, Acceptable State Liquidation Costs and Fees, of this Chapter outlines allowable fees for foreclosure, deed-in-lieu of foreclosure and bankruptcy and this will be utilized as the basis for determining reasonable and customary attorney fees. Fees higher than the published amounts may be appropriate, in cases such as contested foreclosures,
required probate procedures, etc., and are subject to approval by the Agency on a case-by-case basis. Justification for higher fees must be documented in the file.

It is important to make the distinction between attorney/trustee fees and attorney/trustee costs. Typically, the fee for the service performed by the attorney is listed separately on the attorney invoice from the actual costs involved in the liquidation proceedings. A complete list of allowable liquidation costs would not be practical since procedural requirements vary by jurisdiction. Generally, the Agency will reimburse a servicer for costs, which must be paid to public officials such as sheriffs, clerks of court or recorders of deeds, as well as costs, which are required by law (i.e., private service of process and required publications).

In-house expenses of the servicer will not be allowed during the liquidation process. Employee salaries, staff attorneys and overhead charges are considered examples of in-house expenses. Overhead expenses include, but are not limited to, items such as telephone calls, photocopying charges, overnight mail fees and postage (not including certified or registered mailings required by law). Typical overhead costs are inherent to the foreclosure process and payment of these expenses is not reimbursable.

Outsourcing of services, such as document preparation services, are customary in the industry and are also considered as attorney overhead. These fees are allowed as a separate expense only if the attorney fee is reduced in a proportionate amount to the document preparation fee that is charged.

Example:

- **State = Tennessee**
- **Acceptable Foreclosure Attorney Fee = $600**
  - $425 Attorney fee invoiced
  - $125 Outsourced Document Preparation Fee
  - $600 Total of fees charged

In the above example, the foreclosure attorney has chosen to outsource a portion of his service to a contractor. The total fee charged to the servicer is the same as if the attorney firm had performed this function. This is considered an acceptable fee that is eligible for reimbursement.

**Interrupted Foreclosure Proceedings:**

If a foreclosure proceeding is interrupted due to a bankruptcy filed by the borrower, or if a deed-in-lieu of foreclosure or pre-foreclosure sale is accepted prior to the completion of the foreclosure:

- 75% of the allowable attorney fee and all actual foreclosure costs incurred will be reimbursed.
• 100% of allowable foreclosure attorney fees and costs incurred after the bankruptcy stay is lifted if state statute requires that the foreclosure be restarted from the beginning.

• If state statute does not require that the foreclosure be restarted from the beginning, reimbursement of all foreclosure attorney fees incurred both before and after the bankruptcy is limited to the amount listed on the Attachment 18-C, Schedule of Standard Attorney/Trustee’s Fees.

The Agency will not reimburse any attorney fees or costs incurred for a prior liquidation action that has been reinstated by the borrower or for which the foreclosed property is redeemed. Attorney fees and costs should be included in the amount collected from the borrower with the reinstatement or foreclosure redemption.

The foreclosure fees in Attachment 18-C list the attorney or trustee fee limits allowed for each Agency recommended method of foreclosure. In states where more than one foreclosure method is available, the limits listed are based on the method that is most cost effective in reducing legal fees and interest expense. The Agency does not intend to prohibit the payment of attorney fees and costs where the servicer obtains title through a method of foreclosure other than what is recommended. However, the Agency must determine whether the foreclosure method chosen by the servicer was in the best interest of the government. For example, the recommended foreclosure method in some states is non-judicial; however, judicial foreclosures are required to preserve the rights of a deficiency judgment. If the servicer can demonstrate that the recovery of a deficiency judgment is expected, the foreclosure method should be considered acceptable and reasonable attorney fees and costs reimbursed within the limits of the guarantee.

18.12 REPORTING REQUIREMENTS

In accordance with Chapter 17 of this Handbook, servicers are required to report to the Agency all accounts monthly through ESR.

ADDITIONAL GUIDANCE REGARDING EDI REPORTING MAY BE FOUND ONLINE AT: https://www.rd.usda.gov/programs-services/lenders/usda-line-training-resource-library
SECTION 5: ASSISTANCE IN NATURAL DISASTERS
[7 CFR 3555.307]

The following provides guidance for servicing accounts when a county, parish or municipality has been identified as a Presidentially Declared Disaster (PDD) area where federal aid in the form of individual assistance is being made available.

18.13 PROPERTY PROTECTION [7 CFR 3555.307(b)]

When a servicer becomes aware that they have properties secured by an Agency guarantee in a PDD they immediately take the following actions:

- Ascertain the number of affected properties;
- Secure abandoned properties;
- Determine the extent and nature of the damage and the effect on the borrower’s ability to continue making mortgage payments;
- Determine if the property is adequately insured against the damage;
- Aid the borrower regarding the availability of appropriate relief provisions from local, state or federal disaster assistance;
- Consider waiving any late payment charges if the borrower’s payments are late because of added expenses or loss of income due to the disaster;
- Monitor and coordinate hazard insurance claims; and
- Monitor and coordinate the progression of repairs when a deposit of insurance proceeds occurs in lieu of borrowers receiving insurance proceeds for properties.

18.14 SPECIAL RELIEF MEASURES [7 CFR 3555.307(c)]

The servicer must suspend all foreclosure actions for affected borrowers in PDD areas effective for 90 days from the date of declaration unless extended by the Agency. This applies to both the initiation of new foreclosures as well as foreclosures already in process.

To be eligible for a suspension of foreclosure activities the property or the borrower’s place of employment must be directly affected by the PDD. During the suspension servicers should consider the following factors to determine the appropriate course of action:

- Evaluate the effects of the disaster;
- Instruct the borrower to file insurance claims and apply for disaster assistance that may be available through FEMA, state and local governments;
- Offer appropriate repayment plans as outlined in Section 2 of this Chapter; and
• Determine if foreclosure is the only option.

The borrower’s income or ability to pay the mortgage, any increase in living expenses, the extent of damage, the delinquency status of the mortgage, and the availability of alternative housing are additional factors to consider. The goal should be a formal relief provision that will cure the delinquency as soon as possible without imposing an undue hardship on the borrower. Forbearance is highly encouraged in disasters. Under forbearance, the servicer can agree to reduce or suspend the borrower’s monthly payments for up to 12 months. At the conclusion of the forbearance the borrower must agree to resume his or her regular monthly payments and to pay additional money at scheduled intervals toward repayment of the amount reduced or suspended.

Regular follow-up during a suspension and reassessment of the individual borrower’s circumstances, based upon property inspections, borrower financial information at the end of the suspension period should be conducted. If the servicer is not actively engaged in workout options with the borrower(s) and believes suspension beyond the 90-day period is warranted, the servicer must document the reason to extend a hold on any and all foreclosure actions and retain the documentation in their collection systems. Failure to do so may impact any future loss claim payment.

Servicers may use existing loss mitigation workout options to reinstate a borrower ready to resume mortgage responsibilities. Late charges while the borrower is on a forbearance plan, or paying as agreed on a repayment plan, should not be assessed. The servicer should take appropriate steps to mitigate the credit impact for a borrower for whom a forbearance or repayment plan is extended due to disaster-related circumstances.

18.15 SPECIAL RELIEF ALTERNATIVES

In addition to standard workout options servicers may offer any of the following special relief measures to assist borrowers without the standard financial evaluation required subject to the following conditions:

a. The loan was current or less than thirty (30) days past due as of the date of the applicable PDD;

b. The servicer receives verification the hardship (employment and/or property) has been resolved; and

c. Total modified mortgage principal and interest payment is less than or equal to the payment prior to modification.

Special Relief Measures:

• Term Extension: If the servicer determines the borrower can maintain the current contractual payment including any escrow shortage created by advancements during the forbearance period, spread over 60 months, the loan term may be extended an equal number of months to the term of the forbearance provided. Any interest accrued during the forbearance period should be waived and the servicer may re-amortize the loan, if necessary, to meet any investor restrictions.
- **Capitalization of Delinquency and Term Extension:** If the servicer determines the borrower can maintain the current contractual payment but cannot manage the additional escrow repayment amount, the servicer may offer a “Cap and Extend Modification” under the following terms:

  o Capitalize the accumulated arrearages and eligible unreimbursed servicer advances, fees and costs into the modified mortgage balance;
  
  o Extend term for a total of up to 360 months;
  
  o Reduce rate down to no greater than 50 basis points greater than the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) Rate for 30-year fixed-rate conforming mortgages (US Average), rounded to the nearest one-eighth of one percentage (0.125%), as of the date a plan is offered to the borrower; and
  
  o The borrowers post modified principal and interest payment must be equal to or less than their payment prior to the disaster.

- **Mortgage Recovery Advance:** The servicer may utilize a Mortgage Recovery Advance (MRA) to settle the borrower delinquency and bring the borrower current. The MRA is limited to an amount no greater than what is necessary to resolve any accumulated interest and unreimbursed servicer advances made during the forbearance and must meet all other requirements as explained in section 5.K of the Loss Mitigation Guide found in Attachment 18A of this Chapter.

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**18.16 PROPERTY DAMAGE AND INSURANCE CLAIMS [7 CFR 3555.307(d)]**

Servicers should ensure that hazard insurance claims are filed and settled as expeditiously as possible. Servicers are responsible for taking prompt action to protect the interests of the borrower and Agency when a hazard or flood occurs. This involves working closely with the insurance carrier, the borrower, and repair contractors. The servicer will complete a thorough analysis concerning the decision to repair the security property and document the decision. The decision should support the best level of return to the servicer and minimize loss to the Agency.

Insurance proceeds will be issued jointly to the servicer and the borrower. If the decision is to use the proceeds to repair the property, the servicer must ensure a licensed contractor is used to complete the repairs. Unless the homeowner qualifies for direct payment of insurance proceeds in accordance with of Chapter 17 of this Handbook, the servicer will release the proceeds in draws based on periodic inspections. The final draw will be paid after verification that all repairs were satisfactorily completed. The servicer is responsible for obtaining all lien waivers for work performed.

If the premises have been destroyed, the servicer should compare the unpaid principal balance with the insurance proceeds and any other circumstances affecting the case, such as local laws barring reconstruction of the destroyed property. Insurance loss payments, condemnation awards, or similar proceeds will be applied on debts in accordance with
lien priorities, on which the guarantee was based, or to rebuild or otherwise acquire needed replacement collateral.

18.17 DEBT SETTLEMENT REPORTING

Servicers will be responsible for reporting to IRS and all national credit reporting repositories any discharge of indebtedness or any debt settled through liquidation in accordance with Internal Revenue Code.
ATTACHMENT 18-A
LOSS MITIGATION GUIDE

United States Department of Agriculture

LOSS MITIGATION GUIDE
Single Family Housing Guaranteed Loan Program

Effective:
4/24/2020

(03-09-16) SPECIAL PN
Revised (10-14-20) PN 543
1 SERVICING EARLY DELINQUENCY LOANS (LESS THAN 90 DAYS PAST DUE)

The purpose of all collection efforts is to bring a delinquent mortgage current in as short a time as possible. Single Family Housing Guaranteed Loan Program (SFHGLP) policy as stated in 7 CFR § 3555 describes minimum servicing requirements to accomplish this objective. The majority of one or two payment delinquencies will be addressed by either voluntary reinstatement by borrowers, or through traditional collection methods outlined in 7 CFR § 3555, including informal forbearance plans and deeds-in-lieu of foreclosure (DIL). DIL should be used only in extreme hardship or involuntary inability to pay.

While a loss mitigation program is designed to address serious defaults, any reasonable servicer efforts to cure loans that are past due for 30 days or more contribute to the goal of helping residents in rural areas retain homeownership and reduce the Agency’s losses. Thus, effective loss mitigation begins in the early stages of servicing defaulted loans and is the servicer’s responsibility to validate and document the borrower’s capacity under the terms of the loss mitigation workout recommendation.

A. EARLY INTERVENTION

To facilitate a successful loss mitigation intervention, the servicer must attempt to make verbal or written contact with the borrower if the payment is not received by the 20th day after it is due.

Before an account becomes 60 days past due and if there is no contact or payment arrangement in place, the servicer must send a certified letter to the borrower requesting an interview in an effort to resolve the past due account.

The earlier the servicer makes contact with the delinquent borrower and identifies the cause of the default, the more likely it is that the default will be cured, and the borrower will be able to keep the home. It is critical that the servicer make all decisions in a manner consistent with fair housing and lending principles.

B. CAUSE OF DEFAULT

The servicer should identify the underlying cause of the delinquency at the earliest stage of borrower contact and determine if the problem is permanent or temporary. A borrower whose ability to support the mortgage debt has been permanently reduced through death, divorce, or permanent disability is unlikely to cure the default through a repayment plan. Such a borrower should be evaluated for either a loan modification, which may result in a reduction of the mortgage payment, or a pre-foreclosure sale, which allows a transition to more affordable
housing. In some cases, a loan modification might result in higher mortgage payments because of capitalizing the arrearage. This option may be feasible if the borrower’s financial situation will accommodate a higher payment.

A borrower who needs credit, legal, or employment assistance to resolve temporary financial problems should be referred to housing counseling, such as HUD housing counseling at 1-800-569-4287 or HUD’s approved housing counseling web-site, https://apps.hud.gov/offices/hsg/sfh/hcc/hcs.cfm as soon as possible.

C. DEFAULT COUNSELING

A borrower who receives early counseling is much more likely to bring the loan current. Servicers are strongly encouraged to recommend financial counseling to borrowers and establish working relationships with counseling agencies. The servicer should provide to the borrower, before the 45th day of delinquency, HUD publication 2008-5-FHA, Save Your Home: Tips to Avoid Foreclosure, rev January 2014. This may not be feasible, however, if the borrower has filed a bankruptcy petition and, in the opinion of the servicer’s legal counsel, providing a copy of the pamphlet would be a violation of the bankruptcy stay. In such cases, the servicer should keep documentation of this fact in the servicing file.

D. INFORMAL REPAYMENT PLANS

An informal repayment plan is a verbal agreement lasting for 3 months or less. Such a plan is the first and best means to ensure that a one- or two-month delinquency does not escalate beyond the borrower’s ability to cure. In such a plan, the servicer should carefully review the borrower’s financial situation and arrange payment terms that the borrower can realistically keep, and the delinquency can be cured. Informal repayment plans should be documented, however, there is no requirement to report such plans to the agency.

E. BORROWERS ABILITY (CAPACITY) TO CURE

The servicer should obtain as much information as possible regarding the borrower’s capacity and willingness to cure the default. When it becomes apparent that an informal repayment plan will not be sufficient to resolve the delinquency, the servicer should evaluate whether one of the more formal loss mitigation strategies should occur (see section 3 General).

F. SALE OF THE PROPERTY

A borrower who does not have the ability to cure the delinquent loan, but who has sufficient equity to sell the property and repay the arrearage from the sale proceeds, should be assisted in doing so. This assistance may include a written agreement that provides a short-term reduction or suspension of payments pending the closing of the property sale. The servicer has full responsibility in
assisting the borrower in such a case.

2 LOSS MITIGATION OVERVIEW

SFHGLP servicers have the authority and the responsibility to use effective actions and strategies to assist borrowers to retain their homes, and thus reduce losses to Agency and the servicer. Because of its ongoing relationship with the borrower, the servicer is in the best position to determine which, if any, loss mitigation strategies are appropriate in each circumstance. A servicer may use any of the following loss mitigation options.

A. SERVICERS LOSS MITIGATION ACTIONS

The servicer must:

- Report a complete and accurate loan-servicing plan to the agency that clearly outlines the approved action via USDA Lender Interactive Network Connection (USDA LINC);
- Consider all reasonable means to address the delinquency at the earliest possible time;
- Use payment or credit scoring tools, if available, to identify high risk borrowers that may need more attention, rather than wait until standard contact dates;
- Inform the borrower(s) of available loss mitigation options and the availability of housing counseling before the end of the second month (60th day) of delinquency. (Ensuring that the borrower receives the HUD publication [https://www.hud.gov/sites/dfiles/Housing/documents/RevUpdHmownSuc121518fnl.pdf](https://www.hud.gov/sites/dfiles/Housing/documents/RevUpdHmownSuc121518fnl.pdf) titled Homeowners Guide to Success, is acceptable, as well as documentation in the servicing and collection notes of conversations with the borrower concerning mitigation options);
- Evaluate each delinquent loan once they become greater than 30 days past due but no later than the 90th day of delinquency to determine which loss mitigation option is appropriate;
- Use loss mitigation whenever feasible to avoid foreclosure;
- Reevaluate each delinquent loan monthly until delinquency is cured or the foreclosure action is complete;
- Report loss mitigation actions through monthly default status reporting using EDI status of mortgage code values;
- Initiate foreclosure within six months (180 days) of default unless a loss mitigation option is being pursued aggressively, and ensure that all actions taken are documented;
- Initiate foreclosure timely on vacant and abandoned properties; and
• Retain a complete audit trail showing all loss mitigation actions.

3 GENERAL

Both servicers and borrowers have responsibilities under loss mitigation. While each option involves specific actions, some policies apply to all of the options, and some servicer actions are performed whether or not any of the loss mitigation strategies are used. This section describes the general policies, recommended procedures, and minimum actions that constitute effective loss mitigation techniques.

A. DEFAULT STATUS OF THE LOAN

Loss mitigation options are intended to provide relief for a borrower who is delinquent or facing imminent default. For the purposes of this guide, a default is defined as any loan that has failed to perform under any covenant of the mortgage or deed of trust for 30 days or more or is at risk of default.

If the borrower’s circumstances warrant, the servicer may make servicing options such as a special forbearance agreement or a loan modification available to a borrower whose failure to perform is involuntary and likely to continue. If the delinquency is incurable, a disposition option such as a pre-foreclosure sale or a deed-in-lieu of foreclosure is recommended immediately because the borrower has no realistic opportunity to replace the lost income or reduce expenses sufficiently to meet the loan obligation through other options.

Any attempt to deliberately manufacture or misrepresent pertinent facts about a borrower’s financial or other qualifying status may disqualify the borrower from participating in loss mitigation options and result in civil or criminal penalties. If perpetrated by a servicer, such actions may lead to administrative and/or judicial penalties against the servicer.

B. OWNER OCCUPANCY

Generally, the borrower’s eligibility for any of the reinstatement, special forbearance, or loan modification options should be based on occupancy of the property as a principal residence. Loss mitigation disposition options may be considered if the property has been recently vacated due to one of the following, but not limited to, special circumstances:

• Employment transfer;
• Natural disaster; or
• Medical condition

A servicer may make an exception for a non-occupant borrower who is seeking relief through a pre-foreclosure sale (PFS), or DIL when it is clear that the subject property was not purchased as a rental investment and the reason for
vacancy was involuntary in nature. The servicer maintains the documents justifying such an exception in the servicing file.

C. OTHER ELIGIBILITY FACTORS

The following general eligibility restrictions apply in all cases:

- A borrower who has a pending/active bankruptcy may be considered for loss mitigation options; however, the servicer must fully document the borrowers pending plan with items such as, but not limited to, a copy of the proposed/confirmed trustee plan. In addition, the servicer must obtain trustee approval prior to loss mitigation plan execution.

- If a servicing agreement, investor guidelines, or applicable law restricts or prohibits compliance with any steps outlined in this guide, the servicer must maintain evidence in the loan file documenting the nature of any deviation from the provided guidance.

D. 90 DAY REVIEW

The servicer evaluates each delinquent SFHGLP loan that it services when monthly installments are due and unpaid for 91 days, and considers all loss mitigation techniques to determine which, if any, are appropriate. To meet this evaluation requirement, the servicer’s early involvement in the delinquency is demonstrated by contact with the borrower to gather sufficient information about the borrower’s circumstances, intentions, and financial condition. This is especially important in light of the borrower’s possible reluctance to discuss financial difficulties. While the servicer cannot be responsible if a borrower fails to respond to repeated contacts, the servicer must clearly document aggressive efforts to reach the borrower within 90 days of the default.

E. CURABLE DEFAULT

When the delinquency is curable and the borrower is committed to remaining in the home, the servicer should consider reinstatement options in this order:

- Special forbearance
- Loan modification
- Special loan servicing modification

F. NON-CURABLE DEFAULT

When the delinquency is not curable and the borrower is not committed to remaining in the home, the servicer should consider disposition options in this order:

- Pre-foreclosure sale (PFS)
• Deed-in-lieu of foreclosure (DIL)

G. OPTION PRIORITY

The following waterfall of loss mitigation workout alternatives must be adhered to:

1. Informal Repayment Plan
2. Special Forbearance
3. Loan Modification
4. Special Loan Servicing
5. Pre-Foreclosure Sale
6. Deed-In-Lieu

Whenever possible, the servicer should review the borrower for all loss mitigation options concurrently and if eligible, provide a decision based on the highest available option in the waterfall. In all cases, if a borrower is eligible for both a retention and a pre-foreclosure option, the retention option must be prioritized. If the borrower accepts and then fails a retention option within the first 12 months, they can be offered a pre-foreclosure option based on this evaluation with no further need to document ability/ inability to pay.

In some cases, the waterfall of loss mitigation alternatives may warrant utilizing a disposition workout in-lieu of a retention workout based on the borrower’s involuntary inability to pay.

H. MONTHLY EVALUATION

As long as the account remains delinquent, the servicer reevaluates the status of each loan each month following the 90-day review and maintains documentation of the evaluations in its servicing or collection systems. The evaluation may be as simple as notes in the collection system that the borrower’s payments under special forbearance are made as agreed. Reports generated by servicing systems that track repayment plans are adequate for documentation purposes.

I. EVALUATING THE BORROWERS FINANCIAL CONDITION

For any loss mitigation option, the servicer must obtain detailed financial information from the borrower. The servicer may ask the borrower to give this information on a form of its choice that collects all the data elements required for loss mitigation.

If the borrower is cooperative, the information may be taken during a telephone interview if it is a complete picture of the borrower’s financial information. Regardless of how the financial information is initially obtained, the servicer should request the borrower provide evidence to support the income
with current paystubs and/or a profit and loss statement if the borrower is self-employed. In addition, the servicer should obtain a credit report to verify debts, and any other forms of verification the servicer deems appropriate.

Once a servicer has the borrower’s complete financial information, it should analyze the borrower’s current and future ability to meet the monthly mortgage obligation by estimating the borrower’s assets and income as follows:

- Determine the borrower’s current monthly gross income making necessary adjustments for income fluctuations.
- Determine the borrower’s normal monthly financial obligations including debt service on the mortgage and other credit obligations. Make adjustments for obligations due over the term of the proposed special forbearance agreement, or in the case of all other options, for a minimum of three months.
- Any child support or alimony obligations should be documented with a court order to determine the monthly obligation.
- Determine the borrowers current Housing to Income (HTI) percentage as well as their total Debt to Income (DTI).

All detailed financial information used to determine the borrower’s financial capacity must be dated within 90 days from the date of receipt by the servicer. The servicer must communicate a decision to the borrower within 30 days of receiving a complete loss mitigation package.

The servicer must use good business judgment to ensure that the workout option selected reasonably reflects the borrower’s ability to pay. A borrower with sufficient income or other assets should be asked to cure the debt through a retention option.

J. INCOME VERIFICATION

Servicers shall document their process in determining each borrower’s income scenario. When verifying income of a borrower, servicers should use good business judgment consistent with how they evaluate borrowers when modifying loans held in their own portfolio but at a minimum provide the following:

**Wage or Salary income:**
Paystub(s) not more than 90 days old at time of submission to servicer, that covers at least 4 weeks of earned income.
Borrowers most recent W-2 or executed tax returns (can be waived if paystubs document at least 6 months YTD income).

**Self-Employment Income:**
Most recent quarterly or YTD profit and loss statement along with a copy of the most recent executed Tax Return. Audited financial statements are not required.

**Other/ Benefit Income:**

Bonus, commission, tips, overtime, etc. income must be documented with reliable third-party evidence that such income is consistent and likely to continue.

Benefit income including but not limited to social security, disability, public assistance and Supplemental Nutrition Assistance Program (SNAP) benefits can be considered income for the purpose of loss mitigation. Benefit income must be documented through award letter, exhibits, or benefits statements from the provider or evidence of receipt to the borrower.

**Non- Taxable Income:**

The servicer, at its discretion, may “gross up” income not subject to Federal Taxes. When grossing up any income, the servicer must document and support the amount of grossed up income and should use the same tax rate, but not exceeding 25 percent, for grossing up that the borrower used to calculate his/her tax from the previous year.

Excluding documentation from prior years, all financial information must be dated within 90 days from the date of receipt by the servicer.

**K. NON BORROWER INCOME**

Income from a non-borrower who also occupies the property may be used to support payments under all loss mitigation options with the following restrictions:

- Occupancy must be fully verified;
- Servicer should conduct a financial review of the entire household income and obligations to determine if there is sufficient income to pay back the arrearages;
- Servicers should consult their legal counsel to determine if the asset is eligible for loss mitigation since the non-borrower is not on the original mortgage; and,
- When a borrower uses a non-borrower household member’s income in qualifying for a loss mitigation home retention option and the non-borrower household member is required by law to be included on the modified note, the non-borrower household member must sign all required loss mitigation documentation.

**L. DIVORCE / LEGAL SEPARATION**

In instances where borrowers are divorced or legally separated, a lender can exclude an obligated borrower when determining eligibility for all loss mitigation options, providing the court has deemed the excluded borrower not responsible
for the mortgage. The remaining obligated borrower must provide the fully executed legal document (ex. Divorce Decree) that shows the court’s order, as well as an executed Quit Claim if necessary. If documented, the divorced/separated party does not need to sign any required documentation for the purposes of loss mitigation. Any borrower excluded from eligibility requirements is still obligated to the original note and is not released from liability.

M. INELIGIBLE BORROWER

If the borrower is not eligible for any loss mitigation alternative based on information secured from the borrower in a telephone interview, the servicer should advise the borrower of the reason(s) and allow the borrower at least seven calendar days to submit additional information that might have an impact upon the servicer’s evaluation. The servicer will retain the financial analysis and supporting documentation and make it available for compliance reviews. Collection actions may continue.

N. COMBINED OPTION

Loss mitigation options may be used alone or in combination to resolve an existing default. There are some limitations, however:

- Special forbearance may be combined with a loan modification. The combination of options is sequential, not simultaneous.
- Pre-foreclosure sale may be combined with a deed-in-lieu provision in case the property does not sell within the time required.
- A servicer may utilize a trial plan with a loan modification when there is any doubt about a borrower’s long-term income stability. To reduce the risk of a workout failure, the borrower can demonstrate the ability to support the debt by making at least three monthly payments at the modified amount before executing a modification.

O. FORECLOSURE

The servicer must have considered all feasible loss mitigation options before initiating foreclosure. The servicer must document all of the options it considered and retain such information for Agency review. If the borrower has abandoned the property, loss mitigation home retention alternatives are not options before initiating the foreclosure.

P. TIME TO INITIATE ACTION

A servicer uses one of the loss mitigation options or initiates foreclosure within six months of the date of default. This requirement is considered satisfied if any of the following actions has occurred within the six-month period:

- The loan is brought current or paid off;
• The borrower executes a special forbearance agreement;
• The loan is modified;
• The borrower executes a pre-foreclosure sale agreement;
• The borrower executes a deed-in-lieu of foreclosure; or
• The servicer initiates the first legal action to begin foreclosure.

Q. SERVICER REPORTING

The servicer reports these actions in the month they occur, or if after the monthly cut-off date, in the next reporting cycle using the appropriate ESR status code.

R. EXTENSION REQUESTS

If the servicer initiated a special forbearance or loan modification, but is unable to complete it, the servicer may approve an extension to the timeframe to initiate foreclosure provided the loss mitigation option began prior to the timeframe that foreclosure was to be initiated. To qualify for the extension, the servicer must document evidence that it analyzed the borrower’s complete financial situation and evaluated the appropriate loss mitigation options. In addition, the servicer reports the loss mitigation initiative using the appropriate ESR status code in the monthly default status report.

The servicer may approve an extension for completing a deed-in-lieu of foreclosure. If the servicer attempts a repayment plan (not special forbearance), the servicer may approve an extension before the timeframe to initiate foreclosure expires and explains why an extension is necessary.

S. OPTION FAILURE

If loss mitigation options fail, the servicer may either resume or initiate foreclosure or initiate another loss mitigation option. Failure occurs when:

• The borrower does not perform under the terms of a written special forbearance agreement for 60 days; or
• The borrower does not perform under the terms of a trial period used as a condition of loan modification or special loan servicing approval. Servicers must continue to perform outreach efforts to borrowers for other workout alternatives. Borrowers financial capacity will dictate whether a retention or disposition workout alternative is feasible.
• There is no signed contract of sale within 3 months of a pre-foreclosure sale agreement; or if there is a signed contract of sale, settlement has not occurred within 6 months of the agreement; or the borrower notifies the
servicer of withdrawal from the agreement; or the servicer notifies the borrower in writing that it has terminated the agreement.

T. DOCUMENTATION

For each claim, the servicer must maintain evidence in its servicing notes and collection history systems of its compliance with loss mitigation guidelines as well as supporting documentation including all communications with any Agency office. The servicer’s servicing notes and collection history systems also contain evidence of compliance with counseling and other actions on loans that do not result in a claim.

U. SERVICING PLAN

Under 7 C.F.R. §, the servicer must add a servicing plan in the “Add Loss Mitigation” screen in USDA LINC when a loan is 90 days delinquent and a method other than foreclosure is approved to resolve the delinquency. The servicing plan must be submitted prior to implementing any action with the borrower. For pre-foreclosure sales and deed-in-lieu of foreclosure alternatives, the servicer must submit the Disposition (PFS/DIL) Cost Benefit Analysis along with the servicing plan.

4 SPECIAL FORBEARANCE

A special forbearance agreement is a written plan that may temporarily reduce or suspend payments and/or gradually increase monthly payments in an amount sufficient to repay the arrearage for a short period. A special forbearance agreement may also involve payments for several months followed by a loan modification. The agreement provides the borrower with relief not typically afforded under an informal repayment agreement. Examples of provisions in a special forbearance agreement include a repayment term of four or more months; suspending or reducing payments for one or more months to allow the borrower to recover from the cause of default; or an agreement to allow the borrower to resume making full monthly payments while delaying repayment of the arrearage.

A special forbearance is a plan that involves one of the following:

- Full repayment: Monthly payments in an amount sufficient to repay the arrearage over time, typically less than or equal to six months; or
- Hardship or disaster forbearance: Reduced or suspended monthly payments while the borrower(s) resolves the hardship, such as unemployment, followed by an evaluation for other home preservation options if needed.

At no time should the maximum arrearage under a special forbearance plan exceed the equivalent of 12 months delinquency.
A. LOAN ELIGIBILITY

The loan is a minimum of 30 days delinquent but not more than 12 payments delinquent and is not in foreclosure when a special forbearance agreement is executed. A loan that had previously been referred to foreclosure may be removed from foreclosure status after executing a special forbearance. The servicer suspends foreclosure, on advice of its legal counsel, subject to the borrower’s performance under the terms of the special forbearance agreement, if the suspension is stated in writing in the agreement.

B. PROPERTY ELIGIBILITY

The servicer must conduct an inspection to verify that the property has no physical conditions that adversely affect either the borrower’s continued use or ability to support the debt. Normally a simple curbside inspection is sufficient; however, a borrower will not be able to support payments under a special forbearance plan if the property is in such a deteriorated condition that repairs will drain the borrower’s monthly resources. The servicer must use good business judgement to determine if an interior inspection should be utilized. The analysis of the borrower’s income should consider obvious property maintenance expenses.

The use of good business judgment is imperative. If significant deferred maintenance is a contributing cause of the default, it may be appropriate to provide a period of mortgage forbearance during which specified repairs are completed at the borrower’s expense. If the property is in extremely poor physical condition, a special forbearance plan that allows a reduction or suspension of payments without a requirement to repair the property may not offer a permanent solution.

C. BORROWER ELIGIBILITY

Special forbearance may be offered to a borrower who has recently experienced a verified loss of income or an increase in living expenses. Such a borrower should be the owner-occupant of the property securing the SFHGLP loan and committed to occupying the property as a primary residence during the term of the special forbearance agreement.

D. FINANCIAL ANALYSIS

The servicer’s responsibility is to validate and document the borrower’s capacity under the terms of the recommendation. The servicer determines that the borrower has the capacity to support the modified monthly payments and bring the loan current under the terms of a forbearance plan. The proposed repayment terms must be consistent with the borrower’s ability to pay. The following documentation must be obtained in order to determine financial capacity of the borrower:
• SFHGLP Servicing Plan
• Letter from borrower outlining involuntary inability to pay/hardship
• Income Documentation as stated in the overview section
• Credit Report
• Detailed budget
• Documentation of any other sources of income to be used in evaluation

Excluding documentation from prior years, all financial information must be
dated within 90 days from the date of receipt by the servicer. If the servicer’s
financial analysis determines that the borrower either does not, or will not, have
the ability to resume full monthly payments in the near future, special forbearance
should not be used. The servicer should then consider other loss mitigation
options.

E. UNEMPLOYMENT

When it has been determined that the reason for default is unemployment and
the borrower does not have any immediate opportunities for re-employment,
SFHGLP extends additional latitude to servicers to mitigate losses.

Servicers now have the authority to enter into a forbearance agreement with a
borrower who is unemployed or significantly underemployed and seeking re-
employment at the time the borrower’s financials are being analyzed by the
servicer or holder. The term of this forbearance shall be the lesser of 12 months
or a term that would not cause the dollar amount of the borrower’s delinquency to
exceed 12 months of the borrower’s scheduled monthly mortgage payment (which
includes taxes and insurance for those loans where such expenses are escrowed).
The amount of the partial payment made, if any, by the borrower will be
contingent upon the servicer’s financial analysis of the borrower. As a condition
of the forbearance agreement, the borrower must pursue employment during the
term of the forbearance agreement. Additionally, the borrower must contact the
servicer if their employment status changes.

The servicer is required to verify the borrower’s employment status monthly
and restructure the forbearance agreement or evaluate the borrower for another
option, such as a loan modification, when the borrower’s employment status
changes. As with SFHGLP’s standard forbearance agreement, all of the
requirements apply to these Special Provisions.

F. COMBINING OPTIONS

Special forbearance may either be used alone or be combined with a loan
modification. For example, if a borrower is expected to recover from the cause of
the default and resume making full monthly payments but will not have adequate
income to repay the arrearage, the servicer may establish a special forbearance
agreement. Such an agreement allows the borrower to demonstrate recovery from the financial problem by making 3 payments (or 4 payments for imminent default) at the modified amount. Upon successful completion of the special forbearance payments, the delinquent amount is capitalized into the modified loan.

G. DOCUMENTATION

The servicer should provide the borrower a written agreement to be signed and returned with the first payment, that clearly defines the term, frequency of payments, and amounts due under the special forbearance plan. The agreement acknowledges previously missed mortgage payments and states that failure to comply with its terms can result in foreclosure. In the absence of a signed agreement, the servicer may accept the borrowers modified payment as acknowledgment of the terms of the forbearance. If the borrower fails to provide the servicer with the signed agreement prior to the end of the forbearance, the servicer should document their continued efforts to collect the agreement. There is no maximum length for a special forbearance agreement and the servicer may allow as much time as is reasonable based on the borrower’s repayment ability.

An acceptable agreement should:

- Provide the borrower with relief not available under an informal payment plan.
- Bring the loan current, unless it is combined with a mortgage loan modification.
- Not at any time allow the total arrearage amount to exceed the equivalent of 12 months delinquency.
- Not allow late fees to be charged while the borrower is performing under the terms of a special forbearance agreement.
- Permit allowable foreclosure costs and late fees accrued before the special forbearance agreement is executed to be included as part of the repayment schedule. However, such costs and late fees are collected only after payment of all principal, interest, and escrow advances. The loan is never considered delinquent only because the borrower has not paid late fees or other foreclosure costs.

H. REVIEW AND RENEGOTIATION

The servicer reviews the status of a special forbearance plan each month and takes appropriate action if the borrower is not complying with the terms of the plan. A plan may be renegotiated if the borrower’s financial circumstances change; however, under a renegotiated plan, the loan should not be more than 12 months delinquent.

5    LOAN MODIFICATION
A loan modification is a permanent change in one or more of the terms of a loan that results in a payment the borrower can afford and allows the loan to be brought current. Loan modifications may include a change in the interest rate, even below the market rate if necessary and should focus on payment reduction as a primary goal. Loan modifications may include capitalization of all or a portion of the arrearage and/or reamortization of the balance due. Capitalization may also include foreclosure fees and costs that are associated with the current foreclosure action, deficits in tax and insurance accounts, past due annual fees imposed by the servicer, but not late charges or servicers fees.

A modification may be appropriate for a borrower who has experienced a permanent or long-term reduction in income or an increase in expenses, or who has recovered from the cause of the default but does not have sufficient income to repay the arrearage through a repayment plan. To qualify for a modification, the borrower has a documented ability to support the monthly mortgage debt after the terms of the loan are modified.

A. LOAN ELIGIBILITY

To modify a defaulted note under loss mitigation:

- The loan is not in foreclosure at the time the modification is executed; however, a loan removed from foreclosure status may be modified.
- The default is due to a verified loss of income or increase in expenses.

Note: The servicer may, at its discretion, modify a loan that is not delinquent but is in imminent danger of default; i.e. will soon become delinquent due to known circumstances.

B. PROPERTY ELIGIBILITY

While the modification option does not have a loan-to-value restriction, and an appraisal is not required, the servicer must conduct an inspection to verify that the property has no physical conditions that adversely impact the borrower’s continued use or ability to support the debt. Normally a simple curbside inspection is sufficient; however, a borrower will not be able to support payments under a loan modification plan if the property is in such a deteriorated condition that repairs will drain the borrower’s monthly resources. The servicer must use good business judgement to determine if an interior inspection should be utilized, and if necessary, analysis of the borrower’s finances should consider anticipated property maintenance expenses. If the property is in extremely poor physical condition, a modification may not offer a resolution of the default. Costs to complete needed repairs may not be capitalized as part of a modification agreement, and the borrower may not receive any cash as a result of the modification.
C. BORROWER ELIGIBILITY

The current borrower(s) on the existing Rural Development (RD) guaranteed single-family mortgage must be identical to the borrower(s) on the modified mortgage.

The borrower(s) must be facing imminent default or be in default. A borrower is in default if that borrower is 30 days or more past due on the mortgage obligation. A borrower is “facing imminent default” if that borrower is current or less than 30 days past due on the mortgage obligation and is experiencing a significant reduction in income or some other hardship that will prevent him or her from making the next required payment on the mortgage during the month in which it is due.

The Servicer should not require the borrower to contribute cash to pay down arrearages prior to a loan modification.

The borrower must be the owner-occupant who is committed to occupying the property as a primary residence. A modification must not be used to bring a loan current before a sale or assumption.

D. FINANCIAL ANALYSIS

To be considered for a loan modification, the borrower(s) must provide detailed financial information to the Servicer.

Servicers may collect financial information from borrowers either in writing or during a telephone interview. Regardless of how the borrower’s financial information was secured, the Servicer must independently verify the financial information.

The following documentation must be obtained to determine financial capacity of the borrower:

- Documentation from borrower outlining their involuntary inability to pay/hardship;
- Income documentation as stated in the overview section; and
- Credit Report.

The credit report should only be used to validate monthly installment debt, revolving debt, and secondary mortgage debt. A borrower’s credit score obtained from any credit repository will not be considered in determining whether a borrower is eligible for loss mitigation.

Questions relating to documentation requirements should be directed to the Customer Service Center at (866) 550-5887.
1. **UNDERWRITING GROSS MONTHLY INCOME**

Gross monthly income includes the following, with respect to the borrower and any co-borrower(s):

- The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation for personal services;
- For self-employed borrowers, the net income from operation of a farm, business, or profession;
- Interest, dividends, and other net income of any kind from real or personal property (for example, investment income and rental income);
- Benefit income, including the full amount of periodic payments received from Social Security (may be grossed up to a maximum of 125% of non-taxable income) (including Social Security received by adults on behalf of minors or by minors intended for their own support), annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts;
- Alimony and/or child support may be used to qualify; however, it is voluntary and if the income renders the borrower ineligible the servicer is allowed to remove and re-evaluate the borrower; and
- Income received by the borrower that is reasonably likely to continue.

2. **UNDERWRITING BACK END TOTAL DEBT TO INCOME**

The Back-End ratio (total debt to income ratio) is the ratio of the borrower’s total recurring monthly debts (such as the borrower’s monthly mortgage payment (PITIA), payments on all installment debts, monthly payments on all junior liens, alimony, child support, car lease payments, aggregate negative net rental income from all investment properties owned, and monthly mortgage payments for second homes) to the borrower’s gross monthly income.

The servicer must validate all monthly installment debt, revolving debt, and secondary mortgage debt. This can be accomplished by pulling a credit report for each borrower or a joint report for married co-borrowers. The servicer must also consider any information obtained from the borrower orally or in writing concerning monthly obligations not reported on the credit file and document such obligations accordingly.

E. **FORECLOSURE**

If the foreclosure process has already begun, the Servicer should not proceed with the foreclosure action until the borrower has been evaluated for all loss
mitigation options and, if eligible, an offer to participate in the modification has been made.

F. MODIFICATION PURPOSE

The purpose of a loan modification should be to provide payment relief to the borrower in the form of a reduced payment. In limited circumstances, the Servicer may find it necessary to offer the borrower a modification for which the payment is increased. In cases where an increased payment is necessary, the borrower must demonstrate affordability by making at least 3 trial payments prior to execution of the modification.

G. LIEN PRIORITY

The servicer must ensure the first-lien status of the modified mortgage in compliance with any applicable state or Federal laws and regulations.

H. ESCROWS

Servicers are required to escrow for borrowers’ real estate taxes and mortgage-related insurance payments.

I. TRADITIONAL MODIFICATION OPTIONS

The following apply to loan modifications:

- The modification results in a fixed-rate fully amortizing loan;
- The modified interest rate may not exceed the current market interest rate at the time of approval; and
- The modification brings the loan current

The servicer shall calculate the target payment as 31% of the verified gross monthly income. Loan Modification options shall be used in the following order to bring the borrowers mortgage payment (PITIA) to as close as possible to the target payment.

1. Capitalize all delinquency. Capitalization may include foreclosure fees and costs that are associated with a current foreclosure action, deficits in tax and insurance accounts and past due annual fees imposed by the servicer. Past due homeowner’s association dues should be capitalized if necessary, to protect the first lien position. Servicer late charges and fees cannot be capitalized.

2. Reduce interest rate to a level at or below the maximum allowable rate as defined by The Agency. If the maximum allowable interest rate has not been established by the Agency, the servicer should use the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) rate for 30-year fixed rate mortgages plus 50 basis points rounded to the nearest
one-eighth of one percent (0.125%).

3. If the target payment is unable to be achieved with rate reduction alone, the servicer shall extend the term in one month increments, up to a maximum of 360 months until one of the following is achieved.
   a. The mortgage payment is at or below the target and the payment has been reduced a minimum of ten percent; or
   b. The mortgage payment is at or below the target and the term has been extended to the cap of 360 months.

4. If the servicer has completed all steps of the traditional modification and the target payment is unable to be achieved, they may continue with Special Servicing Options.

5. If the servicer determines that the borrower is not eligible for Special Servicing Options a modification can still be offered if the following conditions are met:
   a. The borrowers post modified payment is no greater than 36% of their monthly income, and;
   b. The borrowers post modified payment has increased no more than 10%.

The modified principal balance may exceed the loan’s original principal balance.

The modified principal balance may exceed 100% loan-to-value.

The use of a trial payment to support the borrower’s willingness and ability to pay is encouraged for a traditional modification, however, it is not required. If the servicer should determine a trial payment is the best course of action, they should follow the trial period guidance provided below.
J. SPECIAL SERVICING OPTIONS

The servicer must exhaust all traditional waterfall options before considering Special Loan Servicing (SLS). When evaluating borrowers for SLS the following additional criteria apply.

- The pre modified PITI payment must be greater than 31%; and,
- The borrower post modified back end DTI must be less than or equal to 55%.

If all traditional options have been considered and the borrowers meet the additional criteria the servicer may continue with the following steps to the modification waterfall.

1. In order to meet the target payment of 31% the term may be extended up to the maximum allowable by the investor but not to exceed 480 months.
2. If the targeted monthly mortgage payment still cannot be achieved, the servicer may consider a Mortgage Recovery Advance or MRA (as outlined below) in addition to the term extension to achieve the monthly target payment.
3. If the servicer exhausted all steps of the waterfall and the target payment is not achieved, however, the borrower’s payment (PITI) has been reduced by a minimum of ten percent, the servicer should offer the modification to the borrower(s).

If a borrower is found eligible using Special Servicing Options, a three-month trial (four if imminent default) is required to be completed prior to executing a final modification.

In all cases, the servicer should adhere to specific investor loan modification requirements when it comes to rate reduction or term extension.

K. MORTGAGE RECOVERY ADVANCE

The maximum amount of a Mortgage Recovery Advance is 30 percent of the unpaid principal balance at the time of initial default, which shall include any principal reduction needed to achieve the target monthly mortgage payment. If the borrower has previously been provided an MRA under special relief measures due to a Natural Disaster as outlined in Chapter 18, Section 5, they may be considered for an additional Mortgage Recovery Advance under this section provided that the combined amount of MRA does not exceed the 30 percent as outlined above.

To file a claim for reimbursement of a mortgage recovery advance, the servicer must submit a claim to RD within 60 days of the advance being executed by the borrower through his or her signature on the promissory note. When filing the claim for reimbursement with RD, the servicer must submit the
original promissory note and a copy of the filed mortgage or deed-of-trust. The servicer must also submit a summary of the amount of the funds advanced, including the monthly PITIA and principal deferment (if applicable), and other account information indicating the borrower's arrearage before the advance. In addition, the servicer should supply the present status of the account as of the date of the advance including evidence the loan has been reinstated; the name, address, and tax ID number for the servicer; and the name, address, and phone number of a contact person for the servicer who can answer questions about the reimbursement request.

The complete claim, including all supporting documents referred to above, must be submitted within 60 days of the execution of the mortgage recovery advance.

After the claim is completed, the servicer must ensure the mortgage is properly recorded and deliver the final recorded mortgage to the agency within 6 months of execution.

All required documentation must be submitted to the Customer Service Center for reimbursement. Please refer to the MRA Guidelines below for address and contact information.

The servicer may file a claim for reimbursement of up to $250 for a title search and/or recording fees in connection with the promissory note and mortgage or deed-of-trust. These claims are not part of the mortgage recovery advance and must be submitted in accordance with 7 CFR § 3555.354.

I. **MRA GUIDELINES**

No interest will accrue on the Mortgage Recovery Advance. The payment of the Mortgage Recovery Advance is not due until the earliest of (i) the maturity of the modified mortgage, (ii) the borrower transfers title to the property (by sale or by other voluntary or involuntary means), or (iii) a pay-off of the mortgage. Servicers may use HUD’s Partial Claim documents for the Mortgage Recovery Advance promissory note and mortgage or deed of trust. The promissory Note and mortgage or deed of trust should be made payable to the:

United States of America, acting through the Rural Housing Service (and its successors). The borrower must send payment directly to RD at:

USDA, Rural Development Guaranteed Loan
4300 Goodfellow Blvd.
Building 105 E Mail Code FC-225
St. Louis, MO  63120-0011

Attn:  Guaranteed Loss Mitigation Section
Any notice given to RD should be sent to the attention of the Loss Claims Department at the Customer Service Center.

L. STAND ALONE MRA

If the servicer determines the borrower is not eligible for a modification under traditional or special loan servicing options, the servicer can offer the borrower a stand-alone MRA to cure the delinquency if the following criteria are met:

- The hardship that caused the borrower’s involuntary inability to pay has been cured;
- The borrower’s current payment is below 31%;
- There is no reasonable ability for the borrower to cure the delinquency on their own within 12 months; and
- The borrower has not been modified under Special Loan Servicing options in the past.

If all the above conditions are met, the servicer may utilize a mortgage recovery advance to settle the borrower delinquency and return the borrower to a current status. The mortgage recovery advance is limited to an amount no greater than what is necessary to resolve any delinquency and unreimbursed servicer advances made during the delinquency and must meet all other requirements as explained in section 5.K above.

M. TRIAL PAYMENT REQUIREMENTS

Prior to modifying a loan using RD Special Loan Servicing, the servicer must have the borrower complete a trial period during which the borrower makes the monthly mortgage payment they would make under the modified mortgage.

For borrowers who are in default when special loan servicing is initiated, the trial period must be three months in length. The servicer cannot modify the loan using special loan servicing unless the borrower makes all three reduced trial payments on time.

For borrowers facing imminent default when special loan servicing is initiated, the trial period must be four months in length. The servicer cannot modify the loan using special loan servicing unless the borrower makes all four reduced trial payments on time.

All trial payments must be made in the month in which they are due.
### N. STEPS TO ACHIEVE AFFORDABILITY IN ORDER OF PRIORITY

<table>
<thead>
<tr>
<th>Order</th>
<th>Traditional Options</th>
<th>Special Loan Servicing</th>
<th>Trial Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Reduce Rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Extend 360</td>
<td></td>
<td></td>
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<tr>
<td>3</td>
<td></td>
<td>Extend 480</td>
<td>Y</td>
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<tr>
<td>4</td>
<td></td>
<td>MRA w/ Mod</td>
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<td>5</td>
<td>Affordability Check</td>
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<td></td>
<td>Payment Increase &lt;=10% &amp; HTI &lt;=36%</td>
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<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td>MRA Only</td>
<td>Y</td>
</tr>
</tbody>
</table>

### O. DOCUMENTATION

The servicer ensures that the modification documentation preserves the first lien status of the SFHGLP-guaranteed loan. The servicer will decide in accordance with state law as to whether it is necessary to record the modification agreement in order to maintain the first lien. Copies of executed, not recorded, modification agreements must be forwarded to the Agency at the address below:

USDA, Rural Development Guaranteed Loan  
4300 Goodfellow Blvd.  
Building 105 E Mail Code FC-225  
St. Louis, MO  63120-0011

### P. DISCLOSURES

The servicer complies with any disclosure or notice requirements applicable under state or federal law.

### Q. FAILURE

If the loan becomes delinquent following modification, it shall be treated as a new default and serviced accordingly. Since the servicer maintains the first lien status of the loan subsequent to modification, any amount that is not in the first lien position is not guaranteed by SFHGLP and is not subject to a claim. If the servicer submits a claim, the Agency reserves the right to request documentation (legal or otherwise) establishing the loan’s first lien status.
R. SUBSEQUENT USE

If a loan has been modified within the previous two years, re-default risk is presumed to increase following a subsequent modification. Before granting a modification in this circumstance, the servicer must validate the borrower has experienced a change in circumstances that led to a separate default or imminent default unrelated to the first. Any such decision must be documented and placed in the servicing file. A subsequent modification should be an unusual occurrence, and the cause of the second default should not be related to the original reason for default. In all cases, a borrower is only allowed one Special Loan Servicing modification during the life of the loan.

S. LOAN NOTE GUARANTEE

The terms of the SFHGLP Loan Note Guarantee (LNG) may change. The LNG may be extended to coincide with the terms of a loan modification that meets the eligibility criteria as noted in 7 CFR § 3555.303. Any loss on the modified loan is limited to the lesser of either 90 percent of the original loan amount, or the sum of the first 35 percent of the loss and 85 percent of the balance of the loss.

T. SERVICER NOTIFICATION REQUIREMENTS (MODIFICATIONS)

The servicer will upload a copy of the executed loan modification to the borrower file within 30 days of execution and no later than 60 days via USDA LINC. If loan modification was not executed the servicer uploads notification that modification was not executed to the borrower file.

The agreement should contain the following key data elements:

- Borrower and co-borrower name(s) and ID number(s)
- Effective reamortization date
- Unpaid principal reamortized
- Eligible interest and costs capitalized
- Sum of reamortized principal and capitalized interest and costs
- Interest rate
- Maturity date

U. AGENCY ACTION

The Agency staff processes the loan modification by means of the Guaranteed Loan System (GLS).
6 PRE-FORECLOSURE SALE

The pre-foreclosure sale (PFS) option allows a borrower in default to sell his or her home and use the sale proceeds to satisfy the mortgage debt even if the proceeds are less than the amount owed. This option is appropriate for a borrower whose financial situation requires the sale of the home, but who is unable to do so because the value of the property has declined to less than the amount owed on the mortgage.

The borrower makes a commitment to actively market the property for a period of at least three months, during which time the servicer delays foreclosure action. If the property does not sell, the borrower is encouraged to convey the property to the servicer through a deed-in-lieu of foreclosure.

A borrower wishing to use the PFS option submits a request to the servicer along with any financial information the servicer requires. The servicer obtains a recent market value appraisal and preliminary title report to determine the feasibility of the PFS. The servicer notifies the borrower whether the request is approved.

A. LOAN ELIGIBILITY

The loan is in default (delinquent more than 30 days) at the time the pre-foreclosure sale is closed. A servicer may exercise discretion to accept an application from a borrower who is facing imminent default, and if the loan will be in default by the time the pre-foreclosure sale is completed. The servicer documents this decision in the servicing file. Under no circumstances shall PFS be available to borrowers who have abandoned their mortgage obligation despite their continued ability to pay.

B. BORROWER ELIGIBILITY

The PFS option may be extended to a borrower who:

- is in default or facing imminent default due to a verified increase in living expenses or decrease in income;
- occupies the property as a primary residence (servicer must document occupancy status); and
- is not eligible for any available retention options.

In addition, borrowers who have failed to perform on an accepted loan modification using USDA guidance may be evaluated for a PFS option.

A non-occupant borrower may be reviewed for a PFS option if it is determined the vacancy was involuntary in nature, such as job loss, mandatory transfer, divorce, death, etc.
C. **BORROWERS APPLICATION**

A defaulted borrower or a borrower facing imminent default who expresses interest in a pre-foreclosure sale should be sent a copy of the servicer’s PFS criteria. Additionally, the servicer is encouraged to proactively solicit participation by a borrower who is in default or facing imminent default on an SFHGLP first mortgage and who is unable to cure the default.

By signing and returning the application with the required financial information, the borrower should acknowledge receipt of housing counseling, and agree to:

- List the property with a licensed real estate broker unrelated to the borrower (The listing agreement should include a specific cancellation clause in the event the terms of a sale are not acceptable.);
- Make a good faith effort to aggressively market the property; and,
- Perform all normal property maintenance and repairs until closing of the pre-foreclosure sale.

D. **PROPERTY VALUE**

The servicer obtains a standard market value appraisal from an appraiser who does not share any interest with the borrower or borrower’s agent. The appraisal contains both “As Is” and “As Repaired” values for the property and should be valid for six months. A copy of the appraisal is shared with the homeowner or sales agent, if requested. Appraisals or opinions of value provided by the borrower, or borrower’s real estate agent are not acceptable. The servicer reviews the appraisal and satisfies itself that the opinion represents the fair market value of the subject property. The list price of the property must reflect its fair market value. The cost of the appraisal is reimbursable in the loss claim.

E. **PROPERTY CONDITION**

Properties that have sustained serious damage (from fire, flood, earthquake, tornado, etc.) should not be considered for PFS if the cost of repair exceeds ten percent of the “As Repaired” appraised value until all insurance claims have been resolved. The servicer may exercise discretion to accept or reject a damaged property when the repair costs are less than the ten percent threshold, and should document the decision in the servicing file.

Prior to servicing plan submission, servicers must ensure that hazard insurance claims involving property damage are filed and settled expeditiously. All repairs and replacements using the insurance proceeds must be planned, performed and inspected in accordance with Agency construction requirements and procedures. (7 CFR 3555.252)
F. CONDITION OF TITLE

The property has marketable title. The servicer obtains a title search or preliminary title report to verify that the title is not impaired either with unresolvable title problems or with junior liens that cannot be discharged. If the servicer determines that junior liens and other title issues can be resolved, the borrower’s PFS application may be approved and resolution of the title issues can be pursued concurrent with the marketing effort.

G. FINANCIAL / PROPERTY ANALYSIS

The servicer determines the borrower’s present and anticipated financial condition.

The servicer projects the borrower’s monthly income and uses good business judgment to determine that the borrower is unable to support the mortgage debt. The servicer may continue with Pre-Foreclosure options, even if the debt is affordable, provided the reason for default requires the borrower to relocate.

The following documentation must be obtained and/or completed in order to determine financial capacity of the borrower:

- SFHGLP Servicing Plan;
- Letter from borrower outlining involuntary inability to pay/hardship;
- Income documentation as stated in the overview section;
- Credit Report; and,
- Detailed budget.

If the borrower has been offered a loss mitigation solution based on full documentation in the last 12 months, the servicer can determine the borrower’s ability/inability to support the debt based on the previous evaluation without obtaining new documentation.

The following documentation pertaining to the subject property must be obtained:

- Appraisal;
- Listing Agreement;
- Sales Contract (if applicable);
- Closing Disclosure;
- Title Report; and
- All PFS workouts must be accompanied by the “Disposition (PFS/DIL) Cost Benefit Analysis” (Attachment 18-B). Attachment 18-B is an
example of the analysis that must be completed in order for a PFS workout can be considered. Servicers may generate their own version of Attachment 18-B in-lieu of utilizing the example provided.

H. TIMING OF PFS ACTIONS

The servicer decides to allow a PFS, commences foreclosure, or initiates another loss mitigation option within six months of the date of default, unless the default is cured earlier.

If the PFS follows a failed special forbearance agreement, the PFS, foreclosure or other option should be initiated within 90 days of the failure.

I. DURATION OF THE PFS PERIOD

The PFS period should be 90 days from the date of approval. The servicer should review the marketing efforts with the borrower each month. After 90 days have passed without a scheduled closing, the servicer should discuss the likelihood of a sale with the real estate broker and make a determination to either end the PFS period, approve a deed-in-lieu or, if a sale is likely, extend it for an additional 30 days. Documentation of this decision is retained in the servicing notes.

If the property is under contract at the end of the marketing period, the servicer may extend the PFS period for 60 days, not to exceed a total of 6 months.

The pre-foreclosure option may also be extended to a borrower that has not received prior approval to participate in the PFS program. A sales contract offer must be validated by an appraisal that is conducted by an appraiser not party to the transaction. The appraisal must support the “as is” property value independent of the current offer.

J. OTHER SERVICER ACTIONS

The servicer is responsible for inspection, protection, and preservation of the property between the 45th day of default and the date it approve the borrower’s PFS request. Funds spent for preservation and protection may be reimbursed.

The servicer must provide any documents deemed pertinent to describe all servicing actions taken.

K. EARLY TERMINATION

The borrower’s participation in the PFS option may be terminated at the servicer’s discretion, for any of the following reasons:

- Unresolvable title problems;
- Determination that the borrower is not acting in good faith to market the
property; or,

- Voluntary withdrawal by the borrower.

L. FAILURE

If a closing of an approved PFS has not occurred within 90 days of the expiration of the PFS period (or 6 months of the date of default, whichever is later), the servicer should automatically evaluate the borrower for a deed-in-lieu, and if not eligible, commence foreclosure. If the borrower’s financial condition has improved significantly to the point that a cure of the delinquency is a viable option, the servicer may undertake a special forbearance agreement or a loan modification. However, the servicer should fully justify this decision in the claim review file and approve the action within the 90-day period.

M. BORROWER CONSIDERATION

A borrower who successfully sells the property securing the loan using the PFS option is relieved of the mortgage obligation. The borrower shall not be pursued for deficiency judgments by either the servicer or the Agency.

N. NET SALES PROCEEDS

The servicer may approve a sales contract or listing price in which the net sales proceeds are at least 84 percent of the home’s “As-Is” appraised value. “Net Sales Proceeds” is defined as the contract/ listing price less:

- sales commission (usually six percent or less);
- Local/state transfer tax stamps and other customary closing costs including the seller’s costs for a title search and title insurance;
- Up to $2,500 may be used from sales proceeds for discharge of liens or encumbrances; and,
- Allowable seller concessions must not exceed 3% of the sales price. In cases where Rural Development is guaranteeing a new loan, the seller concessions will be limited to 1% of the purchaser’s new mortgage loan amount.

Examples of settlement costs which may not be included in the net sales proceeds calculation are:

- Tax service fees and other property transfer costs normally paid by the buyer;
- Home warranty fees;
- Repairs not stipulated in the appraisal;
- Survey costs;
• Lawyer’s fees for representing the seller (apart from conducting the settlement or review of documents);
• Purchaser’s down payment, escrow impounds and interim interest;
• Purchaser’s upfront/monthly mortgage insurance premiums; and,
• Servicer’s Title Insurance fee.

There can be no hidden terms or special understandings between any of the parties involved in the transaction; i.e., the buyer, seller, appraiser, sales agent, closing agent, and servicer.

Because time is of the essence when the PFS option is exercised, the servicer should review the signed Contract for Sale (if available) within 5 business days. If no contract is available, the servicer should approve the listing price of the property with the understanding that if an offer is made that meets the terms listed above, the transaction shall be pre-approved with little additional review required. The transaction is an outright sale of the premises. No sale by assumption may be considered, regardless of provisions for release of liability.

O. CLOSING AND POST RESPONSIBILITIES

Before the transaction closes, the servicer will provide the closing agent with a list of all amounts payable out of the sale proceeds. Before giving final approval for a closing, the servicer reviews the settlement statement to ensure that it complies with earlier closing cost estimates.

A PFS is reported to national credit bureaus as a “short sale.” The servicer is responsible for filing any applicable forms with the IRS and reporting any discharge of indebtedness, in accordance with the Internal Revenue Code.

P. FILING A CLAIM

The loss claim under the loan note guarantee is submitted to the Agency within 45 days after the date of the PFS closing. The Agency will reimburse the servicer for reasonable and customary costs of the appraisal, title search (if not included in the settlement statement), the allowable percentage of legal fees for a foreclosure postponed pending completion of PFS, if applicable, and reasonable costs of preservation and protection. Disbursements for taxes, assessments, hazard insurance, and other allowable items payable before the date of the PFS closing are also reimbursable. The Agency will not pay costs related to the property incurred after the closing date.

In order for the servicer to receive a loss mitigation incentive of $1,000 for successfully closing a PFS, the documentation requirements outlined above must be met.

7 DEED-IN-LIEU OF FORECLOSURE (DIL)
Deed-in-lieu of foreclosure (DIL) is a disposition option in which a borrower voluntarily deeds the collateral property to the servicer in exchange for a release from all obligations under the mortgage. Although the borrower loses the property, a DIL is usually preferable to foreclosure because the costs and emotional trauma of foreclosure are reduced. In addition, a DIL is generally less damaging than foreclosure to a borrower’s ability to obtain credit in the future. SFHGLP prefers a DIL because it avoids the time and expense of a legal foreclosure action, and the property is generally in better physical condition at acquisition due to the cooperative nature of the transaction.

Unlike a legal foreclosure however, the servicer’s acquisition of the property by a DIL does not extinguish junior liens or terminate tenancies. Therefore, the servicer has a responsibility to determine that the condition of the property and the title meets minimum standards. The most significant is that the servicer enters into a written agreement with the borrower, stating the specific actions the borrower will perform in order to take advantage of this option.

A. LOAN DEFAULT

Before accepting the deed conveying the property, the servicer should document that the loan is in default (delinquent more than 30 days), and the cause of the default is incurable. A servicer must request Agency prior approval to enter into a DIL agreement with a borrower whose loan is current but who is facing imminent default and should document the decision in the servicing file. In such a case, the loan is in default at the time that the DIL is recorded.

A qualified property should first be offered for sale through the PFS program. A servicer who elects to accept a DIL without attempting a PFS must receive prior Agency approval.

Under no circumstances shall a DIL be available to a borrower who has abandoned the mortgage obligation despite the continued ability to pay.

B. BORROWER QUALIFICATIONS

The DIL option may be extended to a borrower who is unable to continue to support the mortgage debt and who occupies the property as a primary residence.

A non-occupant borrower may be reviewed for a DIL option if it is determined the vacancy was involuntary in nature, such as job loss, mandatory transfer, divorce, death, etc.

A DIL may not be considered if a deficiency judgment will be pursued against the borrower.

C. FINANCIAL AND PROPERTY ANALYSIS

The servicer determines the borrower’s financial condition. The servicer
projects the borrower’s monthly income for a minimum of three months and uses good business judgment to determine if the borrower has the capacity to support the mortgage debt.

The following documentation must be obtained and/or completed in order to determine financial capacity of the borrower:

- SFHGLP Servicing Plan
- Letter from borrower outlining involuntary inability to pay/hardship
- Pay-Stub covering a minimum of thirty days or four weeks of earnings
- Credit Report
- Detailed budget
- Title Report

For self-employed borrowers the following documentation is required:

- Year to date profit and loss statement
- Prior year signed tax return

If the borrower has been offered a loss mitigation solution based on full documentation in the last 12 months, the servicer can determine the borrower’s ability/inability to support the debt based on the previous evaluation without obtaining new documentation.

The following documentation must be obtained pertaining to the subject property:

- Appraisal

D. CONDITION OF THE PROPERTY AND TITLE

Properties that have sustained serious damage (from fire, flood, earthquake, tornado, or other man made or natural disasters.) should not be considered for DIL if the cost of repair exceeds ten percent of the “As Repaired” appraised value or poses an environmental or health risk. If the cost to repair the subject property exceeds ten percent, Agency concurrence is required.

The servicer may exercise discretion to accept or reject a damaged property when the repair costs are less than the ten percent threshold but should document the decision in the servicing file.

Prior to servicing plan submission servicers must ensure that hazard insurance claims involving property damage are filed and settled expeditiously. All repairs and replacements using the insurance proceeds must be planned, performed and
inspected in accordance with Agency construction requirements and procedures.

The servicer must obtain a complete title search and be able to obtain good and marketable title to the property. The servicer obtains a title search or preliminary title report to verify that the title is not impaired either with unresolvable title problems or with junior liens that cannot be discharged. In all cases, all junior liens or issues with title must be resolved PRIOR to sending the DIL application for approval.

E. DOCUMENTATION

A written DIL agreement is executed by the borrower and servicer and contains all the conditions under which the deed will be accepted, such as:

- Certification that the borrower does not own any other property subject to a mortgage;
- Specific transfer date;
- Notification that there may be income tax consequences because of the DIL;
- Acknowledgment that borrowers who comply with all the requirements of the agreement shall not be pursued for deficiency judgments;
- A statement describing the general physical condition in which the property will be conveyed demonstrating clean and marketable condition;
- Agreement that the borrower will convey the property vacant and free of personal property unless the servicer has approved occupied conveyance;
- Itemization of the keys, built-in fixtures and equipment to be delivered to the servicer on or before the transfer date;
- Borrower’s agreement to provide evidence that certain utilities, assessments and homeowner’s association dues are paid in full to the transfer date unless otherwise agreed to by the parties;
- All DIL of foreclosure workouts must be accompanied by the “Disposition (PFS/DIL) Cost Benefit Analysis” (Attachment 18-B). Attachment 18-B is an example of the analysis that must be completed in order for a DIL workout to be considered. Servicers may generate their own version of Attachment 18-B in-lieu of utilizing the example provided.

The servicer is responsible for ensuring that the DIL documentation is in compliance with all applicable laws and regulations.

F. CONVEYANCE

A special warranty deed is used to convey the property. The original credit instrument is canceled and surrendered to the borrower, indicating that the debt
has been satisfied. The servicer records the satisfaction of lien and the deed in a timely and prudent manner.

G. TIMING

A DIL is completed or foreclosure initiated within six months of the date of default unless the servicer obtained an extension by first trying another loss mitigation option or has received an extension approved by the Agency before the 6-month period expires.

If the DIL follows a failed special forbearance agreement or pre-foreclosure sale, the DIL should be completed or foreclosure initiated within 90 days of the failure. If the DIL follows any other option, it is completed, or foreclosure initiated within nine months of the date of default.

H. SERVICER REPORTING

The DIL is reported to credit bureaus. The servicer is responsible for filing any applicable forms with the IRS and reporting any discharge of indebtedness, in accordance with the Internal Revenue Code.

I. BORROWER CONSIDERATION

A borrower who successfully conveys the property securing the loan with a DIL is relieved of his debt. The borrower shall not be pursued for deficiency judgments by either the servicer or the Agency.

J. FILING THE CLAIM

As with other loss claims, the servicer is expected to follow established claim instructions. The Agency will reimburse the servicer for reasonable and customary costs of the appraisal, title search, allowable legal fees, and reasonable costs of preservation and protection. Disbursements for taxes, assessments, hazard insurance, and other allowable items payable before the DIL settlement date are also reimbursable. The Agency will not pay costs related to the property that are incurred after the DIL settlement date.

In order for the servicer to receive a loss mitigation incentive of $250 for successfully closing a DIL, the documentation requirements outlined above must be met.
Disposion (PFS/DIL) Cost Benefit Analysis (Example)

This worksheet is being provided to demonstrate cost savings to the Government, as described under 7 CFR 3555.305. Voluntary liquidation methods must demonstrate the expected cost to the Government to be the same as or less than the cost of foreclosure. Other methods of liquidation must demonstrate how the proposal will result in savings to the Government. These options are appropriate for borrowers who have experienced a verified, involuntary inability to meet their mortgage obligation. Borrowers that have abandoned their mortgage obligation or strategically defaulted may not be eligible. For further eligibility clarification, please refer to the "Loss Mitigation Guide." Failure to comply with Agency Regulation, Policies and Guidance may result in a reduction or denial of any future Loss Claim. If you need further assistance, please contact the Customer Servicing Center at 1-866-550-5887.

<table>
<thead>
<tr>
<th>Voluntary/Other Liquidation Method</th>
<th>Foreclosure Method</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Market Value</strong></td>
<td><strong>$180,000.00</strong></td>
</tr>
<tr>
<td>¹ <strong>Gross Sales Price</strong></td>
<td><strong>$172,500.00</strong></td>
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<tr>
<td>² <strong>Net Sales Proceeds</strong></td>
<td><strong>$157,482.63</strong></td>
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<tr>
<td>³ <strong>Actual Net Sales Price %</strong></td>
<td>⁹1.294%</td>
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<tr>
<td><strong>Unpaid Principal Balance</strong></td>
<td><strong>$203,325.62</strong></td>
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<td><strong>Interest to Settlement Date</strong></td>
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<td><strong>Escrow Shortage</strong></td>
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<tr>
<td><strong>FC Cost</strong></td>
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<td><strong>Other Cost</strong></td>
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<td><strong>Total Debt</strong></td>
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<tr>
<td><strong>Total Estimated Loss Claim</strong></td>
<td><strong>$54,008.16</strong></td>
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¹ If no offer is available enter Market Value in lieu of Gross Sales Price.
² If no offer is available reduce Market Value by Management Acquisition Factor (14.95%) and enter in lieu of Net Sales Proceeds.
³ The result of the Net Sale Price divided by the Current Market Value

Cost Savings to the Government: **$31,083.70**
## ATTACHMENT 18-B

### ACCEPTABLE STATE FORECLOSURE TIME FRAMES

<table>
<thead>
<tr>
<th>State</th>
<th>Typical Security Document</th>
<th>Foreclosure Method Reasonable Diligence Time Frames In Months (Days)¹ – Effective 04/24/2020</th>
<th>First Legal Action to Commence (Initiation) of Foreclosure</th>
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<tbody>
<tr>
<td>Alabama</td>
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<tr>
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<tr>
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<td>Mortgage</td>
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<td>Publication</td>
</tr>
<tr>
<td>Guam</td>
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<td>Posting and Publishing of Notice of Sale</td>
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<tr>
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<td>Publication of Notice of Intent to Foreclose</td>
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<td>Kentucky</td>
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<td>14 (420)</td>
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</table>

¹ State foreclosure time frames are displayed in months and converted to reasonable days expected.
² The servicer must first obtain a Judgment from the Land Court certifying that the owners of the property being foreclosed are not entitled to relief under the Servicemembers Civil Relief Act (SCRA).

---

(03-09-16) SPECIAL PN
<table>
<thead>
<tr>
<th>State</th>
<th>Typical Security Document</th>
<th>Foreclosure Method Reasonable Diligence Time Frames In Months (Days)³ – Effective 04/24/2020</th>
<th>First Legal Action to Commence (Initiation) of Foreclosure</th>
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³ State foreclosure time frames are displayed in months and converted to reasonable days expected.
## ATTACHMENT 18-C

### ACCEPTABLE STATE LIQUIDATION COSTS AND FEES

Schedule of Standard Attorney/Trustee Fees

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<thead>
<tr>
<th>STATE</th>
<th>NON-JUDICIAL FORECLOSURE</th>
<th>JUDICIAL FORECLOSURE</th>
<th>BANKRUPTCY CLEARANCE</th>
<th>POSSESSORY ACTION</th>
<th>DEED-IN-LIEU</th>
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**Footnotes:**

1. The fee covers the combined attorney’s and notary’s fees.

2. This fee applies to completed foreclosures. If the mortgage loan is reinstated, the maximum fee is the amount allowed under applicable law, not to exceed $725 for reinstatements after recording the Notice of Default but before mailing the Notice of Sale, or $1075 for reinstatements after mailing the Notice of Sale but before the Trustee’s sale.

3. An additional $200 will be permitted when the property is sold to a third party and the attorney must perform additional work to complete the transfer of title to the successful bidder.

4. This fee applies to Strict Foreclosures. If the court orders a Foreclosure by Sale (or a Foreclosure by Market Sale on or after January 1, 2015), the fee will be $2,700.

5. The fee includes the attorney’s, the notary’s fees and the trustee’s commission (or statutory fee).

6. [Reserved]

7. A fee of $3,950 will be permitted for judicial foreclosures in locations other than Honolulu County.

8. [Reserved]

9. In New York, the non-judicial foreclosure process is to be used only in connection with cooperative share loans. The fee includes all steps in the foreclosure process, including the transfer of the stock and the lease for an occupied cooperative unit. The allowable fee for judicial foreclosures in New York, where judgment is obtained as a result of an uncontested trial, is established at $3,650. For judicial foreclosures in the City of New York and on Long Island (Nassau and Suffolk Counties), the allowable fee is $3,500 (or $4,250 if judgment is obtained via uncontested trial).

10. In addition to the allowable foreclosure fee, USDA will pay a notary fee up to the greater of $250 or one percent (1%) of the bid amount on the mortgage being foreclosed.
(11) The allowable fee for foreclosures in Florida, where judgment is obtained as a result of an uncontested trial, is established at $3,350.

(12) When a servicer requests reimbursement from USDA for a fee amount based on specified conditions contained in a footnote above, the servicer’s reimbursement request must contain a description or sufficient supporting documentation to allow USDA to properly evaluate the request.

(13) This fee assumes that all required procedural steps have been completed. The maximum attorney fee varies based on the chapter under which the bankruptcy action is filed.

- For Chapter 7 bankruptcies, the maximum allowable fee is $1,175.
  1. Motion for Relief is $750
  2. Proof of Claim Preparation (if required) is $300
  3. Reaffirmation Agreement is $125

- For Chapter 11 bankruptcies, the maximum allowable fee is $1,600.
  1. Proof of Claim Preparation & Plan Review is $750
  2. Motion for Relief is $850

- For Chapter 12 bankruptcies, the maximum allowable fee is $2,100.
  1. Proof of Claim Preparation & Plan Review is $750.
  2. Objection to Plan is $500
  3. Motion for Relief is $850

- For Chapter 13 bankruptcies, the maximum allowable fee is $2,850
  1. Proof of Claim Preparation & Plan Review is $650
  2. Objection to Plan is $500
  3. Motion for Relief is $850
  4. Payment Change Notification (if needed) is $50
  5. Notice of Fees, Expenses, and Charges is $100
  6. Post-Stipulation Default / Stay Termination is $50 / $200
  7. Response to Final Cure Payment Notice is $50 (agreed) / $500 (objection)
# ATTACHMENT 18-D

**USDA Individual State Based Bidding Chart**

<table>
<thead>
<tr>
<th>State</th>
<th>USDA Bid Percentage (Bid % of Value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AK</td>
<td>80%</td>
</tr>
<tr>
<td>AL</td>
<td>71%</td>
</tr>
<tr>
<td>AR</td>
<td>73%</td>
</tr>
<tr>
<td>AZ</td>
<td>80%</td>
</tr>
<tr>
<td>CA</td>
<td>80%</td>
</tr>
<tr>
<td>CO</td>
<td>80%</td>
</tr>
<tr>
<td>CT</td>
<td>78%</td>
</tr>
<tr>
<td>DC</td>
<td>80%</td>
</tr>
<tr>
<td>DE</td>
<td>72%</td>
</tr>
<tr>
<td>FL</td>
<td>78%</td>
</tr>
<tr>
<td>GA</td>
<td>78%</td>
</tr>
<tr>
<td>GU</td>
<td>77%</td>
</tr>
<tr>
<td>HI</td>
<td>80%</td>
</tr>
<tr>
<td>IA</td>
<td>69%</td>
</tr>
<tr>
<td>ID</td>
<td>78%</td>
</tr>
<tr>
<td>IL</td>
<td>66%</td>
</tr>
<tr>
<td>IN</td>
<td>71%</td>
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<tr>
<td>KS</td>
<td>74%</td>
</tr>
<tr>
<td>KY</td>
<td>72%</td>
</tr>
<tr>
<td>LA</td>
<td>80%</td>
</tr>
<tr>
<td>MA</td>
<td>80%</td>
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<tr>
<td>MD</td>
<td>77%</td>
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<tr>
<td>ME</td>
<td>78%</td>
</tr>
<tr>
<td>MI</td>
<td>75%</td>
</tr>
<tr>
<td>MN</td>
<td>80%</td>
</tr>
<tr>
<td>MO</td>
<td>76%</td>
</tr>
<tr>
<td>MS</td>
<td>74%</td>
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<tr>
<td>MT</td>
<td>80%</td>
</tr>
<tr>
<td>NC</td>
<td>72%</td>
</tr>
<tr>
<td>ND</td>
<td>64%</td>
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<tr>
<td>NE</td>
<td>80%</td>
</tr>
<tr>
<td>NH</td>
<td>80%</td>
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<tr>
<td>NJ</td>
<td>69%</td>
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<tr>
<td>NM</td>
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<tr>
<td>NV</td>
<td>72%</td>
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<tr>
<td>NY</td>
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</tr>
<tr>
<td>OH</td>
<td>76%</td>
</tr>
<tr>
<td>OK</td>
<td>80%</td>
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<tr>
<td>OR</td>
<td>80%</td>
</tr>
<tr>
<td>PA</td>
<td>72%</td>
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<td>PR</td>
<td>77%</td>
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<tr>
<td>RI</td>
<td>80%</td>
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<tr>
<td>SC</td>
<td>68%</td>
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<tr>
<td>SD</td>
<td>80%</td>
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<tr>
<td>TN</td>
<td>78%</td>
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<td>TX</td>
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</tr>
<tr>
<td>UT</td>
<td>80%</td>
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<tr>
<td>VA</td>
<td>79%</td>
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<tr>
<td>VT</td>
<td>51%</td>
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<tr>
<td>WA</td>
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<td>WI</td>
<td>78%</td>
</tr>
<tr>
<td>WV</td>
<td>78%</td>
</tr>
<tr>
<td>WY</td>
<td>78%</td>
</tr>
</tbody>
</table>

(03-09-16) SPECIAL PN  
Revised (05-17-17) PN 498
ATTACHMENT 18-E  
MAXIMUM PROPERTY PRESERVATION ALLOWANCES

A. PROPERTY PRESERVATION ALLOWANCES

<table>
<thead>
<tr>
<th>CLAIM SUBMISSION AND DOCUMENTATION COSTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum Property Preservation Allowance</td>
<td>$5,000</td>
</tr>
<tr>
<td>Cash for Keys</td>
<td>Maximum $2500 can be paid to the borrower in order to avoid eviction and maintain marketability of the property. (provide signed agreement)</td>
</tr>
<tr>
<td>Photographs</td>
<td>Maximum $30 per property</td>
</tr>
<tr>
<td>Local Requirements (Vacant Property Registration)</td>
<td>Actual cost to register and comply with all VPR ordinance requirements (provide supporting documentation)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>INSPECTIONS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Inspection</td>
<td>$20/$15 per each additional unit</td>
</tr>
<tr>
<td>Occupancy Inspections</td>
<td>$20/$15 per each additional unit</td>
</tr>
<tr>
<td>Vacant Inspections (Ongoing)</td>
<td>$35/$15 per each additional unit</td>
</tr>
<tr>
<td>• Initial Vacant Property Inspection (One time)</td>
<td>$20/$15 per each additional unit</td>
</tr>
<tr>
<td>• Ongoing Inspections</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SECURING THE PROPERTY</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Emergency Contact Information Posting</td>
<td></td>
</tr>
<tr>
<td>Emergency Contact Posting including Address Posting</td>
<td>$10 one time reimbursement</td>
</tr>
<tr>
<td>Lockbox, including duplicate HUD coded keys</td>
<td>$40 one time reimbursement</td>
</tr>
<tr>
<td>Locksets</td>
<td></td>
</tr>
<tr>
<td>Lockset replacement – Front or Main Entranceway</td>
<td>$60 per door/door set</td>
</tr>
<tr>
<td>Lockset replacement - other than above</td>
<td>$20 each</td>
</tr>
<tr>
<td>Re-keying</td>
<td>$10 per keyhole</td>
</tr>
<tr>
<td>Padlock/Hasp Installation</td>
<td>$40 each</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Doors</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Replace Exterior Door – Pre-Hung Steel</td>
<td>$800 each</td>
</tr>
<tr>
<td>Replace Overhead Door</td>
<td>$800 single bay door</td>
</tr>
<tr>
<td></td>
<td>$1,000 double bay door</td>
</tr>
<tr>
<td>Repair Overhead Door</td>
<td>$100 maximum per property</td>
</tr>
</tbody>
</table>

(03-19-16) SPECIAL PN  
Added (04-30-20) PN 536
<table>
<thead>
<tr>
<th>Service</th>
<th>Cost Per Item</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Re-Glazing</td>
<td>$1.50 per U.I.</td>
<td>(Length (in.) of one side + Width (in.) of one side = Total U.I.)</td>
</tr>
<tr>
<td>Window Lock Replacement</td>
<td>$5 each</td>
<td>Maximum $50 per property</td>
</tr>
<tr>
<td>Door slider lock, anti-lift blocks, security bars</td>
<td>$25 each</td>
<td></td>
</tr>
<tr>
<td><strong>Boarding/Securing of doors and windows</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boarding/Securing Materials</td>
<td>$.90 per U.I.</td>
<td></td>
</tr>
<tr>
<td><strong>Swimming Pools, Spas, and Hot Tubs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Swimming Pool Securing – In-ground</td>
<td>Maximum $1,250</td>
<td>for all work, including cover installation</td>
</tr>
<tr>
<td>Swimming Pool Securing - Above ground</td>
<td>Maximum $500</td>
<td>for all work, including cover installation</td>
</tr>
<tr>
<td>Spa and Hot-tub Securing</td>
<td>Maximum $50</td>
<td>for all work, including cover installation</td>
</tr>
<tr>
<td>Swimming Pool Draining</td>
<td>Maximum $300</td>
<td>per property</td>
</tr>
<tr>
<td>Above Ground Swimming Pool Removal</td>
<td>Maximum $500</td>
<td>per property</td>
</tr>
<tr>
<td>Swimming Pool Maintenance</td>
<td>Maximum $100</td>
<td>monthly</td>
</tr>
<tr>
<td><strong>Winterization</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dry Winterization</td>
<td>Maximum $100</td>
<td>each unit</td>
</tr>
<tr>
<td>Wet/Steam Winterization</td>
<td>Maximum $150</td>
<td></td>
</tr>
<tr>
<td>Wet/Steam Winterization – additional unit</td>
<td>Maximum $90</td>
<td></td>
</tr>
<tr>
<td>Radiant Winterization</td>
<td>Maximum $250</td>
<td></td>
</tr>
<tr>
<td>Radiant Winterization – additional unit</td>
<td>Maximum $125</td>
<td></td>
</tr>
<tr>
<td>Reduced Pressure Zone (RPZ) Valves</td>
<td>Maximum $150</td>
<td>where required by state or local law</td>
</tr>
<tr>
<td>Swimming Pools and Spas</td>
<td>Maximum $200</td>
<td>per property per 12-month period</td>
</tr>
<tr>
<td>Re-winterization</td>
<td>$50 each occurrence</td>
<td></td>
</tr>
<tr>
<td><strong>Utilities, Power Supply, Water Supply, Gas Supply</strong></td>
<td></td>
<td>Actual cost - one time shut off/transfer fee as assessed by local utility entities</td>
</tr>
<tr>
<td>Electricity, Gas, Oil, Propane, Water and Sewer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water well closing and disconnection</td>
<td>$80</td>
<td>for all work required – one time shut-off per property</td>
</tr>
<tr>
<td>Initial water line pressure testing</td>
<td>$20</td>
<td></td>
</tr>
<tr>
<td>Wire Capping</td>
<td>$1 each</td>
<td>Maximum $25 per property</td>
</tr>
<tr>
<td>Water, Sewer, or Gas Capping</td>
<td>$15 each</td>
<td>Maximum $90 per property</td>
</tr>
<tr>
<td>Smoke Detectors – when required by AHJ</td>
<td>$15 each</td>
<td></td>
</tr>
<tr>
<td>CO2 Monitor – when required by AHJ</td>
<td>$25 each</td>
<td></td>
</tr>
<tr>
<td><strong>Roof Assembly Repair</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporary Roof Repair/Tarping</td>
<td>Maximum $600</td>
<td>per property</td>
</tr>
<tr>
<td>Service Description</td>
<td>Cost Details</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Permanent Roof Repair/Patching</td>
<td>Maximum $1,000 per property</td>
<td></td>
</tr>
<tr>
<td>Chimney Capping</td>
<td>Maximum $100 each</td>
<td></td>
</tr>
<tr>
<td><strong>Foundation Drainage Systems and Basements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basement Water Pumping</td>
<td>Maximum $500 per property</td>
<td></td>
</tr>
<tr>
<td>Gutter Cleaning and Repair</td>
<td>$1 per linear foot (LF); Maximum $100 per property</td>
<td></td>
</tr>
<tr>
<td>Gutter Replacement (missing sections only)</td>
<td>$4.70 per LF; Maximum $400 per property</td>
<td></td>
</tr>
<tr>
<td><strong>Molds, Fungus, Discoloration and Related Moisture Damage and Organic Growth</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dehumidifier Purchase and Installation</td>
<td>Maximum $250 each</td>
<td></td>
</tr>
<tr>
<td>Absorbent Moisture Desiccants</td>
<td>$20 each; maximum $100 per 12 month period</td>
<td></td>
</tr>
<tr>
<td>Mold Treatment including Medium Removal, mold inhibitor chemicals, mold inhibiting paints</td>
<td>$300 Maximum per property</td>
<td></td>
</tr>
<tr>
<td><strong>Sump Pumps</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sump Pump Replacement/Installation</td>
<td>Maximum $300 per property</td>
<td></td>
</tr>
<tr>
<td>Sump Pump Repair</td>
<td>Maximum $50</td>
<td></td>
</tr>
<tr>
<td><strong>Debris Removal, Cleaning, and Minor Repair</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debris Removal, Interior and Exterior</td>
<td>Maximum $1,250</td>
<td></td>
</tr>
<tr>
<td>Debris Removal, Interior and Exterior – additional waste</td>
<td>$50 per cubic yard (CY)</td>
<td></td>
</tr>
<tr>
<td>Broom Swept Cleaning</td>
<td>$50</td>
<td></td>
</tr>
<tr>
<td>Refrigerator and Freezer Cleaning</td>
<td>$50</td>
<td></td>
</tr>
<tr>
<td>Toilet Cleaning</td>
<td>$50</td>
<td></td>
</tr>
<tr>
<td>Clothes Dryer Vent Cover Installation</td>
<td>$20 each</td>
<td></td>
</tr>
<tr>
<td>Pest Extermination (professional services with documented need)</td>
<td>Maximum $300 (provide payment evidence)</td>
<td></td>
</tr>
<tr>
<td>Pest Extermination (Over-the-counter products)</td>
<td>$30 each; maximum $90 per 12 month period</td>
<td></td>
</tr>
<tr>
<td>Dead Animal Removal</td>
<td>$50 per occurrence</td>
<td></td>
</tr>
<tr>
<td>Vehicle/Boat Removal</td>
<td>Maximum $210 per vehicle</td>
<td></td>
</tr>
<tr>
<td>Fencing Repair</td>
<td>$300 for all work required</td>
<td></td>
</tr>
<tr>
<td>Handrails</td>
<td>$10 per lineal foot (LF) Maximum $200 per property</td>
<td></td>
</tr>
<tr>
<td>Carpet Removal including removal of tack strips</td>
<td>$.20 per square foot (SF) Maximum $400 per property</td>
<td></td>
</tr>
<tr>
<td>Demolition of Dilapidated/Unsafe Outbuildings and Sheds</td>
<td>$1.00 per square foot; Maximum $400 per property</td>
<td></td>
</tr>
<tr>
<td>Professional reports (Hazardous material identification and testing) - Reimbursement</td>
<td>Maximum $1,100 per property</td>
<td></td>
</tr>
<tr>
<td>for positive results only</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(03-19-16) SPECIAL PN
Revised (05-21-20) SPECIAL PN
### Police and Fire Reports

- **$20 each**

### Personal Property Storage

- **Storage and disposition**: Maximum $300 per property

<table>
<thead>
<tr>
<th><strong>MAINTENANCE</strong></th>
</tr>
</thead>
</table>

### Yard Maintenance

- **Initial Desert Landscaping Maintenance**: Maximum $300
- **Re-Cut Desert Landscaping Maintenance**: Maximum $200 per 12 month period
- **Grass Cuts**: Refer to Section C of this attachment
- **Tree Trimming**: Maximum $250 per 12 month period
- **Shrub Trimming**: Maximum $200 per 12 month period

### Snow Removal

- **Snow/Ice Removal**: Maximum $75 per occurrence

### Utilities

- **Utility Costs**: Actual costs as invoiced by power and utility entities

#### B. WINTERIZATION SCHEDULE

<table>
<thead>
<tr>
<th>Required Winterization Period</th>
<th>State or Territory</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Year</td>
<td>Alaska</td>
</tr>
<tr>
<td>September 1 through April 30</td>
<td>Colorado; Connecticut; Idaho; Illinois; Indiana; Iowa; Maine; Massachusetts; Michigan; Minnesota; Montana; Nebraska; New Hampshire; New Jersey; New York; North Dakota; Ohio; Oregon; Pennsylvania; Rhode Island; South Dakota; Vermont; Washington; Wisconsin; Wyoming</td>
</tr>
<tr>
<td>October 1 through March 31</td>
<td>Alabama; Arizona; Arkansas; California; Delaware; Florida; Georgia; Kansas; Kentucky; Louisiana; Maryland; Mississippi; Missouri; Nevada; New Mexico; North Carolina; Oklahoma; South Carolina; Tennessee; Texas; Utah; Virginia; West Virginia; Washington, DC</td>
</tr>
<tr>
<td>Winterization not required</td>
<td>Hawaii; Guam; Northern Mariana Islands; American Samoa; Puerto Rico; U.S. Virgin Islands</td>
</tr>
</tbody>
</table>
## C. GRASS CUT SCHEDULE

<table>
<thead>
<tr>
<th>State or Territory</th>
<th>Initial Cut (1 - 10,000 sf)</th>
<th>Initial Cut (10,001 sf - 20,000 sf)</th>
<th>Re-cuts (1 - 10,000 sf)</th>
<th>Re-cuts (10,001 sf - 20,000 sf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona</td>
<td>$75</td>
<td>$95</td>
<td>$70</td>
<td>$90</td>
</tr>
<tr>
<td>Nevada</td>
<td>$90</td>
<td>$110</td>
<td>$85</td>
<td>$105</td>
</tr>
<tr>
<td>New Mexico</td>
<td>$85</td>
<td>$105</td>
<td>$80</td>
<td>$100</td>
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</tbody>
</table>

### ALL YEAR: ONCE PER MONTH

<table>
<thead>
<tr>
<th>State or Territory</th>
<th>Initial Cut (1 - 10,000 sf)</th>
<th>Initial Cut (10,001 sf - 20,000 sf)</th>
<th>Re-cuts (1 - 10,000 sf)</th>
<th>Re-cuts (10,001 sf - 20,000 sf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>$100</td>
<td>$120</td>
<td>$95</td>
<td>$115</td>
</tr>
<tr>
<td>Florida</td>
<td>$85</td>
<td>$105</td>
<td>$80</td>
<td>$100</td>
</tr>
<tr>
<td>Hawaii</td>
<td>$110</td>
<td>$130</td>
<td>$105</td>
<td>$125</td>
</tr>
<tr>
<td>Guam, MP, AS</td>
<td>$110</td>
<td>$130</td>
<td>$105</td>
<td>$125</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>$110</td>
<td>$130</td>
<td>$105</td>
<td>$125</td>
</tr>
<tr>
<td>U.S. Virgin Islands</td>
<td>$85</td>
<td>$105</td>
<td>$80</td>
<td>$100</td>
</tr>
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</table>

### APRIL 1 TO OCTOBER 31: ONCE PER MONTH

<table>
<thead>
<tr>
<th>State or Territory</th>
<th>Initial Cut (1 - 10,000 sf)</th>
<th>Initial Cut (10,001 sf - 20,000 sf)</th>
<th>Re-cuts (1 - 10,000 sf)</th>
<th>Re-cuts (10,001 sf - 20,000 sf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utah</td>
<td>$85</td>
<td>$105</td>
<td>$80</td>
<td>$100</td>
</tr>
<tr>
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### APRIL 1 TO OCTOBER 31: TWICE PER MONTH

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NOTE: Add $25 for each additional 10,000 sf for properties greater than 20,000 sf.
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**MARCHE 1 TO NOVEMBER 30: TWICE PER MONTH**

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**JUNE 1 TO SEPTEMBER 30: TWICE PER MONTH**

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19.1 OVERVIEW

This chapter outlines collecting on the guarantee. It provides a description of allowable costs, the servicer process for submitting a loss claim, outlines the Agency review, describes penalties that could be assessed for failure to meet program requirements, and provides guidance on net recovery value.

19.2 LOSS CLAIM COVERAGE

A. Loan Guarantee Limits

The maximum that a servicer may collect from the Agency under the SFHGLP is the lesser of:

- Ninety percent of the original principal amount advanced to the borrower; or
- One hundred percent of any loss equal to or less than 35 percent of the original principal advanced, plus 85 percent of any remaining loss up to 65 percent of the principal advanced.

When calculating the maximum loss claim amount, any previously reimbursed Mortgage Recovery Advance provided for the loan should be included in the loss.

For example, if the original principal amount (OPA) guaranteed on a loan was $100,000, the maximum loss payment would be $90,000, or the lesser of:

1. Ninety percent of principal
   - OPA is $100,000.
   - 90 percent of OPA is $90,000.

2. One hundred percent of 35 percent and 85 percent of 65 percent
   - OPA is $100,000.
   - 35 percent of OPA is $35,000.
   - 65 percent of OPA is $65,000.
85 percent of 65 percent of OPA is $55,250.

Payment amount is 100 percent of 35 percent of OPA ($35,000) plus 85 percent of 65 percent of OPA ($55,250). This equals $90,250.

The Agency’s exposure would be limited to $90,000, which is the lesser of the two loss payment amounts.

If the Agency had previously reimbursed the servicer for a Mortgage Recovery Advance in the amount of $30,000, The maximum exposure on the final loss claim would be $60,000 which is the lesser amount minus the MRA already paid.

B. **Losses Covered by the Guarantee**

Losses that are covered by the loan guarantee include the following:

- Principal and interest owed on the loan;
- Additional interest accrued up to 60 days from the settlement date through the date the loss claim is paid;
- Principal and interest indebtedness on protective advances provided by the servicer to protect the security property; and
- Liquidation and disposition costs as outlined in Chapter 18 and 19 of this Handbook.

C. **Reasonable and Customary**

Liquidation and disposition costs should be similar to costs the servicer incurs when servicing non-guaranteed loans. Refer to Chapters 18 for further guidance on customary costs related to the management and liquidation of acquired properties. Allowable costs could include:

- Appraisal-related costs;
- Securing the property; or
- Payment of real estate commissions to sell the property at a maximum of six percent of the sales price unless incentives can be justified or a minimum of $2,000 commission for low value sales. Incentives require Agency concurrence and allowable acquisition and management costs associated with property liquidation.
Costs associated with servicer in-house expenses (e.g. employee salaries, in-house legal fees, travel, REO management fees and other company expenses) are not allowed.

Allowable liquidation and disposition costs differ for properties sold to a third party from those that remain in the servicer’s inventory at payment of the loss claim.

1. **Sold to a Third Party.**

   If the property is sold to a third-party at the foreclosure sale or by a pre-foreclosure sale (short sale), the loss claim will be calculated on the actual sales price. The Agency will reimburse the servicer for actual liquidation expenses plus additional interest for up to 45 days from the pre-foreclosure sale (short sale) closing date, foreclosure sale date or the date the proceeds were received, whichever is later. The servicer should file the loss claim within 45 days of funds receipt or in the case of a short sale, the settlement date, otherwise the claim may be rejected or reduced. Documentation of expenses associated with a loss claim request must be retained in the servicer’s permanent file.

2. **Acquired by the Servicer at a Foreclosure Sale or by Deed-in-Lieu.**

   For property acquired by the servicer at the foreclosure sale or by deed-in-lieu, the servicer will order a market value appraisal, compliant with USPAP standards. If the servicer utilized a qualified appraisal during liquidation and it is dated within 6 months of the claim date, the servicer may reuse the existing appraisal. In order to estimate holding and disposition costs, a standard acquisition and management resale factor of 15.95 percent (aka VA Net Value Factor) as established by the Department of Veteran Affairs (VA) of the estimated sales price is used. Loss claims for acquired property should be filed by the servicer within 60 days of the foreclosure sale date, acquisition date, or possession of the security property; loss claims filed beyond this period may be reduced or denied by the Agency.

   The servicer can negotiate a “cash for keys” option with the former borrower for a maximum of up to $2,500. The property must be left in broom swept condition with all personal property removed before the borrower can be eligible to receive “cash for keys.” Written agreement must be signed by borrower and retained in servicing file.

19.3 **FILING A LOSS CLAIM**

The servicer can submit a loss claim as a result of a loss from a pre-foreclosure sale (short sale), a third-party purchase at a foreclosure sale, acquisition through deed-in-lieu, or as a result of a purchase by the servicer at a foreclosure sale. Servicers submit loss claim requests to the NFAOC located in St. Louis, Missouri. Guaranteed servicing contact information can be found at the following website:
All requests for loss claim payments will be made through an electronic web submission electronically through GLS. All information entered in GLS must be supported by documentation in the claim file. The servicer is responsible for the completeness and accuracy of the loss claim submission.

In order to properly submit loss claims through GLS, servicers are required to establish a System Administrator, sign a Trading Partner Agreement - Addendum E and provide Level II Access eAuthentication for all appropriate staff. For additional guidance, servicers may access RD’s SFHGLP Training and Resource Library to review Regulations, Guidelines, Policies, Training Material and System Requirements.

Information on submitting a loss claim and uploading loss claim documentation can be found at the following website under the Training and Resource Library link:


A. **Sold to a Third Party**

For property that is sold through pre-foreclosure sale (short sale) or to a third party at the foreclosure sale, the loss claim must be submitted within 45 days from the pre-foreclosure sale (short sale) closing date, foreclosure sale date or the date the proceeds were received, whichever is later.

B. **Acquired by the Servicer at Foreclosure or Deed-in-Lieu**

For properties that are acquired by the servicer, the servicer must order an appraisal within 15 days of the foreclosure sale date, acquisition date, or possession of the security property and file the loss claim within 60 days of the foreclosure sale date, acquisition date, or possession of the security property. In cases where a separate legal action is necessary to gain possession following a foreclosure, proceeding should be initiated within 30 calendar days of the foreclosure sale, redemption period or other prevailing State law affecting acquisition of title. The Agency will determine the value of the property for the basis of the loss claim by utilizing the market value of the security property through the Property Sale Value Calculator (PSVC). The Agency will apply an acquisition and management resale factor to estimate holding and disposition costs based on the most current VA Net Value Factor found at: https://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp.

C. **Market Value Appraisal**
The servicer will order an appraisal prepared by a licensed or certified appraiser. The appraisal must comply with USPAP with the following requirements:

- USDA to be named as either the client and/or intended user;
- The intended use is market value for loss mitigation or asset valuation; and
- State the highest and best use analysis for the subject property.

The appraiser will use one of the following forms:

- Uniform Residential Appraisal Report (URAR/Fannie Mae Form 1004 or Freddie Mac form 70);
- Manufactured Home Appraisal Report (Fannie Mae Form 1004C or Freddie Mac Form 70-B); or
- Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073 or Freddie Mac Form 465).

Along with the above mentioned appraisal forms, the following should be included:

- Photos documenting the interior inspection are part of the appraisal inspection. The following color photos must be included:
  - All living spaces in the property (i.e. living room, family room, bonus room, dining room/area, etc.)
  - All bedrooms
  - Kitchen
  - Bathrooms
  - Basement/crawlspace
  - Laundry room
  - Mechanicals (furnace/air conditioner unit/water heater/electrical panel)
  - Attic
  - Garage/sheds
  - Any/all deferred maintenance items

Appraisals will be in PDF format with color photos upon submission to USDA LINC.
D. The Property Sale Value Calculator

The Agency has developed a Property Sale Value Calculator (PSVC) to determine the estimated sales price for REO loss claims. The model coefficients use data on approximately 94,000 historical loss claims from the program. The Agency updates the model coefficients on a regular basis using actual property sale values acquired through a third-party data provider. The Agency adds historical data to the model every year and re-generates coefficients to ensure historical relationships between variables represent the most recent data available and that the model produces accurate property value estimates.

19.4 CALCULATING NET RECOVERY VALUE

As a part of the loss claim, the Agency will reimburse the servicer for the difference between the loss incurred by the servicer and the net recovery value of the property, within the limits of the guarantee. Net recovery value is the amount the servicer recovers from the sale of a property after accounting for all costs. Net recovery value is calculated differently for properties that have been sold than for properties that are in the servicer’s inventory at the time the loss claim is filed. For property that has already been sold, the actual net recovery value is used. For property that remains in the servicer’s inventory, the estimated net recovery value is used.

A. Properties Sold at Foreclosure

When the servicer disposed of the property at the time of a loss claim submission, the actual net recovery value is calculated as the difference between:

- The proceeds from the sale and any other amounts recovered, such as recovered escrow funds; and
- Allowable liquidation and disposition costs.

B. Acquired Properties

The Agency estimates the net recovery value on unsold REO as the difference between:

- The estimated value of the property based on the Property Sale Value Calculator;
- Allowable acquisition and management costs associated with liquidation; and
- Net Value Factor.
19.5 AGENCY REVIEW

The Agency will review the loss claim package from the servicer. Loss claim checks or electronic funds transfer (EFT) payments will be issued to the servicer by the Agency within 60 days of the servicer’s properly filed loss claim. Agency staff will notify the servicer of any additional documentation required and will note it in the loss claim file.

Once all required information is submitted, the Agency must take the following actions:

- Determine whether the servicer has fulfilled all SFHGLP obligations and if not, whether reduction or denial of the loss claim is warranted;
- Review and approve the loss claim with an Agency designee with appropriate approval authority;
- Notify the servicer of the results of the loss claim calculation in writing by providing a copy of the Advice of Payment;
- Advise the servicer of the estimated sale price (appraised value) used to calculate the claim.
- Provide appropriate appeal rights for any adjustments, reductions, or denials with specific reasons and clear explanation for the decision in accordance with Appendix 3 of this handbook; and
- Issue payment.

Payment of the loss claim simultaneously fulfills and terminates the loan note guarantee. A termination notice will be mailed to the servicing servicer at the time of payment.

A. Reduction or Denial of a Loss Claim

The Agency will review each loss claim for adherence to program regulation and make any reductions and/or denial of loss claim as noted below. The Agency staff will use information provided by the servicer to determine if the loss claim should be adjusted or denied. The Agency must show that any reduction in the servicer’s claim is commensurate with the servicer’s action or failure to act. This section provides guidance regarding reduction or denial of a claim, and when applicable, the specific penalties attached to those factors. Additional information regarding penalties may be found in Appendix 8 of this Handbook.
B. Calculation and Approval of Loss Payment

Agency staff will review the loss claim and supportive documentation submitted by the servicer. Agency staff will utilize the Add/Update Loss Claim transaction in the Loss Claim Administration menu of GLS to document and create a loss claim payment to the servicer. The Agency’s reviewer should contact the servicer if there are questions about the information submitted by the servicer.

C. Loss Claim Payment Process

The Agency will use the following procedures for loss claim processing and disbursement of any loss claim checks.

1. Notification of Loss Payment Amount

The Agency should notify the servicer in writing of the amount to be paid within 60 days of receipt of a properly completed loss claim package. If the claim has been reduced or denied, the Agency will provide a clear explanation of its decision, including an analysis of how the amount of any reduction was determined and provide notification of appeal rights in accordance with Appendix 3 of this handbook.

2. Payment and Post Payment Activities

Payments for approved loss claims should be distributed within 60 days of receipt of a properly completed loss claim package. Servicers who participate in electronic funds transfer (EFT) should receive payment within 3 working days of loss claim processing. For all other servicers, a check should be generated and distributed within 3 working days of receipt of a properly completed and submitted loss claim.


If a claim is reduced or denied, the Agency will notify the servicer of review and appeal rights as described in Appendix 3 of this handbook. If the servicer seeks to request a review or appeal a loss claim decision, the Agency will pay the approved portion of the loss claim within the time frames described above. Interest will not accrue on any disputed loss amount during the review or appeals process regardless of the outcome of the review or appeal.
4. **Supplemental Loss Claims**

The Agency may allow the servicer to submit one supplemental loss claim in addition to the original claim submitted. The supplemental claim must be received by the Agency within six months from payment date of the initial claim. The Agency reserves the right to limit the payment of additional interest and expenses. The six-month expiration period may be exceeded if unusual circumstances exist such as a domestic incident as defined by the Department of Homeland Security or when a geographic location in which the property is located has a Presidential Disaster Declaration.
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7 CFR PART 3555 – GUARANTEED RURAL HOUSING PROGRAM

Subpart A - General.

Sec. 3555.1 Applicability.

This part sets forth policies for the Single Family Housing Guaranteed Loan Program (SFHGLP) administered by USDA Rural Development. It addresses the requirements of section 502(h) of the Housing Act of 1949, as amended, and includes policies regarding originating, servicing, holding and liquidating SFHGLP loans. Any provision regarding the expenditure of funds under this part is contingent upon the availability of funds.

Sec. 3555.2 Purpose.

(a) General. The purpose of the SFHGLP is to provide low- and moderate-income persons who will live in rural areas with an opportunity to own decent, safe and sanitary dwellings and related facilities. The SFHGLP offers applicants without sufficient resources to provide the necessary housing on their own account, and unable to secure the credit necessary for such housing from other sources upon terms and conditions, which the applicant can reasonably be expected to fulfill without the guarantee, an opportunity to acquire, build, rehabilitate, improve, or relocate dwellings in rural areas.

(b) Demonstration programs. Rural Development may authorize limited demonstration programs as allowed by law. The objective of these demonstration programs will be to test new approaches to offering housing under the statutory authority granted to the Secretary. Therefore, such demonstration programs may not be consistent with all of the provisions contained in this part. However, any statutory SFHGLP requirements will remain in effect.

Sec. 3555.3 Civil rights.

Rural Development, lenders, and their agents must administer the program fairly, and in accordance with both the letter and the spirit of all equal opportunity, equal credit opportunity and fair housing legislation, and applicable executive orders. Loan guarantees, services, and benefits provided under this part shall not be denied to any person based on race, color, national origin, sex, religion, marital status, familial status, age (provided the applicant has the capacity to enter into a binding contract), handicap, receipt of income from public assistance, sexual orientation, or because the applicant has,
in good faith, exercised any right under the Consumer Credit Protection Act (15 U.S.C. 1601 et seq.). All activities under this part shall be accomplished in accordance with the Fair Housing Act (42 U.S.C. 3601-3620), the Equal Credit Opportunity Act (15 U.S.C. 1691), and Executive Order 11063 as amended by Executive Order 12259, as applicable. Rural Development's civil rights compliance requirements are provided in 7 CFR part 1901, subpart E.

Sec. 3555.4 Mediation and appeals.

Whenever Rural Development makes a decision that will adversely affect a participant, the participant may proceed with alternative dispute resolution including mediation and a USDA National Appeals Division hearing in accordance with 7 CFR parts 1 and 11. The participant also may request an informal review of the adverse decision made by Rural Development. Except when the adverse decision applies to a loss claim, the applicant or borrower and the lender may participate in the appeal process. Adverse decisions made by the lender cannot be appealed unless concurrence by Rural Development was required by this subpart and obtained by the lender.

Sec. 3555.5 Environmental review requirements.

(a) Policy. Rural Development will consider environmental quality, economic, social, and other relevant factors in program development and decision-making processes. Rural Development will take into account potential environmental impacts of proposed projects by working with applicants, other Federal agencies, American Indian tribes, State and local governments, and interested citizens and organizations in order to formulate actions that advance the program's goals in a manner that will protect environmental quality.

(b) Regulatory references. Loan processing or servicing actions taken under this part must comply with the environmental review requirements in accordance with 7 CFR part 1970, and 7 CFR part 1924, which addresses lead-based paint. (Revised 04-01-16, SPECIAL PN.)

(c) Agency responsibilities. Rural Development is responsible for compliance with all applicable environmental regulations and statutes.

(d) Lender and loan applicant responsibilities.

(1) Lenders must use due diligence in regard to potential environmental hazards to ensure the property is decent, safe and sanitary and of sufficient

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value to adequately secure the loan. The level of due diligence review to determine potential environmental hazards must be equivalent to the standards established by Fannie Mae, Freddie Mac, FHA, or the VA.

(2) Mortgage loan transactions will be subject to the requirements of the 1994 National Flood Insurance Reform Act to determine if the dwelling is located in a Special Flood Hazard Area (SFHA).

(3) On an as needed basis, lenders and loan applicants will assist Rural Development in obtaining such information as Rural Development needs to complete its environmental review and to cooperate in the resolution of environmental problems.

(4) Lenders will become familiar with Agency environmental requirements, so they can advise applicants and reduce the probability of unacceptable applications being submitted to Rural Development.

(5) The lender must comply with Federally mandated flood insurance purchase requirements. Existing dwellings in a SFHA are not eligible under the SFHGLP unless flood insurance through the FEMA National Flood Insurance Program (NFIP) is available for the community and flood insurance, whether NFIP, “Write Your Own,” or private flood insurance, is purchased by the borrower. The lender will require the borrower to obtain, and maintain for the term of the mortgage, flood insurance for any property located in a SFHA, listing the lender as a loss payee. Purchase of existing structures within the federally regulated floodplain will not require consideration of alternatives to avoid adverse effects and incompatible development in floodplains.

(6) The borrower must obtain, and continuously maintain for the life of the mortgage, flood insurance on the security property in an amount sufficient to protect the property securing the guaranteed loan. Flood insurance policies must be issued under the NFIP, or by a licensed property and casualty insurance company authorized to participate in NFIP's "Write Your Own" program or private flood insurance policy, as approved by the lender. Lenders are required to accept private flood insurance policies, when purchased by a borrower, that meet the requirements of 42 U.S.C. 4012a (b)(1)(A). Lenders remain responsible to ensure a private flood insurance policy meets the requirements of 42 U.S.C. 4012a(b)(1)(A).

(7) Rural Development will not guarantee loans for new or proposed homes in an SFHA unless the lender obtains a final Letter of Map Amendment (LOMA) or a final Letter of Map Revision (LOMR) that removes the...
property from the SFHA, or performs an alternatives analysis in compliance with the Agencies National Environmental Policy Act regulation and obtains a FEMA elevation certificate that shows that the lowest floor (including basement) of the dwelling and all related building improvements are built at or above the 100-year flood plain elevation in compliance with the NFIP.

Sec. 3555.6 State and local law.

Lenders will comply with applicable State and local laws and regulations, including the laws of American Indian tribes. Supplemental guidance will be issued in the case of any conflict with or significant differences from provisions of this part.

Sec. 3555.7 Exception authority.

The Administrator of the Agency, or a designee, may make an exception to any requirement or provision of this part or to address any omissions in this part, when the Administrator, or designee, determines that application of the requirement or failure to take action would adversely affect the Government's interest. Any exception must be consistent with the authorizing statute and other applicable laws.

Sec. 3555.8 Conflict of interest.

(a) Applicant or borrower responsibility. The applicant or borrower must disclose to the lender any prohibited relationship or association with any Rural Development employee and the lender must disclose that information to Rural Development.

(b) Lender responsibility. The lender must disclose to Rural Development any prohibited relationship or association it, or any of its employees, has with any Rural Development employee.

(c) Prohibited relationships and associations. Prohibited relationships and associations include the following:

(1) Immediate family members, including parents and children, whether related by blood or marriage;
(2) Close relatives, including grandmother, grandfather, aunt, uncle, sister, brother, niece, nephew, granddaughter, grandson, or first cousin, whether related by blood or marriage;

(3) Any household residents;

(4) Immediate working relationships, including coworkers in the same office, subordinates, and immediate supervisors; and

(5) Close business associations, including business partnerships, joint ventures, or closely held corporations.

(d) Result of disclosure. Disclosure of prohibited relationships and associations under this section will not necessarily result in applicant, borrower or lender ineligibility. Disclosures may result in reassignment with regard to the loan guarantee in question so that no prohibited relationships or associations exist between the Rural Development employees responsible for loan guarantee transactions and lenders, borrowers, or applicants.

Sec. 3555.9 Enforcement.

Rural Development will take such actions as are appropriate and necessary to enforce the provisions of these regulations. Such actions will include, but not be limited to, reduction of the loss claim payment; termination of a lender's or servicer's participation in the SFHGLP; suspension and debarment of participation in this or other Federal programs; and, any other appropriate administrative, civil, or criminal actions as allowed by law. Rural Development may assess civil monetary penalties pursuant to Section 543 of the Housing Act of 1949, 42 U.S.C. 1409s(b).

Sec. 3555.10 Definitions and abbreviations.

The definitions and abbreviations in this section apply to this part.

Acceleration. Demand for immediate repayment of the entire balance of a debt if the covenants in the promissory note, assumption agreement, or security instruments are breached.

Adjusted annual income. Income from all household members who live or propose to live in the dwelling as their primary residence for all or part of the ensuing 12 months. Adjusted annual income is used to determine whether an applicant is income-eligible for a guaranteed loan, or interest assistance, if applicable. Adjusted annual income provides for deductions to account for varying household circumstances and expenses. See 3555.152(c) for a complete description of adjusted annual income.
Agency. The Rural Housing Service of the U.S. Department of Agriculture, Rural Development.

Agency employee. Any employee of the Rural Housing Service, or any employee of the Rural Development mission area who carries out SFHGLP functions.

Alien. See `Qualified alien."

Amortization. A gradual reduction of the mortgage debt through equal monthly principal and interest payments sufficient to fully repay the unpaid principal balance over the mortgage term.

Amortized payment. Equal monthly payments under a fully amortized mortgage loan that provides for the scheduled payment of interest and principal over the term of the loan.

Annual fee. A periodic amount that is based on the average annual scheduled unpaid principal balance of the loan and is paid by the servicing lender to Rural Development on an annual basis for issuance of a Loan Note Guarantee. The fee may be passed on to the borrower and included in the monthly mortgage payment of a borrower and is used when calculating payment ratios.

Annual income. The income of all household members calculated according to Sec. 3555.152(b). Annual income is used to determine adjusted annual income in Sec. 3555.152(c) for program eligibility purposes.

Applicant. An individual applying to a lender for a guaranteed loan.

Area median income. The median income in a specific locality, typically a county or Metropolitan Statistical Area (MSA), as determined by the Department of Housing and Urban Development.

Assumption. A method of selling real estate wherein the property purchaser accepts the liability for payment of an existing mortgage.

Borrower. An individual obligated to repay the loan guaranteed under the Guaranteed Rural Housing loan program.

Combination construction and permanent loan. A guaranteed loan on which the Rural Development guarantee becomes effective at the time construction of an eligible single family housing project begins.
Community land trust. A private nonprofit community housing development organization that is established to acquire parcels of land, held in perpetuity, primarily for conveyance under long-term ground leases. See section 502(a)(3)(B) of the Housing Act of 1949, 42 U.S.C. 1472(a)(3)(B), as amended.

Conditional commitment. Rural Development's agreement that a proposed loan will be guaranteed if all conditions and requirements established by Rural Development are met.

Condominium project. A real estate project in which each owner has title to a unit in a building, an undivided interest in the common areas of the project and sometimes the exclusive use of certain limited common areas. See Sec. 526(d) of the Housing Act of 1949, as amended. Debarment. An action taken under 2 CFR part 180 or 417 to exclude a person or entity from participating in Federal programs.

Default. A loan is considered in default when a payment has not been paid after 30 days from the date it was due.

Disability. See 'Person with a disability.'

Dwelling. A house, manufactured home, or condominium unit, and related facilities, such as a garage or storage shed, used or to be used as the borrower's principal residence.

Elderly family. An elderly family consists of one of the following:

1. A person who is the head, spouse, or sole member of a household and who is 62 years of age or older, or who is disabled, and is an applicant or borrower;

2. Two or more persons who are living together, at least one of whom is age 62 or older, or disabled, and who is an applicant or borrower; or

3. Where the deceased borrower or spouse in a household was at least 62 years old or disabled, the surviving household member shall continue to be classified as an elderly household for the purpose of determining adjusted income, even though the surviving members may not meet the definition of an elderly family on their own, provided:

   i. They occupied the dwelling with the deceased household member at the time of the death;

   ii. If one of the surviving household members is the spouse of the deceased household member, the surviving household shall be classified as an elderly family only until the remarriage or death of the surviving spouse; and

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(iii) At the time of the death of the deceased household member the dwelling was financed with a Guaranteed Rural Housing loan.

**Escrow account.** A trust account that is established by the lender or its servicing agent to hold funds collected from the borrower and allocated for the payment of real estate taxes, special assessments, hazard or flood insurance premiums, and other similar expenses.

**Existing dwelling.** A dwelling that does not meet the definition of "new dwelling".

**Extended-term loan modification.** A loan modification authorized under Sec. 3555.304 of this part, in which the lender reduces the interest rate to a level at or below the maximum allowable interest rate and then extends the repayment term up to a maximum of 40 years from the date of loan modification, but only as long as is necessary to achieve the targeted mortgage payment to income ratio.

Fannie Mae. A private, shareholder-owned company with a charter from Congress to support the housing finance system, formerly officially known as the Federal National Mortgage Association.


FHA. The Federal Housing Administration of the United States Department of Housing and Urban Development.

FHLB. Federal Home Loan Bank.

**First-time homebuyer.** Individuals who meet any one of the following three criteria are considered first-time homebuyers:

1. An individual who has had no ownership interest in a principal residence during the three-year period ending on the date of loan closing.

2. An individual who is a displaced homemaker and who, except for owning a home with a spouse, has had no ownership interest in a principal residence during the three-year period ending on the date of loan closing. Displaced homemakers include any individual who is:

   (i) An adult;

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(ii) Unemployed or underemployed;

(iii) Experiencing difficulty in obtaining or upgrading employment; and

(iv) In recent years has worked primarily without remuneration to care for the home and family, but has not worked full-time, full-year in the labor force.

(3) An individual who is a single parent and who, except for owning a home with a spouse, has had no ownership interest in a principal residence during the three-year period ending on the date of loan closing. Single parents include any individual who is:

(i) Unmarried or legally separated; and

(ii) Has custody or joint custody of one or more children, or is pregnant.

Forbearance agreement. An agreement between the lender and the borrower providing for temporary suspension of payments or a repayment plan that calls for periodic payments of less than the normal monthly payment, periodic payments at different intervals, etc. to bring the account current.

Freddie Mac. A private, shareholder owned company with a charter from Congress to support the housing finance system, formerly officially known as the Federal Home Loan Mortgage Corporation.

Funded buydown account. An escrow account funded by the lender, seller, or through a third party gift, from which monthly payments are released directly to the lender to reduce the amount of interest on a loan, thereby improving an applicant's repayment ability.

Ginnie Mae. Government National Mortgage Association, a Government-owned corporation within HUD.

Household. All persons routinely living in the dwelling as principal residence, except for live-in aides, foster children, and foster adults.

Housing Act of 1949. The Act which, in part, provides the authority for single family housing programs, codified at 42 U.S.C. 1471 et seq.

HUD. The United States Department of Housing and Urban Development.
Interest assistance. Agency assistance available to eligible borrowers that reduces the effective interest rate on the guaranteed loan. Interest assistance applied to borrowers whose loans were approved as a subsidized guaranteed loan between April 17, 1991, and September 30, 1991, and who entered into interest assistance and shared equity agreements at loan closing.

IRS. The Internal Revenue Service of the United States Department of the Treasury.

Leasehold estate. The right to use and occupy real estate for a stated term and under conditions which have been conveyed by a lease.

Lender. The entity making, holding, or servicing a loan that is guaranteed under the provisions of this part.

Live-in aide. A person who:

1. Lives with an elderly person or a person with a disability and
2. Is essential to that person's care and well-being, and
3. Is not obligated for the person's support, and
4. Would not be living in the unit except to provide the support services.

Loan modification. A written agreement that permanently changes an original note term, such as the interest rate, monthly payment, and/or the principal balance due to capitalization of interest or advances.

Low-income. An adjusted income limit developed in consultation with HUD under 42 U.S.C. 1437a(b)(2)(D).

Manufactured home. A structure that is built on a permanent foundation according to Federally Manufactured Home Construction and Safety Standards established by HUD and found at 24 CFR part 3280.

Market value. The value of the property as determined by a current appraisal made in accordance with the Uniform Standards of Professional Appraisal Practices.
Median income. The area median income, adjusted for family size, as established by HUD.

Moderate income. The greater of:

1. 115 percent of the U.S. median family income,
2. The average of the state-wide and state non-metro median family income,
3. 115/80ths of the area low-income limit adjusted for household size for the county or MSA where the property is, or will be, located.

Modest housing. For purposes of this part, "modest housing" is the housing that a low- or moderate-income borrower can afford based on their repayment ability.

Mortgage. A form of security instrument or consensual lien on real property including a real estate mortgage and a deed of trust.

Mortgage credit certificate. A certificate issued by an authorized State or local housing finance agency that documents a Federal income tax credit awarded to a first-time homebuyer and/or low- or moderate-income homebuyer. The Federal income tax credit reduces the applicant's Federal income tax liability, which improves his or her repayment ability.

Mortgage payment to income ratio. As used in Sec. 3555.304, this ratio is the monthly mortgage payment (principal, interest, taxes, and insurance) divided by the borrower's gross monthly income.

Mortgage recovery advance. A mortgage recovery advance is funds advanced by the lender on behalf of a borrower to satisfy the borrower's arrearage, pay legal fees and foreclosure costs related to a cancelled foreclosure action, and reduce principal. Upon
request, RHS will reimburse the lender for eligible mortgage recovery advances under Sec. 3555.304.

MSA (Metropolitan Statistical Area). A geographic entity defined by the United States Office of Management and Budget.

Net family assets. The value of assets available to a household, as contained in Sec. 3555.152(d).

Net recovery value. The amount available to apply to the outstanding unpaid loan balance after considering the value of the security property and other amounts recovered, and deducting the costs associated with liquidation, acquisition and sale of the property. Net recovery value is calculated differently depending on the type of disposition, as contained in Sec. 3555.353.

New dwelling. A dwelling that is to be built is under construction, or a dwelling that is less than one year old and has never been occupied. A manufactured home is considered a new unit if the manufacturer's date is within 12 months of the purchase contract and the unit has never been occupied or installed at any other location as otherwise provided by Rural Development.

Participant. For the purpose of appeals, a participant is any individual or entity that has applied for, or whose right to participate in or receive a payment, loan guarantee, or other benefit, is affected by an Agency decision in accordance with 7 CFR 11.1.

Person with a disability. Any person who has a physical or mental impairment that substantially limits one or more major life activities, including functions such as caring for one's self, performing manual tasks, walking, seeing, hearing, speaking, breathing, learning and working, has a record of such an impairment, or is regarded as having such an impairment.

Planned Unit Development. For the purpose of this definition, a condominium is not a Planned Unit Development (PUD). A PUD is a development that has all of the following characteristics:

1. The individual unit owners own a parcel of land improved with a dwelling. This ownership is not in common with other unit owners;

2. The development is administered by a homeowners association that owns and is obligated to maintain property and improvements within the development.
example, greenbelts, recreation facilities and parking areas) for the common use and benefit of the unit owners; and

(3) The unit owners have an automatic, non-severable interest in the homeowners association and pay mandatory assessments.

Pre-foreclosure sale. A sale of property in which the lender and borrower agree to accept the proceeds of the sale to satisfy a defaulted mortgage, even though this may be less than the amount owed on the mortgage, in order to avoid foreclosing on the property.

Primary residence. See “Principal residence.”

Principal residence. The home domicile physically occupied by the owner for the major portion of the year and the address of record for such activities as Federal income tax reporting, voter registration, occupational licensing, etc.

Prior lien. A lien against the security property that is superior in right to the lender's debt instrument.

Qualified alien. See the definition of the term under Section 401 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (8 U.S.C. 1641).

Real estate taxes. Taxes and assessments estimated to be due and payable on the property.

REO (Real Estate Owned). Property that formerly served as security for a guaranteed loan and for which the lender holds title.

Repayment income. Used to determine whether an applicant has the ability to make monthly loan payments. Repayment income may include amounts excluded for the purpose of determining adjusted annual income. See Sec. 3555.152(a) for a complete description of repayment income.

Rural area. The definition of “rural area” is found in section 520 of the Housing Act of 1949, as amended.

Rural Development. A mission area within USDA that includes the Rural Housing Service, the Rural Utilities Service, and the Rural Business-Cooperative Service.

Scheduled payment. The monthly installment on a promissory note, as modified by an interest assistance agreement or forbearance agreement, plus escrow payments.
Secured loan. A loan that is collateralized by property so that in the event of a default on the loan, the property may be sold to pay down the debt.

Security instrument. The mortgage, or deed of trust, that secures the promissory note or assumption agreement.

Security property. All the real property that serves as collateral for a guaranteed loan.

Settlement date. The settlement date, for the purpose of loss calculation, is the later of the following:

1. Actual foreclosure date;
2. The closing date, if sold to a third party at the foreclosure sale;
3. The date the borrower sells the property to a third party in order to avoid or cure a default situation, with prior approval of the lender;
4. When title is acquired to the security following the expiration of any state-required redemption or confirmation period; or
5. The date title is acquired upon recordation of a deed-in-lieu of foreclosure, with prior approval of the lender.

SFHGLP. Single Family Housing Guaranteed Loan Program. The SFHGLP guarantees loans under section 502 of the Housing Act of 1949. Under the guarantee, the holder of the loan note may be reimbursed by Rural Development for all or part of a loss incurred if a borrower defaults on a loan.

Short sale. A type of voluntary liquidation (also referred to as a preforeclosure sale or short payoff) where a borrower and the lender who holds the mortgage on the property agree to sell the property at fair market value, but for less than the current outstanding debt (including any missing payments, late fees, penalties, and advances for taxes and the like).

Streamlined-assist refinance. A streamlined-assist refinance is an abbreviated method of refinancing which does not require a credit report, or the calculation of loan-to-value or debt-to-income ratios. Lenders must verify that the borrower has been current on their existing loan for the preceding 12 month period.

Supplemental loan. A guaranteed loan made in conjunction with a transfer and assumption to provide funds to complete the transaction.

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Suspension. An action taken under 2 CFR parts 180 or 417 to exclude a person or entity from participation in Federal programs for a temporary period, pending completion of an investigation of wrongdoing.

Total debt to income ratio. Total debt to income ratio is defined as the borrower's monthly mortgage payment plus all recurring monthly debt divided by the borrower's gross monthly income.

Unauthorized assistance. Any guaranteed loan or interest assistance for which there was no regulatory or statutory authorization, or for which the borrower was not eligible.

United States citizen. An individual who resides as a citizen in any of the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Marianas, the Federated States of Micronesia, the Republic of Palau, or the Republic of the Marshall Islands.

USDA. The United States Department of Agriculture.

U.S. non-citizen national. A person born in American Samoa or Swains Island on or after the date the U.S. acquired American Samoa or Swains Island, or a person whose parents are U.S. non-citizen nationals.

VA. United States Department of Veterans Affairs.

Veterans' preference. A preference in loan processing extended to a SFHGLP loan applicant who served on active duty and has been discharged or released from the active forces on conditions other than dishonorable from the United States Army, Navy, Air Force, Marine Corps, or Coast Guard. The preference applies to the service person, or the family of a deceased servicemember who died in service before the termination of such war or such period or era. The applicable timeframes are:

1. During the period of April 6, 1917, through March 31, 1921;
2. During the period of December 7, 1941, through December 31, 1946;
3. During the period of June 27, 1950, through January 31, 1955;
4. For a period of more than 180 days, any part of which occurred after January 31, 1955, but on or before May 7, 1975;
5. During the period beginning August 2, 1990, and ending January 2, 1992, provided, of course, that the veteran is otherwise eligible; or
6. During any other period as prescribed by Presidential proclamation or law.
Warehouse lender. A non-depository lender who utilizes short-term revolving lines of credit to finance loan origination and or construction financing.

Sec. Sec. 3555.11-3555.49 [Reserved]

Sec. 3555.50 OMB control number.

The report and recordkeeping requirements contained in this subpart have been approved by the Office of Management and Budget and have been assigned OMB control number 0575-0179.

Subpart B--Lender Participation

Sec. 3555.51 Lender eligibility.

A lender must meet the requirements described in this section to be approved for participation in the SFHGLP.

(a) Ability to underwrite and service loans. The lender must have a demonstrated ability to underwrite and service single-family home loans. A lender will be considered to have such a demonstrated ability if it qualifies as one of the following:

(1) A State Housing Agency;

(2) A lender approved as a supervised or nonsupervised mortgagee by HUD with direct endorsement authority for submission of applications for Federal Housing Mortgage Insurance;

(3) A supervised or nonsupervised mortgagee with authority to close VA-guaranteed loans on the automatic basis;

(4) A lender approved by Fannie Mae for single-family loans;

(5) A lender approved by Freddie Mac for single-family loans;

(6) A Farm Credit System institution that provides documentation of its ability to underwrite and service single-family loans. Lenders who are a Farm Credit System lender with direct lending authority meet demonstrated ability;

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(7) A lender participating in other Rural Development or Farm Service Agency guaranteed loan programs that provide documentation of its ability to underwrite and service single family loans. Documentation criteria for other Rural Development or Farm Service Agency guarantee loan programs require an active lender agreement; or

(8) A Federally supervised lender that provides documentation of its ability to originate, underwrite and service single-family loans. Acceptable sources of supervision include:

(i) Being a member of the Federal Reserve System;

(ii) The Federal Deposit Insurance Corporation (FDIC);

(iii) The National Credit Union Administration (NCUA);

(iv) The Office of Thrift Supervision (OTS);

(v) The Office of the Comptroller of the Currency (OCC).

(vi) The Federal Housing Finance Board regulating lenders within the Home Loan Bank FHLB system.

(9) A lender may demonstrate its ability to originate and underwrite loans by submitting appropriate documentation, examples of which include, but are not limited to:

(i) A summary of residential mortgage lending activity.

(ii) Written criteria outlining the lender's policy and procedures for originating, underwriting and closing residential mortgage loans.

(iii) Evidence of an experienced loan underwriter on staff.

(iii) Certification the lender will contract with an Agency-approved lender meeting the criteria to participate in the program as a servicer.

(10) A lender may demonstrate its ability to service loans by submitting appropriate documentation, examples of which include, but are not limited to:
(i) Evidence of a written plan when contracting for escrow services.

(ii) Evidence the lender has serviced single-family residential mortgage loans in the year prior to request lender approval to participate in the SFHGLP.

(b) SFHGLP participation requirements. Lenders and their agents must comply with the following requirements:

(1) Keep up to date, and comply with, all Agency regulations and handbooks, including all amendments and revisions of program requirements and policies. Lenders must also comply with all other applicable federal, state and local laws, rules, and requirements, including those under the purview of the Consumer Financial Protection Bureau, such as the Real Estate Settlement Procedures Act and Truth in Lending Act. Lenders who originate a minimal number loans, as determined by the Agency, in a 24 month time frame may be required to take updated training to ensure a lender's continued knowledge of the program;

(2) Regularly check Rural Development's Web site for new issuances related to the program;

(3) Underwrite loans according to Rural Development regulations and process and approve loans in accordance with program instructions;

(4) Review loan applications for accuracy and completeness;

(5) Ensure that applicant income limits are not exceeded;

(6) Ensure that borrowers have adequate loan repayment ability and acceptable credit histories;

(7) Ensure that loss claims include only supportable costs;

(8) Cooperate fully with Agency reporting and monitoring requirements;

(9) Comply with limitations on loan purposes, loan limitations, interest rates, and loan terms;

(10) Inform Rural Development immediately after the sale, transfer, or change of servicers of any Agency guaranteed loan;

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Maintain reasonable and prudent business practices consistent with generally accepted mortgage industry standards, such as maintaining fidelity bonding;

Remain responsible for servicing even if servicing has been contracted to a third party;

Use Rural Development, HUD, Fannie Mae, or Freddie Mac forms, unless otherwise approved by Rural Development;

Maintain eligibility under paragraph (a) of this section;

Notify Rural Development if there are any material changes in organization or practices;

Be neither debarred nor suspended from participation in Federal programs, not debarred, suspended or sanctioned under state licensing and certification laws and regulation;

Notify Rural Development in the event of its bankruptcy or insolvency;

Remain free from default and delinquency on any debt owed to the Federal government;

Allow Rural Development or its representative access to the lender's records, including, but not limited to, records necessary for on-site and desk reviews of the lender's operation and the operations of any of its agents to verify compliance with Agency regulations and guidelines;

Maintain adequate operational quality control and reporting procedures to prevent mortgage fraud;

Maintain complete loan files with all required documentation that is accessible by the Agency upon request for review; and

Execute a lender's agreement provided by Rural Development.

Sec. 3555.52 Lender approval.

(a) Initial approval. The lender must apply for and receive approval from Rural Development to participate in the SFHGLP. Application forms are available from Rural Development.
(b) **Conditions of approval.** The lender must provide evidence to support their ability to originate, underwrite and/or service SFHGLP loans as outlined in Sec. 3555.51(a), including evidence of the lender's internal loan criteria and quality control. New lenders will be subject to mandatory training prior to lender approval in accordance with Agency procedures.

(c) **Termination of approval.** Lender approval may be terminated in any of the following situations:

1. **Lapse of any eligibility requirement.** In the event that a lender fails to meet any of the requirements described in Sec. 3555.51, the lender must notify Rural Development immediately. Rural Development may terminate the lender's approval upon written notice and in accordance with the lender's agreement. The Agency may take other appropriate corrective action due to non-compliance with any of the requirements in this part and the lender's agreement. A lender whose approval has been terminated must sell any SFHGLP loans it holds to an approved lender immediately, and in no event later than 6 months, after termination of approval.

2. **Voluntary withdrawal.** The lender may choose to end participation in the SFHGLP at any time. If the withdrawing lender has originated SFHGLP loans and obtained conditional commitments but has not closed the loans, or is holding or servicing SFHGLP loans, the lender must make arrangements prior to withdrawing for the transfer of such loans to lenders approved to participate in the SFHGLP.

Sec. 3555.53 **Contracting for loan origination.**

Lenders may contract with mortgage brokers, non-approved lenders, or other entities for loan origination services, closing services, or both, provided the loan is transferred immediately after closing to an Agency approved lender to which the guarantee will be issued. The approved lender is responsible for ensuring that the loan is properly underwritten, obtaining the conditional commitment, ensuring that the loan is properly closed, and ensuring that all closing costs, financing, and settlement fees meet Agency program requirements.

Sec. 3555.54 **Sale of loans to approved lenders.**
Lenders may sell SFHGLP loans only to other Agency-approved lenders, Fannie Mae, Freddie Mac, or the Federal Home Loan Banks. In such a sale, the purchasing lender acquires all rights of the selling lender under the Loan Note Guarantee, and assumes all of the selling lender's obligations contained in any note, security instrument, or Loan Note Guarantee in connection with the loan purchased. The purchasing lender may be subject to any defenses, claims, or offsets that Rural Development would have had against the selling lender if the selling lender had continued to hold the loan. The lender must notify Rural Development immediately upon the sale or transfer of servicing of a SFHGLP loan.

Sec. Sec. 3555.55--3555.99 [Reserved]

Sec. 3555.100 OMB control number.

The report and recordkeeping requirements contained in this subpart have been approved by the Office of Management and Budget and have been assigned OMB control number 0575-0179.

Subpart C--Loan Requirements

Sec. 3555.101 Loan purposes.

Loan funds must be used to acquire a new or existing dwelling to be used by the applicant as a principal residence.

(a) Eligible purposes. Loan funds may be used for:

1. The construction or purchase of a new dwelling;
2. The cost of acquisition of an existing dwelling;
3. The cost of repairs associated with the acquisition of an existing dwelling; or
4. Acquisition and relocation of an existing dwelling.

(b) Eligible costs. Loan funds also may be used to pay for the following items associated with the acquisition of a dwelling:

1. Purchase and installation of essential household equipment in the dwelling such as wall-to-wall carpeting, ovens, ranges, refrigerators,
washing machines, clothes dryers, heating and cooling equipment, and other similar items as long as the equipment is conveyed with the dwelling and such items are typically included in the purchase of similar dwellings in the area.

(2) Purchase and installation of energy-saving measures.

(3) Site preparation including grading, foundation, plantings, seeding or sodding, trees, walks, fences, and driveways to the home.

(4) A supplemental loan to provide funds for seller equity or essential repairs when an existing guaranteed loan is assumed simultaneously.

(5) Special design features or equipment when necessary because of a physical disability of the applicant or a member of the household.

(6) Loan funds may be used to pay for reasonable and customary expenses related to obtaining the loan. Allowable loan expenses include:

   (i) Legal, architectural, and engineering fees;

   (ii) Title exam, title clearance and title insurance;

   (iii) Transfer taxes and recordation fees;

   (iv) Appraisal, property inspection, surveying, environmental, tax monitoring, and technical services;

   (v) Homeownership education.

   (vi) Reasonable and customary loan discount points to reduce the note interest rate from the rate authorized in Sec. 3555.104(a).

   (vii) Reasonable and customary non-recurring closing costs associated with the mortgage transaction that do not 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 loan program that requires conventional mortgage insurance or guarantee. Allowable closing costs include the actual cost of credit reports, the loan origination fee, settlement fee, deposit verification fees, document preparation fees (if performed by a third party not controlled by the lender), and other reasonable and customary costs as determined by Rural Development. Payment of finder's fees or placement fees for the referral of an applicant to the lender is prohibited.

(viii) Reasonable connection fees, assessments, or the pro rata installment costs for utilities such as water, sewer, electricity and gas for which the borrower is responsible.

(ix) The prorated portion of real estate taxes that is due and payable on the property at the time of closing and to establish escrow accounts for real estate taxes, hazard and flood insurance premiums, and related costs.

(x) The amount of the loan up-front guarantee fee required by Sec. 3555.107(g).

(xi) The cost of establishing a cushion in the mortgage escrow account for payment of the annual fee required by Sec. 3555.108(h), not to exceed 2 months.

(xii) If the seller or other third party pays any of the costs described in this section, the amount of the costs paid by the seller or other third party may not be included in the loan amount to be guaranteed.

(c) **Combination construction and permanent loan.** Loan funds may be used and Rural Development will guarantee a "combination construction and permanent loan" as defined at Sec. 3555.10, during the term of construction and prior to the borrower occupying the property, subject to the conditions in Sec. 3555.105.

(d) **Refinancing.** Refinancing is permitted only in the following situations:
(1) The loan may be used for permanent financing when temporary financing to construct a new dwelling, or to purchase and improve an existing dwelling, is arranged as a part of the loan package.

(2) In the case of loans for a site on which a dwelling is not constructed prior to issuance of the Loan Note Guarantee, refinancing is permitted if:

(i) The site is free and clear of debt;

(ii) The debt to be refinanced was incurred for the sole purpose of purchasing the site;

(iii) The applicant is unable to acquire adequate housing without refinancing; and

(iv) An appropriate dwelling will be constructed on the site.

(3) The loan is a present Section 502 Direct or guaranteed loan, authorized under the Housing Act of 1949 subject to the following additional requirements:

(i) Three options for refinancing may be offered: streamlined, non-streamlined, and streamlined-assist. Other than provided in this paragraph, no cash out is permitted for any refinance. Documentation costs and underwriting requirements of subparts D, E, and F of this part apply to streamlined and non-streamlined refinance.

(A) Lenders may offer a streamlined refinance for existing Section 502 Guaranteed loans, which does not require a new appraisal. The lender will pay off the balance of the existing Section 502 Guaranteed loan.

(B) Lenders may offer non-streamlined refinancing for existing Section 502 Guaranteed or Direct loans, which requires a new and current market value appraisal. The amount of the new loan must be supported by sufficient equity in the property as

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determined by an appraisal. The appraised value may be exceeded by the amount of up-front guarantee fee financed, if any, when using the non-streamlined option.

(C) A streamlined-assist refinance loan is a special refinance option available to existing Section 502 direct and guaranteed loan borrowers. Applicants must meet the income eligibility requirements of §3555.151(a), and must not have had any defaults during the 12 month period prior to the refinance loan application. There are no debt-to-income calculation requirements, no credit report requirements, no property inspection requirements, and no loan-to-value requirements. There is no appraisal requirement except for Section 502 direct loan borrowers who have received a subsidy.

(ii) The interest rate of the new loan must be fixed and must not exceed the interest rate of the original loan being refinanced.

(iii) Existing borrowers seeking to refinance must have demonstrated their ability to meet payment demands by maintaining a current account for the 180 days prior to application.

(iv) The loan security must include the same property as the original loan and be owned and occupied by the borrowers as their principal residence.

(v) The maximum loan amount cannot exceed the balance of the loan being refinanced including accrued interest, the guarantee fee, and reasonable and customary closing costs. When a direct loan is refinanced, any recapture amount owed may be included in the loan amount or deferred as long as the recapture amount takes a subordinate lien position to the new SFHGLP loan. A discount on the recapture amount may be offered if the borrower does not defer recapture or includes the recapture amount in the new loan.
Two options for refinancing can be offered. Lenders may offer a streamlined refinance for existing Section 502 Guaranteed loans, which does not require a new appraisal. Streamlined financing may not be available for existing Section 502 Direct loans. The lender will pay off the principal balance of the existing Section 502 Guaranteed loan. The new loan amount cannot include any accrued interest, closing costs or lender fees. The refinance up-front guarantee fee as established by the Agency can be included in the loan to be refinanced to the extent financing does not exceed the original loan amount. Lenders may offer non-streamlined refinancing for existing Section 502 Guaranteed or Direct loans, which requires a new and current market value appraisal. The new loan may include the principal and interest of the existing Agency loan, reasonable closing costs and lenders fees to extent there is sufficient equity in the property as determined by an appraisal. The appraised value may be exceeded by the amount of up-front guarantee fee financed, if any, when using the non-streamlined option. Documentation, costs, and underwriting requirements of subparts D, E, and F of this part apply to refinances, unless otherwise provided by the Agency.

Lenders may require property inspections and/or repairs as a condition to loan approval. Expenses related to property inspections and repairs required of the lender may not be financed into the new loan amount.

The lender pays a guarantee fee as established by the Agency.

The refinance loan may be subject to an annual fee as established by the Agency; and

The Agency may limit the number of guaranteed loans made for refinancing purposes based on market conditions and other appropriate factors.

Sec. 3555.102 Loan restrictions.
A guarantee will not be issued if loan funds are to be used for:

(a) **Existing manufactured homes.** Purchase of an existing manufactured home, except as provided in Sec. 3555.208(b)(3);

(b) **Income producing land or buildings.** Purchase or improvement of land or buildings that are typically used principally for income-producing purposes;

(c) **Business or income-producing enterprise.** Purchase or the construction of buildings which are largely or in part specifically designed to accommodate a business or income-producing enterprise;

(d) **Loan discount points.** Loan discount points, except as provided in Sec. 3555.101(b)(6)(vi);

(e) **Re refinancing.** Refinancing, except as provided in Sec. 3555.101(d);

(f) **Buydown.** Establishing a buydown account;

(g) **Lease.** Payments on a lease; or

(h) **Seller concessions.** Purchasing a home if the seller, or other interested third party, contributes more than 6 percent, unless otherwise provided by the Agency, of the property's sales price toward the purchaser's mortgage financing costs, closing costs, escrow accounts, furniture or other giveaways.

**Sec. 3555.103 Maximum loan amount.**

The amount of the loan must not exceed the lesser of:

(a) **Market value.** The market value of the property as determined by an appraisal that meets Agency requirements plus the amount of the up-front loan guarantee fee required by Sec. 3555.107(g), or

(b) **Purchase price and acquisition costs.** The total of the purchase price and all eligible acquisition costs as permitted by Sec. 3555.101.

(c) **Newly constructed dwelling--limited to 90 percent.** A newly constructed dwelling that does not meet the definition of an existing dwelling, as defined at Sec. 3555.10, and cannot meet the inspection and warranty requirements of Sec. 3555.202(a) of this subpart is limited to 90 percent of the present market value. The dwelling must meet or exceed the International Energy Conservation Code (IECC) in effect at the time of construction.
Sec. 3555.104 Loan terms.

(a) **Interest rate.** The loan must be written at an interest rate that:

1. Is fixed over the term of the loan;
2. Shall be negotiated between the lender and borrower to allow the borrower to obtain the best available rate in compliance with all applicable laws;
3. If the interest rate increases between the time of the issuance of the conditional commitment and the loan closing, the lender will submit appropriate documentation and underwriting analysis to confirm that the applicant is still eligible;
4. The warehouse lender may charge an interest rate for interim construction financing that exceeds the underlying promissory note rate. After construction ends, the interest rate must revert to a rate that is no higher than the underlying promissory note rate. The Agency reserves the right to establish a maximum amount for the interim construction financing interest rate in the handbook, as necessary to further program goals and protect the interests of the government.

(b) **Repayment period.** The term of the loan may not exceed 30 years. Adjustable rate mortgages, balloon term mortgages or mortgages requiring prepayment penalties are ineligible terms.

(c) **Repayment schedule.** Amortized payments will be due and payable monthly.

(d) **Negative amortization.** The loan note must not provide for interest on interest.

Sec. 3555.105 Combination construction and permanent loans.

Guarantees of combination construction and permanent loans are subject to the following conditions:

(a) **Lender requirements.** In addition to other lender requirements of this part, lenders seeking guarantees of combination construction and permanent loans must:

1. Have two or more years’ experience making and administering construction loans.

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(2) Submit an executed construction contract with each loan application package.

(3) Review and approve construction contractors or builders. The lender will conduct due diligence investigations to determine that the contractor or builder meets the minimum requirements in paragraph (b) of this section. Evidence of the contractor or builder's compliance must be made available by the lender upon request of the Agency.

(4) Close the loan prior to the start of construction with proceeds disbursed to cover the cost of, or balance owed on, the land and the balance into escrow.

(5) Pay out monies from escrow to the builder during construction. The lender must obtain written approval from the borrower before each draw payment is provided to the builder. The borrower and lender are jointly responsible for approving disbursements during the construction phase. The lender must ensure that the appropriate work has been completed prior to releasing each draw. The Agency may require the lender to submit a draw and disbursement ledger for any loan guarantee upon request.

(6) Obtain documentation that confirms the construction of the subject property is complete.

(b) Contractor or builder requirements. Contractors or builders of homes financed with guaranteed combination construction and permanent loans must at least have:

(1) Two or more years’ experience building or constructing all aspects of single family dwellings similar to the type of project being proposed;

(2) State-issued construction or contractor licenses, as required by State or local law;

(3) Insurance for commercial general liability of at least $500,000;

(4) Acceptable credit histories free of judgments, collections, or liens related to previous projects the contractor was involved with in the past;
(5) No criminal history based on a criminal background check conducted by the lender; and

(6) Contractors or builders who are constructing their own residence are ineligible.

(c) Use of loan funds.

(1) The loan is to finance the purchase of real estate and construction of a single family dwelling or the purchase and required rehabilitation of an existing single family dwelling. Condominiums, including detached condominiums and site condominiums, are ineligible for combination construction and permanent loans.

(2) The loan amount may include:

(i) The price of the lot.

(ii) Reasonable and customary construction costs related to the construction administration, such as architectural and engineering fees, building permits and fees, surveys, title updates, contingency reserves, not exceeding a percentage specified by the Agency of the cost of construction, draw control and inspection fees, builder's risk insurance or course of construction insurance, and landscaping costs;

(iii) Reasonable and customary closing costs as defined at Sec. 3555.101; and

(iv) The costs of an interim construction financing interest rate and PITI reserve under 3555.104(a) and 3555.105(d)(7), respectively.

(3) Funds remaining after full disbursement of construction costs will be applied by the lender as a principal payment. Borrowers are not to receive funds after closing except that the borrower may receive funds remaining from certain unused prepaid expenses if the borrower used personal, non-loan funds to pay those expenses.

(d) Terms. The following terms apply to guarantees of combination construction and permanent loans:
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(1) The interest rate for the construction and permanent loan will be established in accordance with Sec. 3555.104 at the time the rate is locked, which must occur prior to closing.

(2) The fair market value as determined by a licensed or certified appraiser in accordance with regulation 3555.107(d) will be used to establish the maximum loan amount.

(3) Annual fees will begin in the month immediately following loan closing and will not be affected by loan reamortization following the completion of construction. Lenders may fund a lender imposed escrow account for borrower payments of the annual fee in accordance with Sec. 3555.101(b)(6)(xi), as an eligible loan purpose, provided the market value of the property is not exceeded.

(4) Interest on the construction loan is payable monthly either directly from the borrower or indirectly drawn from an established interest reserve. Real estate taxes and property insurance due during the construction period may also be paid using the same draw process. The annual fee will be due and payable from the lender on the 1st of the month following the anniversary date the construction to permanent loan closed.

(5) Initial payment of the regularly scheduled (amortized) principal and interest payment may be postponed up to one year, if necessary, based upon the construction period. Local conditions and the proposed construction contract may dictate the term.

(6) The loan will be modified and re-amortized to achieve full repayment within its remaining term once construction is complete. Within a reasonable time, as specified by the Agency, after the final inspection, the borrower will begin making regularly scheduled (amortized) principal and interest payments once the loan is re-amortized.

(7) Lenders may fund a reserve account for up to 12 months of regularly scheduled (amortized) principal and interest payments along with taxes and insurance (PITI). In such cases, a loan modification is not required after construction in complete. Funds remaining in the PITI reserve after construction is complete will be applied by the lender as a principal payment.

(e) Mortgage file documentation. Standard industry credit and verification documents may be utilized when processing and closing the loan and must be dated within a reasonable time, specified by the Agency, of the closing in order to be considered valid. In addition to documentation noted at Sec. 3555.202(a), lenders must obtain and retain evidence:

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(1) The actual cost to construct or rehabilitate the subject dwelling;

(2) The acquisition, transfer of ownership, and/or ownership of land;

(3) Certification of construction completion and that construction costs have been fully drawn;

(4) Closing costs;

(5) Certification that property is free and clear of all other liens after conversion to permanent loan;

(6) Required inspections and warranties; and

(7) Loan modification agreement when construction is complete confirming the existence of the permanent loan and the amortizing interest rate on the loan.

(8) Evidence that all funds remaining in the construction escrow or PITI reserve accounts have been applied as a principal curtailment once construction or rehabilitation is complete.

(f) **Loan Note Guarantee.** The Loan Note Guarantee will be issued after closing of the construction loan without waiting for complete construction of the subject property upon:

(1) Request by the approved lender;

(2) The lender's submission of the closing documentation acceptable to Rural Development demonstrating that the loan was properly closed;

(3) Payment of the guarantee fee; and

(4) The lender's compliance with other requirements under Sec. 3555.107.

(g) **Unplanned changes during construction.** Should an unplanned change occur with the borrower or contractor preventing completion of construction, the lender remains responsible for completion of improvements satisfactory to Rural Development. The loan will be serviced in accordance with subparts F and G of this part. Funds remaining in all PITI reserve and construction escrow accounts after full disbursement of construction costs will be applied by the lender as a principal payment.
Reservation of funding. Rural Development reserves the right to limit the number or amount of loans guaranteed under this section based on market conditions and other factors it considers appropriate, such as loan and portfolio performance.

Sec. 3555.106 [Reserved]

Sec. 3555.107 Application for and issuance of the loan guarantee.

(a) Processing of applications. Except as provided in this section, Rural Development will process loan guarantee applications in the order that completed applications are received. Application forms and instruction procedures are available at any Rural Development office.

(1) If analysis of the utilization of funds during the fiscal year indicates that, at the rate of current utilization, funds may not be sufficient to sustain that level of activity for the remainder of the fiscal year, the Agency may determine a shortage of funds exists.

(2) When there is a shortage of funds, the Agency will limit SFHGLP loans to first-time homebuyers or veterans. First-time homebuyers and veterans will be served in the order their applications are received.

(b) Automated underwriting. Rural Development will offer approved lenders an automated system, if available; to process Rural Development guaranteed loans under this part. The automated underwriting system is a tool to help evaluate credit risk, but does not substitute or replace the careful judgment of experienced underwriters, and shall not be the exclusive basis for a determination on whether to extend credit. The lender must apply for and receive approval from Rural Development to utilize the automated underwriting system. Application forms are available from Rural Development. Lenders using the automated underwriting system shall do so in accordance with SFHGLP regulations and guidelines. Rural Development reserves the right to terminate the lender's use of the automated underwriting system.

(1) Lenders who utilize the Rural Development automated underwriting system remain responsible for ensuring all data is true and accurately represented.

(2) Full documentation and verification, in accordance with Subparts C, D and E of this part, will be retained in the lender's permanent loan file and must confirm the applicant's eligibility, creditworthiness, repayment ability, eligible loan purpose, sufficient collateral, and all other regulatory requirements.

(3) Lenders who utilize the Rural Development automated underwriting system will be subject to indemnification requirements in accordance with Sec. 3555.108.
(4) If a loan receives an "Accept" underwriting recommendation, the lender is generally permitted to submit minimal documentation including the appraisal, flood hazard determination and fully executed request for guarantee, unless the lender is instructed to provide other documentation.

(5) Loan requests that receive a "Refer" or "Refer with Caution" underwriting recommendation require further review and manual underwriting by the lender to determine whether the applicant meets SFHGLP eligibility requirements.

(6) Lenders who utilize Rural Development's automated underwriting system will validate findings, based upon the output report of the underwriting system.

(7) The final submission of the last scoring event must be retained in the lender's permanent loan file.

(c) Manual underwriting. Lenders may utilize a manual underwriting method. Full documentation and verification, in accordance with Subparts C, D and E of this part will be submitted to Rural Development when requesting a guarantee and maintained in the lender's file. The documentation will confirm the applicant's eligibility, creditworthiness, repayment ability, eligible loan purpose, adequate collateral, and satisfaction of other regulatory requirements.

(d) Appraisals. The lender must supply a current appraisal report of the property for which the guarantee is requested.

(1) Appraisals must be conducted in accordance with the Uniform Standards of Professional Appraisal Practices.

(2) Approved lenders are responsible for selecting a qualified appraiser and the integrity, accuracy and thoroughness of the appraisals used to support their loan guarantee request.

(3) The appraiser must report all readily observable property deficiencies, potential environmental hazards, as well as any adverse conditions discovered performing the research involved in completing the appraisal.

(4) The Agency will conduct reviews of the appraisals prior to issuance of the conditional commitment, and other reviews may be conducted to
ensure overall quality of appraisals. The lender is responsible for correcting any appraisal deficiencies reported by the Agency.

(5) The Agency may determine an appraiser ineligible to conduct appraisals for SFHGLP due to the failure to comply with applicable requirements and regulations. Appraisals from the ineligible appraisers will not be accepted.

(6) Use of an alternative approach to value for appraisals performed in remote rural areas, on tribal lands, or where a lack of market activity exists may be accepted at the Agency's discretion.

(7) The validity period of an appraisal will be 120 days, unless otherwise provided by the Agency.

(e) Environmental requirements. The lender and Rural Development will meet all environmental responsibilities in accordance with Sec. 3555.5.

(f) Issuance of a conditional commitment. The lender must demonstrate that all the general loan, applicant, and site eligibility requirements of this part are met before Rural Development will issue a conditional commitment. The lender, however, may obtain any required property inspection reports, such as a well test or construction phase inspections, if applicable and not needed for environmental compliance, after the issuance of the conditional commitment, but prior to loan closing.

(1) The conditional commitment will expire in 90 days from issuance, unless new construction is involved.

(2) The expiration of a conditional commitment may coincide with projected completion of new construction.

(3) An extension may be granted if the loan cannot be closed due to circumstances beyond the lender's control.

(4) Lenders may accept or decline the conditional commitment, or submit requests for changes with adequate support and documentation to be reviewed by the Agency.

(g) Loan guarantee fee. The lender must pay a nonrefundable up-front guarantee fee, the cost of which may be passed on to the borrower. The up-front guarantee fee will not exceed 3.5 percent of the principal obligation. The current guarantee fee is available at any Rural Development office and may change periodically. Notice of a change in fee will be published as authorized in Appendix 1 – Page 42
Exhibit K of subpart A of part 1810 of this chapter (RD Instruction 440.1, available in any Rural Development office) or online at: http://www.rurdev.usda.gov/rd_instructions.html. Once the guarantee has been issued, the fee will not be refunded.

(h) **Annual fee.** The Agency may impose an annual fee of the lender not to exceed 0.5 percent of the average annual scheduled unpaid principal balance of the loan for the life of the loan to allow the Agency to reduce the up-front guarantee in Sec. 3555.107(g). The annual fee will be applicable to purchase and refinance loan transactions. The annual fee may be passed on to the borrower by the lender. The Agency may assess a late charge to the lender if the annual fee is not paid by the due date, and the late charge may not be passed on to the borrower. Further administrative guidance is provided in the handbook.

(i) **Proper closing and requesting the loan note guarantee.** The lender must ensure that any loan to be guaranteed is properly closed using documents acceptable to Rural Development.

1. Within 30 days of loan closing, the lender must request issuance of a loan guarantee.

2. The lender will certify the loan was closed in accordance with the conditional commitment and that no major changes have taken place since issuance of a commitment, except any changes specifically approved by the Agency.

3. The lender will maintain evidence of hazard insurance and, if applicable, flood insurance.

4. Evidence of documentation supporting the properly closed loan may be submitted to the Agency through regular mail, express mail, facsimile or secure email. Rural Development may offer approved lenders an automated method of submitting properly closed loans.

5. Lenders will submit full documentation supporting a closed loan or evidence of self-certification status, as described in this section. Self-certified lenders must still submit the settlement statement and promissory note. Lenders must obtain written authorization from the Agency prior to submitting evidence of self-certification in lieu of full
Authorization for self-certification may be granted by the Agency if:

(i) The lender has an active lender agreement.

(ii) The lender is actively engaged in originating SFHGLP loans and has closed a minimum of 10 loans in the past 12 months.

(iii) The lender has successfully submitted 10 consecutive loan closing to the Agency that were in compliance with loan closing requirements and procedures.

(iv) The lender agrees to retain evidence of confirmed closing conditions in accordance with the issued conditional commitment in the lender's permanent loan file.

(j) Issuance of the guarantee. The loan guarantee does not take effect until:

(1) The lender transmits the required up-front guarantee fee, the lender certification form provided by Rural Development, and loan closing documents to Rural Development;

(2) The lender meets all other conditions set out in the conditional commitment;

(3) The loan is current at the time the lender requests the loan guarantee;

(4) Any construction or rehabilitation, is complete except for development described in Sec. Sec. 3555.101(c) and 3555.202(c); and

(5) Rural Development issues the loan guarantee document.

Sec. 3555.108 Full faith and credit.

(a) General. The Loan Note Guarantee constitutes an obligation supported by the full faith and credit of the United States and is incontestable except for fraud or misrepresentation of which the lender has actual knowledge at the time it becomes such lender or which the lender participates in or condones. Misrepresentation includes negligent misrepresentation.

(b) Interest. A note that provides for the payment of interest on interest, however, shall not be guaranteed. If the note to which the Loan Note Guarantee is attached or relates provides for the payment of interest on interest, then the Loan Note Guarantee is void. Notwithstanding the prohibition of interest on
interest, interest may be capitalized in connection with re-amortization under subpart G of this part.

(c) **Violations.** The Loan Note Guarantee will be unenforceable by the lender to the extent any loss is occasioned by violation of usury laws, civil rights laws, negligent servicing, failure to obtain the required security or use of loan funds for unauthorized purposes, regardless of the time at which Rural Development acquires knowledge of the foregoing. Negligent servicing is defined as servicing that is inconsistent with this subpart and includes the failure to perform those services which a reasonably prudent Lender would perform in servicing its own loan portfolio of loans that are not guaranteed. The term includes not only the concept of a failure to act, but also not acting in a timely manner or acting contrary to the manner in which a reasonably prudent Lender would act up to the time of loan maturity or until a final loss is paid.

(d) **Indemnification.** The loan note guarantee will remain in effect for any holder of the loan who acquired it from an originating lender. If the Agency determines that a lender did not originate a loan in accordance with the requirements in this part, and the Agency pays a claim under the loan guarantee, the Agency may revoke the originating lender's eligibility status in accordance with subpart B of this part and may also require the originating lender:

1. To indemnify the Agency for the loss, if the default leading to the payment of loss claim occurred within five (5) years of loan closing, when one or more of the following conditions is satisfied:

   (i) The originating lender utilized unsupported data or omitted material information when submitting the request for a conditional commitment to the Agency;

   (ii) The originating lender failed to properly verify and analyze the applicant’s income and employment history in accordance with Agency guidelines;

   (iii) The originating lender failed to address property deficiencies identified in the appraisal or inspection report that affect the health and safety of the occupants or the structural integrity of the property;

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(iv) The originating lender used an appraiser that was not properly licensed or certified, as appropriate, to make residential real estate appraisal in accordance with § 3555.103(a); or,

(2) To indemnify the Agency for the loss regardless of how long ago the loan closed or the default occurred, if the Agency determines that fraud or misrepresentation was involved with the origination of the loan.

(3) In addition, the Agency may use any other legal remedies it has against the originating lender.

Sec. 3555.109 Qualified mortgage.

A qualified mortgage is a guaranteed loan meeting the requirements of this part and applicable Agency guidance, as well as the requirements in 12 CFR 1026.43(e)(2)(i) through (i) and 12 CFR 1026.43(e)(3). An extension of credit made pursuant to a program administered by a State Housing Finance Agency is exempt from this requirement as defined in 12 CFR 1026.43(a)(3)(iv). Lenders will be allowed to cure unintentional errors and retain the qualified mortgage status if the conditions set in 12 CFR 1026.31(h) are met.

Sec. Sec. 3555.110-3555.149 [Reserved]

Sec. 3555.150 OMB control number.

The report and recordkeeping requirements contained in this subpart are currently with the Office of Management and Budget under review and awaiting approval.

Subpart D--Underwriting the Applicant

Sec. 3555.151 Eligibility requirements.

(a) Income eligibility. At the time of loan approval, the household's adjusted income must not exceed the applicable moderate income limit. The lender is responsible for documenting the household's income to determine eligibility for the SFHGLP.

(b) Citizenship status. Applicants must provide evidence acceptable to the Agency of their status as United States citizens, U.S. non-citizen nationals, or qualified aliens, as defined in Sec. 3555.10.
(c) **Principal residence.** Applicants must agree and have the ability to occupy the dwelling as their principal residence. The Agency may require evidence of this ability. Rural Development will not guarantee loans for investment properties, or temporary, short-term housing.

(d) **Adequate dwelling.** The dwelling must be modest, decent, safe, and sanitary.

(e) **Eligibility of current homeowners.** Current homeowners may be eligible for guaranteed home loans under this part if all the following conditions are met:

1. The applicants are not financially responsible for another Agency guaranteed or direct home loan by the time the guaranteed home loan is closed;

2. The current home no longer adequately meets the applicants' needs;

3. The applicants will occupy the home financed with the SFHGLP loan as their primary residence;

4. The applicants are without sufficient resources or credit to obtain the dwelling on their own without the guarantee;

5. No more than one single family housing dwelling other than the one associated with the current loan request may be retained; and

6. The applicants must be financially qualified to own more than one home. In order for net rental income from the retained dwelling to be considered for the applicant's repayment ability, the consistency of the rental income must be demonstrated for at least the previous 24 months, and the current lease must be for a term of at least 12 months after the loan is closed.

(f) **Legal capacity.** Applicants must have the legal capacity to incur the loan obligation, or have a court-appointed guardian or conservator who is empowered to obligate the applicant in real estate matters.

(g) **Suspension or debarment.** Applicants who are suspended or debarred from participation in Federal programs under 2 CFR parts 180 and 417 are not eligible for loan guarantees.

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(h) Repayment ability. Applicants must demonstrate adequate repayment ability. Lenders must maintain documentation supporting the repayment ability analysis in the loan file. Refer to Sec. 3555.152(a) for further information.

(1) A repayment ratio will be used to determine an applicant's ability to repay a loan. The Agency will utilize two ratios, principal, interest, taxes and insurance (PITI) ratio and total debt (TD) ratio, to determine adequate repayment for the requested loan. The Agency reserves the right to consider calculation of a single ratio in determining repayment for the requested loan.

(i) An applicant is considered to have adequate repayment ability when the monthly amount required for payment of PITI, homeowners' association dues, the monthly calculation of an annual fee, as applicable, and other real estate assessments does not exceed 29 percent of the applicant's repayment income and the monthly amount of PITI plus recurring monthly debts (total debt) does not exceed 41 percent of the applicant's repayment income.

(ii) For home purchases under the Rural Energy Plus provision of Sec. 3555.209, the Agency reserves the right to allow flexibility in the PITI and TD ratio. The handbook will define what flexibilities can be extended.

(iii) Contributions to personal income taxes, retirement accounts (including the repayment of personal loans from those retirement accounts), savings (including repayment of loans secured by such funds), the cost to commute, membership fees in unions or like organizations, childcare or other voluntary obligations will not be considered in the TD ratio.

(iv) Except for obligations specifically excluded by State law, the debts of non-purchasing spouse must be included in the applicant's repayment ratios if the applicant resides in a community property state.

(2) The repayment ratio may exceed the percentage specified in paragraph (h)(1) of this section if certain compensating factors exist. The handbook will define when a debt ratio waiver may be granted. The automated underwriting system will take into account any compensating factors in determining whether the variance is appropriate. For manually underwritten loans, the lender must
document compensating factors demonstrating that the household has higher repayment ability based on its capacity, willingness and ability to pay mortgage payments in a timely manner. The presence of compensating factors does not strengthen a ratio exception when multiple layers of risk, such as a marginal credit history, are present in the application. Acceptable compensating factors and supporting documentation for a proposed debt ratio waiver will be further defined and clarified in the handbook. Compensating factors include, but are not limited to:

(i) A credit score at an acceptable level of 680 or higher for any applicants, unless otherwise provided by the Agency. The Agency reserves the right to change the acceptable level of credit score.

(ii) A minimal increase in housing expense, i.e. the current rent payment is comparable to the proposed mortgage loan payment PITI and if applicable, homeowner association dues.

(iii) The demonstrated ability to accumulate savings and cash reserves post loan closing.

(iv) Continuous employment with a current primary employer.

(3) Loan ratio exceptions require written approval by Rural Development, or acceptance by an Agency approved automated underwriting system. Flexibilities surrounding loan ratio exceptions will be further clarified in the handbook. Lenders with loans accepted by an Agency approved automated underwriting system need not submit documentation for the need for a ratio waiver.

(4) If an applicant does not meet the repayment ability requirements, the applicant can increase repayment ability by having other eligible household members join the application.

(5) Mortgage Credit Certificates may be considered in determining an applicant's repayment ability.
Section 8 Homeownership Vouchers may be used in determining an applicant's repayment ability. The monthly subsidy may be treated as repayment income in accordance with Sec. 3555.152(a) or offset in the PITI.

A funded buydown account may be used to reduce the borrower's monthly mortgage payment during the early years of repayment when all of the following requirements are met:

(i) The loan will be underwritten at the note rate.

(ii) The interest rate may be bought down to no more than 2 percentage points below the note rate.

(iii) The interest rate paid by the borrower may increase no more frequently than annually.

(iv) The interest rate paid by the borrower may increase no more than 1 percentage point annually.

(v) Funds must be placed in an escrow account with monthly releases scheduled directly to the lender.

(vi) Funds must be placed with a Federal- or state-regulated lender.

(vii) The escrow account must be fully funded for the buydown period.

(viii) The borrower is not permitted to use personal funds or funds borrowed from another source to establish the escrow account for the buydown.

(ix) The borrower must not be required to borrow or repay the funds.

Credit qualifications. Applicants generally must have a verifiable credit history that indicates a reasonable ability and willingness to meet their debt obligations as evidenced by an acceptable credit score, a credit report from a recognized credit repository meeting the requirements of Fannie Mae, Freddie Mac, FHA or VA, and other credit qualifications satisfactory to Rural Development.

Except as provided in paragraph (i)(6) of this section, the applicant's credit history must demonstrate a past willingness and ability to meet
credit obligations to enable the lender to evaluate each applicant and draw a logical conclusion about the applicant's commitment and ability to handle financial obligations successfully and ability to make payments on the new mortgage obligation.

(2) A loan’s acceptance by an Agency approved automated underwriting system eliminates the need for the lender to submit documentation of the credit qualification decision as loan approval requirements will be incorporated in the automated system.

(3) For manually underwritten loans, lenders must submit documentation of the credit qualification decision. Lenders will use credit scores to manually underwrite loan mortgage requests. Lenders are required to validate the credit scores utilized in the underwriting determination. Indicators of significant derogatory credit will require further review and documentation of that review. Indicators of significant derogatory credit include, but are not limited to:

(i) A foreclosure that has been completed in the 36 months prior to application by the applicant.

(ii) A bankruptcy in which debts were discharged within 36 months prior to the date of application by the applicant. A lender may give favorable consideration to applicants who have entered into a bankruptcy debt restructuring plan who have completed 12 months of consecutive payments. The payment performance must have been satisfactory with all required payments made on time, and the Trustee or the Bankruptcy Judge must approve of the new credit.

(iii) One rent or mortgage payment paid 30 or more days late within the last 12 months prior to application by the applicant.

(iv) A previous Agency loan that resulted in a loss to the Government.

(4) When evidence of significant derogatory credit is present, lenders may consider extenuating circumstances, including but not limited to,
whether the problems were caused by factors temporary in nature, if
the circumstances leading to the derogatory credit were beyond the
control of the applicant, and if the loan would significantly reduce the
applicant's housing expenses.

(5) In all cases, the applicant cannot have an outstanding Federal
judgment, other than a judgment obtained in the United States Tax
Court, or a delinquent non-tax Federal debt that has not been paid in
full or otherwise satisfied.

(6) For applicants without an established credit history, alternative
methods may be used to evidence an applicant's willingness to pay,
such as a non-traditional mortgage credit report or multiple
independent verifications of trade references.

(7) A credit report for a non-purchasing spouse must be obtained in order
to determine the debt-to-income ratio referenced at Sec. 3555.151(h)
if the applicant resides in a community property state.

(8) Lenders are encouraged to offer or provide for home ownership
counseling. Lenders may require first-time homebuyers to undergo
such counseling if it is reasonably available in the local area. When
home ownership counseling is provided or sponsored by Rural
Development or another Federal agency in the local area, the Lender
must require the borrower to successfully complete the course.

(j) Obtaining credit. The applicant must be unable to obtain traditional
conventional mortgage credit, as defined by the Agency, for the subject loan.

Sec. 3555.152 Calculation of income and assets.

The lender must obtain and maintain documentation in the loan file supporting the
lender's determination of all income and assets described in this section.

(a) Repayment income. Repayment income is the amount of adequate and stable
income from all sources that parties to the promissory note are expected to
receive. Repayment income is used to determine the applicant's ability to repay
a loan.

(1) The lender must examine the applicant's past income record for at
least the past 2 years and any applicable training and/or education.
The Agency may require additional information and documentation
from self-employed applicants and applicants employed by businesses owned by family members.

(2) The lender must establish an applicant's anticipated amount of repayment income and the likelihood of its continuance for at least the next 3 years to determine an applicant's capacity to repay a requested mortgage loan in accordance with Sec. 3555.151(h)(1).

(3) Income may not be used in calculating an applicant's ratios if it is from any source that cannot be verified, is not stable, or is likely not to continue.

(4) The following types of income are examples of income not included in repayment income:

(i) Any student financial aid received by household members for tuition, fees, books, equipment, materials, and transportation;

(ii) Amounts received that are specifically for, or in reimbursement of the cost of medical expenses for any family member;

(iii) Temporary, nonrecurring, or sporadic income (including gifts);

(iv) Lump sum additions to family assets such as inheritances, capital gains, insurance payments and personal or property settlements;

(v) Payments for the care of foster children or adults; and

(vi) Supplemental Nutrition Assistance Program payments.

(b) Annual income. Annual income is the income of all household members, regardless of whether they will be parties to the promissory note.

(1) Applicants must provide the income, expense and household information necessary to enable the lender to make income determinations.
(2) Lenders must verify employment and income information provided by the applicant for all household members. Lenders will verify the income for each adult household member for the previous 2 years. Written or oral verifications provided by third-party sources or documents prepared by third-party sources are acceptable. Lenders must project the expected annual income for the next 12 months from the verified sources.

(3) The lender remains responsible for the quality and accuracy of all information used to establish a household's eligibility.

(4) Household income from all sources including, but not limited to, income from temporarily absent household members, allowances for tax-exempt income and net family assets as defined in paragraph (d) of this section are to be considered in the calculation of annual income.

(5) The following sources of income will not be considered in the calculation of annual income:

(i) Earned income of persons under the age of 18 unless they are an applicant or a spouse of a member of the household;

(ii) Payments received for the care of foster children or foster adults and incomes received by foster children or foster adults who live in the household;

(iii) Amounts granted for, or in reimbursement of, the cost of medical expenses;

(iv) Earnings of each full-time student 18 years of age or older, except the head of household or spouse, that are in excess of any amount determined pursuant to HUD definition of annual income at 24 CFR 5.609(c);

(v) Temporary, nonrecurring, or sporadic income (including gifts);

(vi) Lump sum additions to family assets such as inheritances; capital gains; insurance payments under health, accident, or worker's compensation policies; settlements for personal or property losses; and deferred periodic payments of
supplemental social security income and Social Security benefits received in a lump sum;

(vii) Any earned income tax credit;

(viii) Adoption assistance in excess of any amount determined pursuant to HUD's definition of annual income at 24CFR 5.609(c);

(ix) Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling;

(x) Amounts paid by a State agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home;

(xi) The full amount of any student financial aid;

(xii) Any other revenue exempted by a Federal statute, a list of which is available from any Rural Development office;

(xiii) Income received by live-in aides, regardless of whether the live-in aide is paid by the family or a social service program;

(xiv) Employer-provided fringe benefit packages unless reported as taxable income; and

(xv) Amounts received through the Supplemental Nutrition Assistance Program.

(c) **Adjusted annual income.** Adjusted annual income is used to determine program eligibility and is annual income as defined in paragraph (b) of this section, less any of the following verified deductions for which the household is eligible.

(1) A reduction for each family member, except the head of household or spouse, who is under 18 years of age, 18 years of age or older with a disability, or a full-time student, the amount of which will be

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determined pursuant to HUD definition of adjusted income at 24 CFR 5.611.

(2) A deduction of reasonable expenses for the care of a child 12 years of age or under that:

(i) Enables a family member to work, to actively seek work, or to further a member's education;

(ii) Are not reimbursed or paid by another source; and

(iii) In the case of expenses to enable a family member to work, do not exceed the amount of income, including the value of any health benefits, earned by the family member enabled to work. If the child care provider is a household member, the cost of the children's care cannot be deducted.

(3) A deduction of reasonable expenses related to the care of household members with disabilities that:

(i) Enable a family member or the individual with disabilities to work, to actively seek work, or to further a member's education;

(ii) Are not reimbursed from insurance or another source; and

(iii) Are in excess of 3 percent of the household's annual income and do not exceed the amount of earned income included in annual income by the person who is able to work as a result of the expenses.

(4) For any elderly family, a deduction in the amount determined pursuant to HUD definition of adjusted income at 24 CFR 5.611.

(5) For elderly and disabled families only, a deduction for household medical expenses that are not reimbursed from insurance or another source and which, in combination with any expenses related to the care of household members with disabilities described in paragraph (c)(3) of this section, are in excess of 3 percent of the household's annual income.
(d) **Net family assets.** For the purpose of computing annual income, the net family assets of all household members must be included in the calculation of annual income. Lenders must document and verify assets of all household members.

(1) Net family assets include, but are not limited to, the actual or imputed income from:

(i) Equity in real property or other capital investments, other than the dwelling or site;

(ii) Cash on hand and funds in savings or checking accounts;

(iii) Amounts in trust accounts that are available to the household;

(iv) Stocks, bonds, and other forms of capital investments that is accessible to the applicant without retiring or terminating employment;

(v) Lump sum receipts such as lottery winnings, capital gains, and inheritances;

(vi) Personal property held as an investment; and

(vii) Any value, in excess of the consideration received, for any business or household assets disposed of for less than fair market value during the 2 years preceding the income determination. The value of assets disposed of for less than fair market value shall not be considered if they were disposed of as a result of foreclosure, bankruptcy, or a divorce or separation settlement.

(2) Net family assets for the purpose of calculating annual income do not include:

(i) Interest in American Indian restricted land;

(ii) Cash on hand which will be used to reduce the amount of the loan;
The value of necessary items of personal property;

Assets that are part of the business, trade, or farming operation of any member of the household who is actively engaged in such operation;

Amounts in voluntary retirement plans such as individual retirement accounts (IRAs), 401(k) plans, and Keogh accounts (except at the time interest assistance is initially granted);

The value of an irrevocable trust fund or any other trust over which no member of the household has control;

Cash value of life insurance policies; and

Other amounts deemed by the Agency not to constitute net family assets.

Sec. Sec. 3555.153-3555.199 [Reserved]

Sec. 3555.200 OMB control number.

The report and recordkeeping requirements contained in this subpart are currently with the Office of Management and Budget under review and awaiting approval.

Subpart E--Underwriting the Property

Sec. 3555.201 Site requirements.

(a) Rural areas. Rural Development will only guarantee loans made in rural areas designated as rural by Rural Development. However, if a rural area designation is changed to nonrural:

(1) Existing conditional commitments in the former rural area will be honored;

(2) A supplemental loan may be made in accordance with Sec. 3555.101 in conjunction with a transfer and assumption of a guaranteed loan;

(3) Loan requests where the application and purchase contract was complete prior to the area designation change may be approved; and
(4) REO property sales and transfers with assumption may be processed.

(b) Site standards. Sites must be modest and developed in accordance with any standards imposed by a State or local government and must meet all of the following requirements.

(1) The site size must be typical for the area.

(2) The site must not include income-producing land or buildings to be used principally for income-producing purposes. Vacant land without eligible residential improvements, or property used primarily for agriculture, farming or commercial enterprise is ineligible for a loan guarantee.

(3) The site must be contiguous to and have direct access from a street, road, or driveway. Streets and roads must be hard surfaced or all weather surfaced and legally enforceable arrangements must be in place to ensure that needed maintenance will be provided.

(4) The site must be supported by adequate utilities and water and wastewater disposal systems. Certain water and wastewater systems that are privately-owned may be acceptable if the lender determines that the systems are adequate, safe, compliant with applicable codes and requirements, and the cost or feasibility to connect to a public or community system is not reasonable. Certain community-owned water and wastewater systems may be acceptable if the lender determines that the systems are adequate, safe, and compliance with applicable codes and requirements. The Agency may require inspections on individual, central, or privately-owned and operated water or waste systems.

Sec. 3555.202 Dwelling requirements.

(a) New dwellings. New dwellings must be constructed in accordance with certified plans and specifications, and must meet or exceed the International Energy Conservation Code (IECC) in effect at the time of construction. The lender must obtain and retain evidence of construction costs, inspection reports, certifications, and builder warranties acceptable to Rural Development.
(b) **Existing dwellings.** Existing dwellings are considered to meet the following criteria when inspected and certified as meeting HUD requirements for one-to-four unit dwellings in accordance with Agency guidelines:

1. Be structurally sound;
2. Be functionally adequate;
3. Be in good repair, or to be placed in good repair with loan funds; and
4. Have adequate and safe electrical, heating, plumbing, water, and wastewater disposal systems.

(c) **Escrow account for exterior or interior development.** This paragraph does not apply if the development is related to a "combination construction and permanent loan" under Sec. 3555.101(c). If a dwelling is complete with the exception of interior or exterior development work, Rural Development may issue the Loan Note Guarantee on the loan if the following conditions are met:

1. The incomplete work does not affect the habitability of the dwelling, nor the health or safety of the housing occupants.
2. The cost of any remaining interior or exterior work is not greater than 10 percent of the final loan amount.
3. An escrow account is funded in an amount sufficient to assure the completion of the remaining work. This figure must be at least 100 percent of the cost of completion but may be higher if the lender determines a higher amount is needed.
4. The builder or a licensed contractor has executed a contract providing for completion of the planned development within 180 days of loan closing. If the borrower will be completing the planned development on an existing dwelling without the services of a contractor, the requirement for an executed contract is waived when all of the following conditions are met:
   - The estimated cost to complete the work is less than 10 percent of the total loan amount;
   - The escrow amount is less than or equal to $10,000; and

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(iii) The lender has determined the borrower has the knowledge and skills necessary to complete the work.

(5) The lender may release escrowed funds only after obtaining a final inspection report acknowledged by the borrower and indicating all planned development has been satisfactorily completed.

(6) The lender remains responsible to ensure a final inspection is performed and required repairs are completed.

(7) The settlement statement reflects the amounts escrowed.

Sec. 3555.203 **Ownership requirements.**

After the loan is closed, the borrower must have an acceptable ownership interest in the property as evidenced by one of the following:

(a) **Fee-simple ownership.** Acceptable fee-simple ownership is evidenced by a fully marketable title with a deed vesting a fee-simple interest in the property to the borrower.

(b) **Secured leasehold interest.** Loans may be guaranteed on leasehold properties. If the conditions in this subsection are met:

   (1) The applicant is unable to obtain fee simple title to the property;

   (2) Such leaseholds are fully marketable in the area, except in the case of properties located on American Indian restricted land;

   (3) The lease has an unexpired term of at least 45 years from the date of loan closing, except in the case of properties located on American Indian restricted land where the lease must have an unexpired term at least equal to the term of the loan. Leases on American Indian restricted land for period of 25 years which are renewable for a second 25 year period are permissible as are leases of a longer duration;

   (4) The mortgage must cover both the property improvements and the leasehold interest in the land;

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(5) The leasehold estate must constitute real property, be subject to the mortgage lien, be insured by a title policy, be assignable or transferable and cannot be terminated except for nonpayment of lease rents; and

(6) The lease must be recorded in the appropriate local real estate records.

Sec. 3555.204 Security requirements.

Rural Development will only guarantee loans that are adequately secured. A loan will be considered adequately secured only when all of the following requirements are met:

(a) Recorded security document. The lender obtains at closing, a mortgage on all required ownership and leasehold interests in the security property and ensures that the loan is properly closed.

(b) Prior liens. No liens prior to the guaranteed mortgage exist except in conjunction with a supplemental loan for transfer and assumption. The guaranteed loan must have first lien position at closing. Junior liens by other parties are permitted as long as the junior liens do not adversely affect repayment ability or the security for the guaranteed loan.

(c) Adequate security. Existing and proposed property improvements are completely on the site and do not encroach on adjoining property.

(d) Collateral. All collateral secures the entire loan.
Sec. 3555.205 Special requirements for condominiums.

Loans may be guaranteed for condominium units in condominium projects that meet all the requirements of this part, as well as the standards for condominium standards established by HUD, Fannie Mae, VA, or Freddie Mac, including those related to self-certification, warranty, underwriting, and ineligible condominium projects.

Sec. 3555.206 Special requirements for community land trusts.

A community land trust must meet the definition in accordance with Sec. 3555.10 and other requirements described in this subpart. Loans may be guaranteed for dwellings on land owned by a community land trust only if:

(a) **Rural Development review.** Rural Development reviews and accepts any restrictions imposed by the community land trust on the property or applicant before loan closing. The Agency may place conditions on the approval of restrictions on resale price and rights of first refusal.

(b) **Foreclosure termination.** The community land trust automatically and permanently terminates upon foreclosure or acceptance by the lender of a deed in lieu of foreclosure.

(c) **Organization.** The organization must meet the definition of a community land trust as defined in the Housing Act of 1949 and the following requirements:

   (1) Be organized under State or local laws.

   (2) Members, founders, contributors or individuals cannot benefit from any part of net earnings of the organization.

   (3) The organization must be dedicated to decent affordable housing for low-and moderate-income people.

   (4) Comply with financial accountability.

(d) **Lender documentation.** The lender's file must contain documentation that the community land trust has community support, local market acceptance and 2 years of prior experience in providing affordable housing.

(e) **Appraisals.** A property located on a site owned by a community land trust must be appraised as leasehold interest and meet the provisions of Sec. 3555.203.
Sec. 3555.207 Special requirements for Planned Unit Developments (PUDs).

Loans may be guaranteed for PUDs that meet all of the requirements of this part, as well as the criteria for PUDs established by HUD, VA, Fannie Mae, or Freddie Mac.

Sec. 3555.208 Special requirements for manufactured homes.

Loans may be guaranteed for manufactured homes if all the requirements in this section are met.

(a) Eligible costs. In addition to the loan purposes described in Sec. 3555.101, Rural Development may guarantee a loan used for the following purposes related to manufactured homes when a real estate mortgage covers both the unit and the site:

(1) Purchase of a new manufactured home, transportation, permanent foundation, and installation costs of the manufactured home, and purchase of an eligible site if not already owned by the applicant; and

(2) Site development work properly completed to HUD, state and local government standards, as well as the manufacturer’s requirements for installation on a permanent foundation.

(b) Loan restrictions. The following loan restrictions are in addition to the loan restrictions contained in Sec. 3555.102:

(1) A loan will not be guaranteed if it is used to purchase a site without also financing a new unit.

(2) A loan will not be guaranteed if it is used to purchase furniture, including but not limited to: movable articles of personal property such as drapes, beds, bedding, chairs, sofas, divans, lamps, tables, televisions, radios, and stereo sets. Furniture does not include wall-to-wall carpeting, refrigerators, ovens, ranges, washing machines, clothes dryers, heating or cooling equipment, or other similar items.

(3) A loan will not be guaranteed to purchase an existing manufactured home and site unless:
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(i) The unit and site are already financed with an Agency direct single family or guaranteed loan;

(ii) The unit and site are being sold by Rural Development as REO property;

(iii) The unit and site are being sold from the lender's inventory, and the loan for which the unit and site served as security was a loan guaranteed by Rural Development; or

(iv) The unit was installed on its initial installation site on a permanent foundation complying with the manufacturer's and HUD installation standards.

(4) A loan will not be guaranteed for repairs to an existing unit, unless the unit meets the requirements of Sec. 3555.208(b)(3).

(5) A loan will not be guaranteed for the purchase of an existing manufactured home that has been moved from another site.

(c) Construction and development.

(1) To be an eligible unit, the new unit must have a floor space of not less than 400 square feet.

(2) The unit must be properly installed on a permanent foundation according to HUD standards, and the manufacturer's requirements for installation on a permanent foundation. A certification of proper foundation is required.

(3) All wheels, axles, towing hitches and running gear must be removed from the manufactured home.

(4) Unit construction must conform to the Federal Manufactured Home Construction and Safety Standards (FMHCSS) and be constructed in compliance with the HUD heating and cooling requirements for the State in which the unit will be located. Any alterations, such as garage construction, as a new unit must comply with FMHCSS.

(5) The site development, installation and set-up must conform to the HUD requirements and the manufacturer's requirements for a permanent installation.

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(6) The unit must meet or exceed the IECC in effect at the time of construction.

(7) The lender must maintain documentation of construction plans and required certifications.

(d) Warranty requirements.

(1) The applicant must receive a warranty in accordance with HUD requirements for new manufactured homes on permanent foundations.

(2) The warranty must identify the unit by serial number.

(3) The lender and applicant must obtain certification that the manufactured home has sustained no hidden damage during transportation and, if manufactured in separate sections that the sections were properly joined and sealed according to the manufacturer's specifications.

(4) The manufactured home must be affixed with a data plate, placed inside the unit, and a certification label, affixed to each transportable section at the tail-light end of each unit which indicates that the home was designed and built in accordance with HUD's construction and safety standards in effect on the date the home was manufactured.

(5) The lender must retain a copy of all manufacturers' warranties in the lender file.

(e) HUD requirements. The FMHCSS and HUD requirements may be found at [http://www.access.gpo.gov/nara/cfr/waisidx_04/24cfr3280_04.html](http://www.access.gpo.gov/nara/cfr/waisidx_04/24cfr3280_04.html).

(f) Title and lien requirements. To be eligible for the SFHGLP, the following conditions must be met and documented in the lender's file:

(1) A manufactured home loan must be secured by a perfected lien on real property consisting of the manufactured home and the land;

(2) The manufactured home must be taxed as real estate as applicable under State law, including relevant statutes, regulations, and judicial decisions;
The security instrument must be recorded in the land records and must identify the encumbered property as including both the home and the land;

If applicable State law so permits, any certificate of title to the manufactured home must be surrendered to the appropriate State government authority. If the certificate of title cannot be surrendered, the lender must indicate its lien on the certificate;

The mortgage must be covered by a standard real property title insurance policy and any other endorsement required in the applicable jurisdiction for manufactured home ensuring the manufactured home is part of the real property that secures the loan; and

The borrower must acknowledge the unit is a fixture and part of the real estate securing the mortgage.

Sec. 3555.209 Rural Energy Plus loans.

Loans guaranteed under Rural Energy Plus provisions are for the purchase of energy-efficient homes. Homes that meet the most current IECC standards including existing homes that are retrofitted to those standards are eligible. Energy-efficient homes result in lower utility bills, conserve energy, and thus, make more income available for monthly debt obligations. For loans guaranteed under this subpart, the lender will certify that the home meets the most current IECC standards. The Handbook will define what further flexibilities can be extended.

Sec. Sec. 3555.210-3555.249 [Reserved]

Sec. 3555.250 OMB control number.

The report and recordkeeping requirements contained in this subpart are currently with the Office of Management and Budget under review and awaiting approval.

Subpart F--Servicing Performing Loans

Sec. 3555.251 Servicing responsibility.

(a) Servicing action. Lenders must perform those servicing actions that a reasonable and prudent lender would perform in servicing its own portfolio of non-guaranteed loans.

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(b) **Third party servicer.** A lender may contract with a third party to service its loans, but the servicing lender of record remains responsible for the quality and completeness of the servicing.

(c) **Transfer of servicing.** Rural Development may require a lender to transfer its loan servicing activities to an approved lender if Rural Development determines that the lender has failed to provide acceptable servicing.

(d) **Non-compliance.** Lenders who fail to comply with Agency requirements or program guidelines may be subject to withdrawal of lender approval, denial and/or reduction in loss claims, withdrawal of the loan guarantee and/or indemnification in accordance with Sec. 3555.108(d).

Sec. 3555.252 **Required servicing actions.**

Lender servicing responsibility includes, but is not limited to, the following actions.

(a) **Collecting regularly scheduled payments.** Lender must collect regularly scheduled loan payments and apply them to the borrower's account.

(b) **Payment of taxes and insurance.** Lenders must ensure that real estate taxes, assessments, and flood and hazard insurance premiums for all property that secures a guaranteed loan are paid on schedule.

(1) **Establish escrow account.** Lenders with the capacity to escrow funds must establish escrow accounts for all guaranteed loans for the payment of taxes and insurance. Escrow accounts must be administered in accordance with the Real Estate Settlement and Procedures Act (RESPA) of 1974, and insured by the FDIC or the NCUA.

(2) **Plan and responsibility of lender to ensure payment.** Lenders that do not have the capacity to escrow funds must implement procedures, subject to Agency approval, to ensure the borrower pays such obligations on a timely basis. In addition, such lenders must accept the responsibility for payment of taxes and insurance that comes due prior to liquidation. Rural Development will not include any taxes or insurance amounts that accrued prior to acceleration in any potential loss claim. Rural Development may revoke the acceptance of the
lender's plan if loan performance indicates that delinquency and loss rates are being affected by the lender's inability to escrow for taxes, assessment, and insurance. This alternative is not available to lenders who contract for servicing.

(c) **Insurance.**

(1) Until the loan is paid in full, lenders must ensure that borrowers maintain hazard and flood insurance as required, on property securing guaranteed loans. The insurance must be issued by companies in amounts, and on terms and conditions, acceptable to Rural Development. Flood insurance through the National Flood Insurance Program must be maintained for all property located in special flood or mudslide areas identified by FEMA and must be consistent with mortgage industry standards, as determined by the Agency.

(2) Lenders must ensure that borrowers immediately notify them of any loss or damage to insured property securing guaranteed loans and collect the amount of the loss from the insurance company. Unless the borrower pays off the guaranteed loan using the insurance proceeds, the following requirements must be met:

(i) All repairs and replacements using the insurance proceeds must be planned, performed, and inspected in accordance with Agency construction requirements and procedures.

(ii) When insurance funds remain after payments for all repairs, replacements, and other authorized disbursements have been made, the funds must be applied in the following order: prior liens (including past-due property taxes); past-due amounts; protective advances; and released to the borrower if the lender's debt is adequately secured.

(3) If the insurance claim is de minimis as determined by the Agency, the lender may release the funds directly to the borrower to advance funds to contractors, provided that the account is current and the borrower has a history of timely payments; the borrower occupies the property; and the borrower executes an affidavit agreeing to apply the funds for repairs or reconstruction of the dwelling.

(d) **Credit reporting.** The lender must notify a credit repository of each new guaranteed loan, must identify the loan as guaranteed by Rural Development,

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and must report to that repository whenever any account becomes more than 30 calendar days past due.

(e) Bankruptcy actions. The lender is responsible for monitoring and taking all appropriate and prudent actions during bankruptcy proceedings to protect the borrower and Government's interest, in accordance with Sec. 3555.306(d).

Sec. 3555.253 Late payment charges.

Late payment charges will not be covered by the guarantee and cannot be added to the principal and interest due under any guaranteed note.

(a) Maximum amount. Any late payment charge must be reasonable and customary for the area.

(b) Loans with interest assistance. The lender must not charge a late fee if the only unpaid portion of the borrower's scheduled payment is interest assistance owed by Rural Development.

Sec. 3555.254 Final payments.

Lenders may release security instruments only after payment for the satisfaction of the full debt, including any recapture, has been received and verified.

Sec. 3555.255 Borrower actions requiring lender approval.

(a) Mineral leases. A lender may consent to the lease of mineral rights and subordinate its lien to the lessee's rights and interests in the mineral activity if the security property will remain suitable as a residence, the lender's security interest will not be adversely affected, and Rural Development's environmental requirements are met. Concurrence by Rural Development prior to consenting to the lease of mineral rights is required, unless otherwise provided by the Agency. Subordination of guaranteed loans to a mineral lease does not entitle the leaseholder to any proceeds from the sale of the security property.

(1) If the proposed activity is likely to decrease the value of the security property, the lender may consent to the lease only if the borrower assigns 100 percent of the income from the lease to the lender to be applied to reduce the principal balance, and the total rent to be paid is
at least equal to the estimated decrease in the market value of the security property.

(2) If the proposed activity is not likely to decrease the value of the security property, the lender may consent to the lease if the borrower agrees to use any damage compensation received from the lessee to repair damage to the site or dwelling, or to assign it to the lender to be applied to reduce the principal balance.

(b) Partial release of security property. A lender may consent to transactions affecting a security property, such as selling or exchanging security property or granting of a right-of-way across the security property, and grant a partial release, provided that the following conditions are met.

(1) The borrower will receive adequate compensation, and either make a reduction to the principal balance or make improvements to the security property, in order to maintain the current loan-to-value ratio for the guaranteed loan.

(i) For sale of security property, the borrower must receive cash in an amount equal to or greater than the value of the security property being sold or interests being conveyed.

(ii) For exchange of security property, the borrower must receive another parcel of property with value equal to or greater than that being disposed of.

(iii) For granting an easement or right-of-way, the borrower must receive benefits that are equal to or greater than the value of the security property being disposed of or interests being conveyed.

(2) An appraisal of the security property will be conducted by the lender if the most current appraisal is more than 1 year old or if it does not reflect current market value.

(3) The security property, after the transaction is completed, will continue to be an adequate, safe, and sanitary dwelling.

(4) Repayment of the guaranteed debt will not be jeopardized.

(5) When exchange of all or part of the security property is involved, title clearance will be obtained before release of the existing security.
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(6) Proceeds from the sale of a portion of the security property, granting an easement or right-of-way, damage compensation, and all similar transactions requiring the lender's consent, will be used in the following order:

(i) To pay customary and reasonable costs related to the transaction that must be paid by the borrower.

(ii) To be applied on a prior lien debt, if any.

(iii) To be applied to the guaranteed indebtedness or used for improvements to the security property consistent with the purposes and limitations applicable for use of guaranteed loan funds. The lender must ensure that the proceeds are used as planned.

(7) The lender will seek Agency concurrence, unless otherwise provided by the Agency, by submitting documentation supporting the borrower's reason for request, the proposed use of the land with supporting plans, specifications, cost estimates, surveys, disclosures of restrictions, legal description modification, title clearance related to the transaction request, as applicable, and any other documents necessary for the Agency to make a determination.

Sec. 3555.256 Transfer and assumptions.

(a) Transfer without assumption.

(1) The lender must notify Rural Development if the borrower transfers the security property and the transferee does not assume the debt.

(2) Except as described in paragraph (d) of this section, if a security property is transferred with the lender's knowledge without assumption of the debt, Rural Development will void the guarantee.

(b) Transfer with assumption.

(1) The lender must obtain Agency approval before consenting to a transfer with an assumption of the outstanding debt.
Rural Development may approve a transfer with an assumption of the outstanding debt if the following conditions are met:

(i) The transferee must assume the entire outstanding debt and acquire all property securing the guaranteed loan balance; however, the transferor must remain personally liable. The transferor must pay any recapture as a result of interest subsidy granted, if applicable, owed at the time of the transfer and assumption.

(ii) The transferee must meet the eligibility requirements described in subpart D of this part.

(iii) The property must meet the site and dwelling requirements described in subpart E of this part, or be brought to those standards prior to the transfer. Guaranteed loans secured by properties located in areas that have ceased to be rural may be assumed notwithstanding the fact that the property is located in a non-rural area.

(iv) The priority of the existing lien securing the guaranteed loan must be maintained or improved.

(v) Any new rates and terms must not exceed the rates and terms allowed for new loans under this part, and the interest rate must not exceed the interest rate on the initial loan.

(vi) A new guarantee fee, calculated based on the remaining principal balance, must be paid to Rural Development in accordance with Sec. 3555.107(g).

(vii) If additional financing is required to complete the transfer and assumption or to make needed repairs, Rural Development may approve a supplemental guaranteed loan provided adequate security exists.

(viii) The lender must verify and document their permanent file in accordance with subpart C of this part.

(ix) A written request supported by the lender demonstrating the applicant's credit worthiness, income eligibility and underwriting analysis must be submitted to the Agency for approval of a transfer and assumption.
The lender may close the loan in accordance with Sec. 3555.107.

(c) **Transfer without approval.** If a lender becomes aware that a borrower has transferred a property without approval, the lender must take one of the following actions:

1. Notify Rural Development and continue the loan without the guarantee; or
2. Obtain Agency approval for the transfer with assumption; or
3. Liquidate the guaranteed loan and submit a claim for any loss.

(d) **Transfer without triggering the due-on-sale clause.**

1. The following types of transfers do not trigger due-on-sale clauses in security instruments:
   
   i. A transfer from the borrower to a spouse or children not resulting from the death of the borrower;
   
   ii. A transfer to a relative, joint tenant, or tenant by the entirety resulting from the death of the borrower;
   
   iii. A transfer to a spouse or ex-spouse resulting from a divorce decree, legal separation agreement, or property settlement agreement;
   
   iv. A transfer to a person other than a deceased borrower's spouse who wishes to assume the loan for the benefit of persons who were dependent on the deceased borrower at the time of death, if the dwelling will be occupied by one or more persons who were dependent on the borrower at the time of death, and there is a reasonable prospect of repayment; or
   
   v. A transfer into an inter vivos trust in which the borrower does not transfer rights of occupancy in the property.
When a transferee obtains a property with a guaranteed loan through a transfer that does not trigger the due-on-sale clause:

(i) The lender will notify Rural Development of the transfer;

(ii) Rural Development will continue with the guarantee, whether or not the transferee assumes the guaranteed loan;

(iii) The transferee may assume the guaranteed loan on the rates and terms contained in the promissory note. If the account is past due at the time an assumption agreement is executed, the loan may be re-amortized to bring the account current.
(iv) The transferee may assume the guaranteed loan under new rates and terms if the transferee applies and is eligible.

Any subsequent transfer of title, except upon the death of the inheritor or between inheritors to consolidate title, will trigger the due-on-sale clause.

Sec. 3555.257 Unauthorized assistance.

(a) Unauthorized assistance due to false information. (1) If the borrower receives a guaranteed loan based on false information provided by the borrower, Rural Development may require the lender to accelerate the guaranteed loan. After the lender accelerates the loan upon request, the lender may submit a claim for any loss. If the lender fails to accelerate the loan upon request, Rural Development may reduce or void the guarantee.

(2) If the borrower receives a guaranteed loan based on false information provided by the lender, Rural Development may void the guarantee subject to the provisions of Sec. 3555.108.

(3) If the borrower or lender provides false information, Rural Development may pursue criminal and civil false claim actions, suspension and/or debarment, and take all other appropriate action.

(b) Unauthorized assistance due to inaccurate information. Rural Development will honor a guarantee for a loan made to an applicant who receives a guaranteed loan based on inaccurate information if the applicant was eligible to receive the guaranteed loan at the time it was made, and if the loan funds were used only for eligible loan purposes.
Sec. Sec. 3555.258-3555.299 [Reserved]

Sec. 3555.300 OMB control number.

The report and recordkeeping requirements contained in this subpart are currently with the Office of Management and Budget under review and awaiting approval.

Subpart G--Servicing Non-Performing Loans

Sec. 3555.301 General servicing techniques.

In accordance with industry standards and as provided by the Agency:

(a) **Prompt action.** Lenders shall take prompt action to collect overdue amounts from borrowers to bring a delinquent loan current in as short a time as possible to avoid foreclosure to the extent possible and minimize losses.

(b) **Evaluation of borrower.** Lenders must evaluate loans and take appropriate loss mitigation actions in an effort to resolve any repayment problems and provide borrowers with the maximum opportunity to become successful homeowners.

(c) **Prompt contact.** In the event of default, the lender shall promptly contact the borrower within a timeframe specified by the Agency.

(d) **Determine ability to cure.** The lender must make a reasonable effort to obtain from the borrower information regarding the reason for default, the borrower's current financial situation and any other necessary information to evaluate the borrower's ability to cure the default and determine a feasible plan for collection, and/or alternatives to foreclosure.

(e) **Communication.** Before an account becomes 60 days past due and if there is no payment arrangement in place, the lender must send a certified letter to the borrower requesting an interview for the purpose of resolving the past due account.

(f) **Prior to liquidation.** Before an account becomes 60 days past due or before initiating liquidation, the lender must assess the physical condition of the...
property, determine whether it is occupied, and take necessary steps to protect the property.

(g) **Maintain documentation.** The lender must maintain documentation demonstrating that requirements in this subpart have been met and what steps have been taken to save a mortgage prior to making a decision to foreclose.

(h) **Formal servicing plan.** The lender must report a formal servicing plan to the Agency utilizing a web-based automated system when a borrower’s account is delinquent for 90 days or more and a method other than foreclosure is recommended to solve the delinquency.

Sec. 3555.302 **Protective advances.**

Lenders may pay the following pre-liquidation expenses necessary to protect the security property and charge the cost against the borrower’s account.

(a) **Advances for taxes and insurance.** Without prior Agency concurrence, lenders may advance funds to pay past due real estate taxes, hazard and flood insurance premiums, and other related costs.

(b) **Advances for costs other than taxes and insurance.** Protective advances for costs other than taxes and insurance, such as emergency repairs, can be made only if the borrower cannot, or will not, obtain an additional loan or reimbursement from an insurer or the borrower has abandoned the property. The lender must determine that any repairs funded by protective advances are cost effective. Repairs funded by protective advances must be planned, performed and inspected in accordance with Sec. 3555.202 and as further described by the Agency. The lender must obtain prior Agency concurrence before issuing protective advances under this paragraph of a significant amount as specified by the Agency.

Sec. 3555.303 **Traditional servicing options.**

(a) **Eligibility.** To be eligible for traditional servicing, all the following conditions must be met:
(1) The borrower presently occupies the property;

(2) The borrower is in default or facing imminent default for an involuntary reason. A borrower is "facing imminent default" if that borrower is current or less than 30 days past due on the mortgage obligation and is experiencing a significant reduction in income or some other hardship that will prevent him or her from making the next required payment on the mortgage during the month in which it is due. The borrower must be able to document the cause of the imminent default, which may include, but is not limited to, one or more of the following types of hardship:

(i) A reduction in or loss of income that was supporting the mortgage loan;

(ii) A change in household financial circumstances;

(3) The borrower demonstrates a reasonable ability to support repayment of the debt in the future;

(4) There are no adverse property conditions that inhibit the inhabitability or use of the property; and

(5) The borrower has not received assistance due to the submission of false information by the borrower.

(b) Servicing options. The lender must consider traditional servicing options in the following order to resolve the borrower's default or imminent default:

(1) Repayment agreement. A repayment agreement is an informal plan lasting 3 months or less to cure short-term delinquencies.

(2) Special forbearance agreement. A special forbearance agreement is a longer-term formal plan to cure a delinquency not to exceed the equivalent of 12 months of PITI. The agreement may gradually increase monthly payments in an amount sufficient to repay the arrearage over a reasonable amount of time and/or temporarily reduce or suspend payments for a short period. If the borrower is at least 3
months delinquent, the special forbearance agreement may resume normal payments for several months followed by a loan modification.

(3) **Loan modification plan.** A loan modification is a permanent change in one or more of the terms of a loan that results in a payment the borrower can afford and allows the loan to be brought current. A loan modification must be a written agreement.

(i) Loan modifications must be a fixed interest rate and cannot exceed the market interest rate at the time of modification.

(ii) Loan modifications may capitalize all or a portion of the arrearage and/or reamortization of the balance due including foreclosure fees and costs, tax and insurance advances, and past due Agency annual fees imposed by the lender. Late charges and lender fees may not be capitalized.

(iii) If necessary to demonstrate repayment ability, the loan term after reamortization may be extended for up to 30 years from the date of the loan modification.

(iv) The lender's lien priority cannot be adversely affected by providing a loan modification.

(v) Lenders may require that borrowers complete a trial payment plan prior to making scheduled payments amended by the traditional loan servicing loan modification.

(c) **Terms of loan note guarantee.** Use of traditional servicing options does not change the terms of the loan note guarantee except when the traditional servicing option meets the requirements of Sec. 3555.303(b)(3)(iii). The loan guarantee will apply to loan terms extending beyond the 30 year loan term from the date of origination when a loan modification meets the criteria set forth in Sec. 3555.303(b)(3)(iii).

Sec. 3555.304 **Special servicing options.**

(a) **General.**

(1) Lenders must exhaust traditional servicing options outlined in this part or have determined that use of traditional servicing options would not resolve the delinquency, prior to special servicing options.
7 CFR Part 3555

Lenders must exhaust special servicing options prior to liquidation in accordance with Sec. Sec. 3555.305 or 3555.306.

(2) Use of special loan servicing does not change the terms of the loan note guarantee.

(3) Special servicing options shall be used in the order established in this section to bring the borrower's mortgage payment to income ratio as close as possible to, but not less than, 31 percent.

(4) If the borrower currently has a mortgage payment to income ratio of 31 percent or less, special servicing options can be utilized to cure the delinquency without modifying the note; otherwise, special servicing options shall be used in the order established in this section to bring the borrower’s mortgage payment to income ratio as close as possible to, but not less than, 31 percent.

(b) Conditions for special servicing options. In addition to the requirements in Sec. 3555.303(a), the following conditions apply to all special loan servicing:

(1) The borrower's total debt to income ratio following the special loan servicing must not exceed 55 percent. Prior to servicing a borrower's account with special loan servicing, the lender must verify the borrower's income and total debt.

(2) The borrower must successfully complete a trial payment plan of sufficient duration, as determined by the Agency, to demonstrate that the borrower will be able to make regularly scheduled payments as modified by the special loan servicing.

(3) Expenses related to special loan servicing including, but not limited to, title search and recording fees shall not be charged to the borrower. However, if a foreclosure was initiated and canceled prior to special loan servicing, legal fees and costs for work performed in relation to the foreclosure costs before the cancellation date may be charged to the borrower.

(4) Capitalization of late charges and lender fees is not permitted in the special loan servicing option.

(c) Extended-term loan modification. The Lender may modify the loan by reducing the interest rate to a level at or below the maximum allowable interest rate and extending the repayment term up to a maximum of 40 years from the date of loan modification. The loan guarantee will apply to loan terms extending
beyond the 30 year loan term from the date of origination when a loan modification meets the criteria set forth in this section.

(1) Loan modifications may capitalize all or a portion of the arrearage and/or reamortization of the balance due including foreclosure fees and costs, tax and insurance advances, and past due Agency annual fees imposed by the lender. Late charges and lender fees may not be capitalized.

(2) Loan modifications must be a fixed interest rate and cannot exceed the current market interest rate at the time of modification. When reducing the interest rate, the maximum rate is subject to paragraph (c)(3) of this section.

(3) The term shall be extended only as long as is necessary to achieve the targeted mortgage payment to income ratio after the interest rate has been fixed at a level at or below the maximum allowable rate.

(4) If the targeted mortgage payment to income ratio cannot be achieved using an extended-term loan modification alone, the lender may consider a mortgage recovery advance under this section in addition to the extended-term loan modification.

(d) Mortgage recovery advance.

(1) The maximum amount of a mortgage recovery advance is 30 percent of the unpaid principal balance as of the date of the initial default. The Agency may change the maximum amount of mortgage recovery advance by publication in the Federal Register.

(2) If the borrower’s total monthly mortgage payment is less than 31 percent of gross monthly income prior to an extended term loan modification, the mortgage recovery advance can be used to cure the borrower’s delinquency without changing the terms of the promissory note.
(3) The principal deferment amount for a specific case shall be limited to the amount that will bring the borrower's total monthly mortgage payment to 31 percent of gross monthly income.

(4) The lender may file a claim pursuant to Subpart H of this part for reimbursement of reasonable title search and/or recording fees in connection with the promissory note and mortgage or deed-of-trust, not to exceed a maximum amount specified by the Agency.

(5) Prior to making a mortgage recovery advance, the lender must perform an escrow analysis to ensure that the payment made on behalf of the borrower accurately reflects the escrow amount required for taxes and insurance.

(6) The following terms apply to the repayment of mortgage recovery advances:

(i) The mortgage recovery advance note and subordinate mortgage or deed-of-trust shall be interest-free.

(ii) Borrowers are not required to make any monthly or periodic payments on the mortgage recovery advance note; however, borrowers may voluntarily submit partial payments without incurring any prepayment penalty.

(iii) The due date for the mortgage recovery advance note shall be the due date of the guaranteed note held by the lender, as modified by the special loan servicing. Prior to the due date on the mortgage recovery advance note, payment in full under the note is due at the earlier of the following:

(A) When the first lien mortgage and the guaranteed note are paid off; or

(B) When the borrower transfers title to the property by voluntary or involuntary means.

(iv) Repayment of all or part of the mortgage recovery advance must be remitted directly to the Agency by the borrower.
The Agency will collect this Federal debt from the borrower by any available means if the mortgage recovery advance is not repaid based on the terms outlined in the promissory note and mortgage or deed-of-trust.

The lender may request reimbursement from the Agency for a mortgage recovery advance. A fully supported and documented claim for reimbursement must be submitted to the Agency within 60 days of the advance being executed by the borrower. The borrower must execute a promissory note payable to the Agency and a mortgage or deed-of-trust in recordable form perfecting a lien naming the Agency as the secured party for the amount of the mortgage recovery advance. The lender shall properly record the mortgage or deed-of-trust in the appropriate local real estate records and provide the original promissory note to the Agency.

A loss claim filed by a lender will be adjusted by any amount of mortgage recovery advance reimbursed to the lender by the Agency.

Sec. 3555.305 Voluntary liquidation.

The lender must have exhausted the servicing options outlined in Sec. 3555.302 through 3555.304 to cure the delinquency before considering voluntary liquidation. The methods of voluntary liquidation of the security property outlined in this section may be used to protect the interests of the Government.

(a) **Eligibility.** To be eligible for voluntary liquidation, the following conditions must be met:

1. The loan is at least 30 days delinquent or meets the imminent default definition as outlined in Sec. 3555.303(a)(2);
2. The default was caused by an involuntary reason; and
3. The borrower must presently occupy the property except in situations where the borrower does not occupy the property due to the same involuntary reason that led to the default.

(b) **Pre-foreclosure or short sale.** The borrower may sell the security property for a price that represents its fair market value. The sale price, less any reasonable and customary sale or closing costs incurred by the borrower, must be applied to the borrower's account.
(c) **Deed in lieu of foreclosure.** The lender may accept a deed in lieu of foreclosure if it will result in a lesser loss claim than if foreclosure occurs.

(d) **Offer by junior lienholder.** If a junior lienholder makes an offer in the amount of at least the anticipated net recovery value, as calculated in accordance with Sec. 3555.353, the lender may assign the note and mortgage to the junior lienholder.

(e) **Other methods of voluntary liquidation.** The lender may propose other methods of voluntary liquidation that are consistent with this section if the lender fully documents how the proposal will result in a savings to the Government.
Sec. 3555.306 Liquidation.

(a) General.

(1) When a lender determines that a borrower is unable or unwilling to meet loan obligations with servicing options under this subpart, the lender must accelerate the guaranteed loan and, if necessary, foreclose.

(2) Prior to acceleration the lender must have advised the borrower, in writing, of available foreclosure avoidance options and the borrower must have failed to request such options.

(3) The lender must accelerate the guaranteed loan, with a demand letter, when the account is three scheduled payments past due unless there is a reasonable prospect of resolving the delinquency through another method.

(4) The borrower is responsible for all expenses associated with liquidation and acquisition.

(b) Foreclosure.

(1) The lender must initiate foreclosure within 90 calendar days of the decision to liquidate unless Federal, State, or local law requires that foreclosure action be delayed. When there is a legal delay (such as bankruptcy), foreclosure must be initiated within 90 calendar days after it becomes possible to do so. Foreclosure initiation begins with the first public action required by law such as filing a complaint or petition, recording a notice of default, or publication of a notice of sale.

(2) Lenders must exercise due diligence in completing the liquidation process to ensure the foreclosure is cost effective, expeditious, and completed in an efficient manner, as otherwise provided by the Agency. The lender must choose the foreclosure method representing the best interest of the Federal Government.

(3) The lender's decision to bid at foreclosure and any bid amount will be based upon the property value, whether the property value is sufficient to cover the existing debt and incurred costs, and any potential to recover a deficiency. The lender will encourage third party bidding at a foreclosure sale when the total debt, including the

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cost of acquiring, managing and disposing of the property, if acquired, is greater than the gross proceeds expected from a foreclosure sale at market value.

(c) **Reinstatement of accounts.** Unless State law imposes other requirements, the lender may reinstate an accelerated account if the borrower pays, or makes acceptable arrangements to pay, all past-due amounts, any protective advances, and any foreclosure-related costs incurred by the lender.

(d) **Bankruptcy.**

(1) When a borrower files a petition in bankruptcy, the lender must suspend collection and foreclosure actions in accordance with Title 11 of the United States Code.

(2) The lender may accept conveyance of security property by the trustee in the bankruptcy, or the borrower, if the bankruptcy court has approved the transaction, and the lender will acquire title free of all liens and encumbrances except the lender's liens.

(3) Whenever possible after the borrower has filed for protection under Chapter 7 of Title 11 of the United States Code, a reaffirmation agreement will be signed by the borrower and approved by the bankruptcy court prior to discharge, if the lender and the borrower decide to continue with the loan.

(4) The lender must protect the guaranteed loan debt and all collateral securing the loan in bankruptcy proceedings.

(5) The lender can include principal and interest lost as a result of bankruptcy proceedings in any claim filed in accordance with Sec. 3555.354.

(e) **Maintain condition of security property.** The lender must make reasonable and prudent efforts to ensure that the condition of the security property is maintained during any liquidation, acquisition, and sale of the property. These efforts include, but are not limited to, periodic inspections, performing necessary repairs, winterization, securing the property, removing debris, yard maintenance and ensuring the continuance of property insurance. The lender must identify, determine the cause, and document any environmental hazard.
affecting the value of the security property. The lender must retain a record of all efforts to maintain the condition of the security property.

(f) Lender acquisition of title. If at liquidation, the title to the property is conveyed to the lender, the lender will submit a loss claim package, including a market value appraisal, within 60 days of the foreclosure sale date or the date the lender acquires title. If eviction action is required in order to obtain a market value appraisal, the lender must submit the loss claim package, including the market value appraisal, within 60 days of the date the occupants clear the premises. The lender must submit the loss claim request, including the market value appraisal, in accordance with subpart H.

(g) Debt settlement reporting. The lender must report to the IRS and all national credit reporting repositories any debt settled through liquidation.
Sec. 3555.307  Assistance in natural disasters.

(a)  **Policy.** Servicers must utilize general procedures available under this subpart for servicing borrowers affected by natural disasters, as supplemented by Rural Development, to minimize delinquencies and avoid foreclosure.

(b)  **Evaluating the damage.** Servicers are expected to inspect a security property whenever they have reason to believe the property has been damaged.

(c)  **Special relief measures.** The servicer must evaluate on an individual case-by-case basis a mortgage that is (or becomes) seriously delinquent as the result of the borrower’s incurring extraordinary damages or expenses related to the natural disaster. The servicer should document its individual mortgage file regarding all servicing actions taken during this time period. The lender must consider all special relief alternatives for disaster assistance available to the borrower prior to suspending collection and foreclosure activities. The suspension of servicing actions will expire 90 days from the declaration date of the natural disaster, unless otherwise extended by the Agency.

(d)  **Insurance claim settlements.** Prior to release of hazard insurance proceeds because of damage caused by a natural disaster, servicers must complete a cost and benefit analysis on a case-by-case basis to determine if the property can be repaired or rebuilt. The servicer's actions must be based on the status of the mortgage, the amount of insurance proceeds, and the length of time required repairing or reconstructing the property, and the market conditions in the area. If the property will not be repaired or rebuilt, the insurance proceeds must be applied to the unpaid principal loan balance.

Sec. Sec. 3555.308-3555.349 [Reserved]

Sec. 3555.350  **OMB control number.**

The report and recordkeeping requirements contained in this subpart are currently with the Office of Management and Budget under review and awaiting approval.

Subpart H--Collecting on the Guarantee
Sec. 3555.351 Loan guarantee limits.

(a) **Original loan amount.** For the purposes of this section, the term "Original Loan Amount" means the original promissory note amount minus any loan funds not actually disbursed to the borrower or on behalf of the borrower at the time the SFHGLP loan was made or thereafter.

(b) **Maximum loss payment.** The maximum payment for a loss sustained by the lender under the SFHGLP is the lesser of:

1. 90 percent of the Original Loan Amount; or
2. 100 percent of any loss equal to or less than 35 percent of the Original Loan Amount plus 85 percent of any remaining loss up to 65 percent of the Original Loan Amount.

Sec. 3555.352 Loss covered by the guarantee.

Subject to Sec. 3555.351, the loss claim payment will be calculated as the difference between the Total Indebtedness on the loan and the Net Recovery Value calculated according to Sec. 3555.353. The Total Indebtedness on the loan includes:

(a) **Principal balance.** The unpaid principal balance;

(b) **Accrued interest.** Accrued interest at the guaranteed loan note rate from the last day interest was paid by the borrower to the settlement date, as defined at Sec. 3555.10;

(c) **Additional interest.** Additional interest on the unsatisfied principal accrued from the settlement date to the date the claim is paid, but not more than 60 days from the settlement date;

(d) **Protective advances.** Principal and interest for protective advances, as described in Sec. 3555.303; and

(e) **Liquidation costs.** Reasonable and customary liquidation costs, such as attorney fees, market value appraisals, and foreclosure costs. Annual fees advanced by the lender to the Agency are ineligible for reimbursement when calculating the loss payment.

Sec. 3555.353 Net recovery value.

The net recovery value of the property is determined differently for properties that have been sold than for properties that remain in inventory at the time the loss claim is filed.
(a) For a property that has been sold. When a loss claim is filed on a property that was sold to a third party at the foreclosure sale or through an approved pre-foreclosure sale, net recovery value is calculated as follows:

1. The proceeds from the sale plus any other amounts recovered, minus
2. The amount of actual liquidation and disposition costs provided those costs are reasonable and customary for the area. Costs incurred by in-house staff may not be included.

(b) For a property that has been acquired. When a loss claim is filed on a property acquired by the lender through a foreclosure sale or a deed-in-lieu of foreclosure, the net recovery value is based on an estimated sales price calculated using a market value appraisal along with holding and disposition costs calculated using the acquisition and management factor (also known as the VA Net Value Factor) published by the VA, and other factors as determined by the Agency. The lender must submit a loss claim package, including a market value appraisal, within 60 days of the foreclosure sale date or the date the lender acquires title. If eviction action is required in order to obtain a market value appraisal, the lender must submit the loss claim package, including the market value appraisal, within 60 days of the date the occupants clear the premises and in accordance with subpart H.
Sec. 3555.354 Loss claim procedures.

All lenders must use a web-based automated system designated by the Agency to submit all loss claim requests.

(a) Sold property. For property that has been sold, the lender must submit a loss claim within 45 calendar days of the sale. Late claims made beyond this period of time may be rejected or reduced by Rural Development. Instructions and forms may be obtained from Rural Development.

(b) REO. If at liquidation, the title to the property is conveyed to the lender, the lender will submit a loss claim package, including a market value appraisal, within 60 days of the foreclosure sale date or the date the lender acquires title. If eviction action is required in order to obtain a market value appraisal, the lender must submit the loss claim package within 60 days of the date the occupants clear the premises. The lender must order a market value appraisal and include the market value appraisal with the loss claim package. The Agency will use the market value appraisal, along with other Agency required documentation, to determine the property value for the basis of the loss claim. The Agency will apply an acquisition and management resale factor to estimate holding and disposition costs, based on the most current VA Management and Acquisition Factor found at https://www.benefits.va.gov/HOMELOANS/servicers_valeri.asp.

(c) Deficiency judgments. The lender must enforce any judgment for which there are current prospects of collection before submitting a loss claim, and amounts collected must be applied against the outstanding debt. Rural Development will process the loss claim if there are no current prospects for collection.

Sec. 3555.355 Reducing or denying the claim.

(a) Determination of loss payment. Subject to the requirements of Sec. 3555.108, if Rural Development determines that the amount of the loss was increased due to the lender's failure to comply with the conditions of the Loan Note Guarantee, the Agency may reduce or deny any loss claim by the portion of the loss determined was caused by the lender's action or failure to act. The circumstances under which loss claims may be denied or reduced include, but are not limited to, the following lender actions:
(1) Failure to adhere to required servicing and liquidation procedures as set forth in Agency regulations and guidance, including the payment of real estate taxes or hazard insurance when due;

(2) Failure to report defaulted loans to Rural Development within required timeframes;

(3) Failure to ensure that the security property is adequately maintained during liquidation;

(4) Delay in filing a loss claim;

(5) Claiming unauthorized expenses;

(6) Providing unauthorized assistance;

(7) Failure to obtain the required security or maintain the security position;

(8) Violating usury laws;

(9) Negligence, gross negligence or misrepresentation; or

(10) Committing fraud, or failing to report knowledge of fraud or false information.

(b) Disputes. If the lender disputes the loss claim amount determined by Rural Development, Rural Development will pay the undisputed portion of the loss claim, and the lender may appeal the decision in accordance with Sec. 3555.4.

Sec. Sec. 3555.356-3555.399 [Reserved]
Sec. 3555.400 OMB control number.

The report and recordkeeping requirements contained in this subpart are currently with the Office of Management and Budget under review and awaiting approval.
## List of Forms and Instructions

The following are forms noted within the handbook. Forms are separated by action. Some forms are Agency only specific and require only Agency action (as noted in the “Agency Use Only” column). Some forms are optional and should be used at the discretion of the lender (as noted in the “Optional Use by Lender” column).

All forms are in-fillable format and can be accessed from the Rural Development Instructions website at: [https://forms.sc.egov.usda.gov/eForms/](https://forms.sc.egov.usda.gov/eForms/), unless otherwise noted with a link to the form. Select “Browse Forms” from the home page and then enter the form number in the applicable field.

### Lender Participation

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**Commitment**

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**Loan Closing**

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<td>RD Instruction 1940-M</td>
<td>Government wide Debarment and Suspension (nonprocurement) and Requirements for Drug-Free Work Place</td>
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REVIEW AND APPEALS

A. Review and Appeal Options

Adverse Agency decisions against a program participant (lender, applicant or borrower) may be reviewed or appealed by the National Appeals Division (NAD). Adverse decisions include: administrative actions taken by Agency staff and the Agency’s failure to take required actions within time frames specified in statutes or regulations or within a reasonable time if no deadline is specified. 7 CFR Part 11 provides procedures that both Agency officials and program participants must follow during the review or appeal process. Applicable portions of 7 CFR Part 11 to Office of the Single-Family Housing Guaranteed Loan Program (SFHGLP) can be found later in this appendix. Handbook letters 1 through 7 are provided to inform program participants of their rights.

Adverse decisions are subject to the following review and appeal procedures:

- **Informal Administrative Review by Agency Decision-Maker.** Program participants (participants) have the right to request that any adverse decision be reviewed by the Agency staff member who made the adverse decision.

- **Appeal Request to NAD.** Qualifying adverse decisions may be appealed to NAD.

- **Mediation as a Form of Alternative Dispute Resolution (ADR).** Adverse decisions which are appealable to NAD require the participant be given the opportunity to seek ADR prior to a hearing with NAD.

B. Informing Program Participants of Their Rights

Agency decisions that adversely affect a participant require written notification that an informal administrative review with the person who made the decision may be requested. Letters notifying participants of adverse decisions must contain the information needed for the participant to make decisions regarding involvement in the review and appeals process. Specific civil rights language also must be included in these letters. Handbook Letters 1 through 7 following this appendix are available for guidance and are titled to assist in selecting the correct language for the decision made. Notification of adverse decisions by the Agency will include notification to the lender and the applicant/borrower when declining a request for loan commitment. Adverse decisions regarding loss payments will be directed to the servicer.
If the decision is appealable, the participant will be informed of their opportunity to seek mediation and/or to request a hearing with NAD using Handbook Letter 1. If the decision is not appealable, the participant will be informed of their rights to have NAD review the accuracy of the Agency’s finding that the decision cannot be appealed using Handbook Letter 2. When a participant is denied assistance for both appealable and non-appealable decisions, the Agency will send both Handbook Letters 1 and 2.

The lender will be responsible for notifying the applicant or borrower if the lender declines an applicant or borrower’s request. Denial of loan request or servicing actions by the lender are not subject to review or appeal rights.

C. Adverse Decisions That Cannot Be Appealed

Certain decisions made by the Agency are not appealable and participants can request an informal administrative review. The participant will be informed through Handbook Letter 2 that they may request an informal administrative review for a review of the accuracy of the Agency’s determination that the case cannot be appealed. Decisions that cannot be appealed can include:

- Decisions made by parties not employed by the Agency;
- Refusal to request an administrative waiver;
- Decisions made in accordance with statute (such as rural area designations); and
- Denial of loan commitment due to lack of program funds.

D. Informal Administrative Review

The purpose of the informal administrative review is to reiterate the Agency’s reasons for the adverse decision, provide a forum for the participant response, and obtain any additional information to support the participant request.

- The written request for an informal administrative review must be provided to NAD within 15 days of the date of the Agency’s letter notifying the participant of the adverse decision.
- The informal administrative review can be conducted by telephone, webinar, or a face-to-face meeting with the decision maker or their representative. The Agency will determine the meeting format.
- The review of the decision must be completed within 45 days of the request. The Director, Origination and Processing Division (Director OPD) may require that
the decision be reviewed by the next-level supervisor or other designated Rural Development staff before the participant is notified of the decision.

- Handbook Letter 3 of this appendix is used if the adverse decision is not reversed as a result of the informal administrative review. If the decision is reversed, a letter will be sent to the participant notifying them of the decision and next steps.

- All documentation will be retained in the participant official case folder.

The participant may skip an informal administrative review and, if applicable, request mediation and/or an appeal. In doing so, the participant automatically waives their rights to an informal administrative review.

E. Mediation

Adverse decisions which are appealable to NAD also require that the participant have the opportunity to seek mediation prior to having a hearing with NAD. The purpose of mediation is to resolve disputes using a neutral mediator. A mediator’s role is to summarize each party’s perception of the issues and offer procedural suggestions on a resolution which may lead to a mutual resolution of the adverse decision. The Agency will not use the services of an arbitrator. An arbitrator resolves disputes through hearing both parties and renders a binding decision. Participants may skip mediation and request an appeal to NAD.

Requests for Mediation

After receiving Handbook Letters 1 or 3 of this appendix, a participant may request mediation services. Upon receipt of the participant’s request for mediation, Handbook Letter 4 of this appendix is sent to the participant to begin the process.
Cost of Mediation

Costs associated with mediation should be shared equally between the Agency and the participant. The selection of a mediator will be based on the most economically viable alternative to both the Agency and participant. If Agency administrative funds are exhausted, the Agency will notify the participant that mediation can proceed but the cost of mediation will be absorbed fully by the participant. The Agency should ensure that all participants requesting mediation are treated consistently and pay the same percentage of the cost toward this service. The Agency may also consent to pay a larger percentage (up to 100 percent) of the cost of mediation for participants with incomes below the poverty level. The Agency will notify the mediation source of how the cost of such service will be paid. Handbook Letters 4 and 5 of this appendix include language to meet this requirement.

Mediation in States with a USDA-funded mediation program

Many States have a mediation program that is supported by grants provided by USDA and a list of mediation providers is available at https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/FactSheets/2018/agricultural_mediation_program_jan2018.pdf. In States with a USDA’s funded mediation program, participants who are provided appeal rights can be referred to the USDA-funded mediation program.

Mediation in States with a Community-Based Mediation Center (CBMC)

A CBMC is a nonprofit, public entity operating under the guidance of a governing board. CBMCs provide an alternative to the judicial system using trained mediators and are an option when a USDA-funded State mediation program is unavailable. The State ADR Coordinator should establish a source list of CBMCs and include the director, contact information, and cost.

Mediation in States without a USDA-funded mediation program

In States without a USDA-funded mediation program or access to a CBMC, the State ADR coordinator is responsible for maintaining a list of mediation service providers. The list will contain the approximate cost of each service provider, if known. The Agency may handle the list of mediation sources as follows:

- The mediator list will be maintained alphabetically, and sources selected in sequential order to ensure that mediation providers receive an evenly balanced number of referrals. In the case where mediators have a wide range of costs, an emphasis will be placed on the lowest cost provider.
• The Agency may provide the list of mediators to the participant and request the participant to select the source or provide the name of another acceptable source of mediation services using Handbook Letter 4.

• The participant must provide the name of a mediation provider within 10 days or the request will be withdrawn. Handbook Letter 7 will be used to notify the participant the withdrawal of the mediation request.

• Handbook letter 5 will be used to refer the case to the mediator.

• Withdrawal or cancellation of mediation does not extinguish the participant’s right to an appeal with NAD.

**Timing of mediation**

• Mediation must be completed within 45 days after the case is referred to the mediation source unless the complexity of the case warrants a longer time frame and all parties agree to an extended time line.

• The mediator will conduct a teleconference between the parties prior to accepting a case to determine the potential success of mediation. The Agency will not refuse to participate in mediation if requested to do so by the participant.

• Mediation occurs prior to having a hearing with NAD and stops the clock on the 30-day period during which a participant may request and appeal to NAD.

• Following mediation, any days remaining from the 30-day period are available to the participant to request an appeal to NAD. Handbook Letter 7 of this appendix is used for this purpose. Hearing dates for participants who request mediation after filing an appeal must be selected within 45 days of the conclusion of mediation.

**Mediation on cases involving NFAOC**

Mediation on decisions made by NFAOC will be coordinated through with the OPD and the State Office ADR coordinator. When a participant receives Handbook Letters 1 or 3 of this appendix as a result of an adverse decision made by NFAOC, the participant is referred to the Director OPD to initiate mediation. Upon receipt of a participant’s request, the Agency will send Handbook Letters 4, 5 or 7 of this appendix, as applicable. A copy will be provided to the Single Family Housing Appeals Coordinator in NFAOC. When Handbook Letter 5 is sent to the service provider, the Agency contact will be
NFAOC. While the OPD coordinates this service, NFAOC is responsible for participating in the actual mediation.

**Appeals**

- Participants who wish to appeal an adverse decision must submit a written request to NAD within 30 days of receiving notice of an adverse decision. The request must be signed by the participant and include a copy of the adverse decision and a brief statement describing why the participant believes the decision is wrong.

- The Agency will promptly provide NAD with a copy of the Agency record, specific references in 7 CFR Part 3555 to support the decision, and any other pertinent information. A copy will also be provided to the participant.

- The participant may choose a face-to-face hearing in the participant’s state of residence, teleconference, or webinar. The Agency will provide a field office based employee to attend the hearing and represent the Agency. In the case of a loan servicing appeal, the Director OPD and the NFAOC Single Family Housing Appeals Coordinator will work cooperatively to support to the field office representative to adequately represent the Agency in the case.

- NAD will notify the participant and Agency of the final determination.

- If NAD reverses the Agency’s decision, the next processing action that would have occurred had no adverse decision been made must be taken within 30 days after the effective date of the notice from NAD; unless the Agency requests a review of the case by the Director of NAD.

- All documentation will be entered into the participant official case folder.

- See 7 CFR Part 11 of this appendix for more guidance on Director Reviews and other information regarding appeals.
Review and Appeals Process

Adverse Decision
Any or all these review and appeal procedures may be pursued by the applicant.

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Appendix 3

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The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant’s income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.
HANDBOOK LETTER 1
NOTIFYING CUSTOMERS OF
AN ADVERSE DECISION THAT IS APPEALABLE

The decision described in the attached letter did not grant you the assistance you requested or will terminate or reduce the assistance you are currently receiving. If you believe this decision or the facts used in this case are in error, you may pursue any or all of the following three options.

Option 1 – Request an Informal Administrative Review
If you have questions concerning this decision or the facts used in making it and desire further explanation, you may write this office to request an informal administrative review. There is no cost for an informal administrative review. This written request must be received no later than 15 calendar days from the date of the attached letter. You must present any new information, evidence, and possible alternatives along with your request. You may also have a representative or legal counsel participate in the process, at your cost. The informal administrative review may be conducted by telephone, webinar, or in person, at the discretion of the Agency. Please include a daytime phone number in your request to arrange for the review. You may skip this step in the informal administrative review process and select one of the following two options. If you do, you will automatically waive your right to an informal administrative review.

Option 2 – Request Mediation
You have the right to request mediation. In most cases, the mediator is not a federal government employee. A mediator will listen to all parties involved in the dispute and work with all parties to achieve a mutually agreeable resolution. Many cases that go to mediation are resolved without further action, extended delays, or the cost of formal litigation. You have 30 days to request mediation, 10 days to select a mediator, and then 45 days to complete mediation. If you need more information on the mediation process to assist you in deciding whether to use this option, contact the Director, Origination and Processing Division (OPD) listed below.

[Director Origination and Processing Division]

There may be a cost for mediation, if so, Rural Development will pay 50 percent of the reasonable cost for mediation. When there is a cost, it is your responsibility to pay the other 50 percent. Every effort, however, is made to keep any cost to a minimum, and in some cases, the mediator may waive the customer’s 50 percent share.
If you elect to seek mediation, your written request for this service must be sent to the Director, Origination and Processing Division and must be postmarked no later than 30 days from the date of the attached letter. Once you request mediation, the 30-day period to request an appeal hearing (described in Option 3) is postponed but does not waive your right to an appeal.

Once you have requested mediation, the Director of Origination and Processing Division will advise you of the mediation service provider, the estimated cost of mediation, the amount the Agency will contribute, and the process and procedures for this service. There are three alternatives for mediation providers:

1. USDA-funded state mediation program
2. Community Based Mediation Centers, or
3. Other mediation providers you recommend, subject to Agency’s approval.

Once a mediation service provider has been identified, you will have 10 days to contact the mediator and you will be advised directly by the mediation source if they can mediate your case. You will have 45 days to complete mediation. If mediation does not result in resolution of these issues, you have the right to continue with a request for an appeal hearing as set forth in Option 3.

Mediation does not take the place of or limit your right to an appeal to the National Appeals Division (NAD); however, a NAD appeal hearing would take place only after mediation. You may skip mediation and request an appeal hearing. However, in doing so, you will automatically waive your right to an informal meeting. Once the appeal hearing begins, you also waive your right to mediation.

**Option 3 - Request an Appeal**

You may request an appeal hearing by the NAD rather than an informal administrative review or mediation. *There is no cost for an appeal hearing.* Your request for an appeal must be made no later than 30 days from the date you receive the attached letter. To request an appeal hearing, you must write the NAD Assistant Director for your region at the following address:

[NAD Assistant Director Address]

Your request must state the reasons why you believe the decision is wrong, be personally signed by you, and must include a copy of the attached letter. A copy of your request must also be sent to the Director, Origination and Processing Division at:

[Director, Origination and Processing Division Address]
You may alternatively select to file your appeal electronically through the NAD website. You can set up a NAD efile account and then follow the prompts to request an appeal electronically. Your request for an appeal must be made no later than 30 days from the date you received the attached letter. To file an appeal online go to the following internet address:

http://www.nad.usda.gov/app_appeal.html

You, or your representative or counsel, may contact the OPD anytime during regular office hours to request copies of the Agency’s record relevant to this adverse decision. Electronic images or photocopies will be provided to you. Your representative or counsel must have your written authorization to represent you and review your file. The NAD Hearing Officer will contact you regarding a time and place for the hearing.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant’s income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U.S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.
HANDBOOK LETTER 2
NOTIFYING CUSTOMERS OF
AN ADVERSE DECISION THAT CANNOT BE APPEALED

The decision described in the attached letter did not grant you the assistance you requested or will terminate or reduce the assistance you are currently receiving.

If you have questions concerning this decision or the facts used in making it and desire further explanation, you may write this office to request an informal administrative review. This written request must be received no later than 15 calendar days from the date of the attached letter. You must present any new information, evidence, and possible alternatives along with your request. You may also have a representative or legal counsel participate in the process, at your cost. The informal administrative review may be conducted by telephone or in person, at the discretion of the Agency. Please include a daytime phone number in your request to arrange for the review.

Program participant generally have a right to appeal adverse decisions, but decisions based on certain reasons cannot be appealed. We have determined that reasons for the decision cannot be appealed under our regulations. You may, however, write the Assistant Director, National Appeals Division (NAD) for a review of the accuracy of our finding that the decision cannot be appealed. Your request must be made no later than 30 days from the date you receive the attached letter.

[NAD Assistant Director Address]

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HANDBOOK LETTER 3
NOTIFYING CUSTOMERS
OF UNFAVORABLE DECISION REACHED AS A RESULT
OF AN INFORMAL ADMINISTRATIVE REVIEW

We appreciated the opportunity to review the facts relative to your request for assistance. We regret that the decision in the attached letter did not grant the assistance you requested or will terminate or reduce the assistance you are currently receiving. If you believe that facts used in this case are in error, you may pursue any or all of the following two options.

Option 1 – Request Mediation

You have the right to request mediation. In most cases, the mediator is not a federal government employee. A mediator will listen to all parties involved in the dispute and work with all parties to achieve a mutually agreeable resolution. Many cases that go to mediation are resolved without further action, extended delays, or the cost of formal litigation. You have 30 days to request mediation, 10 days to select a mediator, and then 45 days to complete mediation. If you need more information on the mediation process to assist you in deciding whether to use option, contact the Director, Origination and Processing Division (OPD) listed below:

[Director, Origination and Processing Division]

There may be a cost for mediation. If so, Rural Development will pay for 50 percent of the reasonable cost for mediation. Where there is a cost, it is your responsibility to pay the other 50 percent. Every effort, however, is made to keep any cost to a minimum, and in some cases, the mediator will waive the customer’s 50 percent share.

If you elect to seek mediation, your written request for this service must be sent to the Director, Origination and Processing Division (OPD) and must be postmarked no later than 30 days from the date of the attached letter. Once you request mediation, it stops the running of the 30-day period in which you may request an appeal hearing (described in Option 2) but does not waive your right to an appeal.

Once you have requested mediation, the Director, Origination and Processing Division will advise you of the mediation service provider, the estimated cost of mediation, the amount the Agency will contribute to the cost, and the process and procedures for this service. There are three alternatives for mediation providers:

1. USDA-funded state mediation program,
2. Community Based Mediation Centers, or
3. Other mediation provider you recommend, subject to the Agency’s approval.

Once a mediation service provider has been identified, you will have 10 days to contact the mediator and you will be directly asked if they can mediate your case. You will have 45 days to complete the mediation. If mediation does not result in resolution of these issues, you have the right to continue with a request for an appeal hearing as set forth in Option 2.

Mediation does not take the place of, or limit your rights to, an appeal to the National Appeals Division (NAD); however, a NAD appeal hearing would take place only after mediation.

**Option 2 - Request an Appeal**

You may skip mediation and request an appeal hearing. In doing so, you will automatically waive your right to an informal meeting. *There is no cost for an appeal hearing.* Your request for an appeal must be made no later than 30 days from the date of the original Agency’s adverse decision letter. If you choose Option 1, a NAD appeal hearing would take place only after mediation as long as there are days remaining from the original 30 days to request an appeal. You must immediately contact the NAD. To request an appeal hearing, you must write the NAD Assistant Director for your region as the following address:

[NAD Assistant Director Address]

Your request must state the reasons why you believe the decision is wrong, be personally signed by you, and must include a copy of original adverse decision letter. A copy of your request must also be sent to the Director, Origination and Processing Division at the following address:

[Director, Origination and Processing Division Address]

You may alternatively select to file your appeal electronically through the NAD website. You can set up a NAD efile account and then follow the prompts to request an appeal electronically. Your request for an appeal must be made no later than 30 days from the date you received the original adverse decision letter. To file an appeal online go to the following internet address:

http://www.nad.usda.gov/app_appeal.html

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You, or your representative or counsel, may contact the OPD anytime during regular office hours to request copies of the Agency’s record relevant to this adverse decision. Electronic images or photocopies will be provided to you. Your representative or counsel must have your written authorization to represent you and review your file. The NAD Hearing Officer will contact you regarding a time and place for the hearing.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant’s income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U.S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U.S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.
HANDBOOK LETTER 4
ATTACHMENT FOR NOTIFYING CUSTOMERS WHO HAVE REQUESTED MEDIATION OF THE ASSIGNMENT OF THEIR CASE TO:
A USDA-FUNDED STATE MEDIATION PROGRAM
OR:
A COMMUNITY-BASED MEDIATION CENTER
OR:
certified mediation provider for mediation

TO: [CUSTOMER]

FROM: DIRECTOR, ORIGINATION AND PROCESSING DIVISION

SUBJECT: Request for Mediation Services

This replies to your request for mediation of your adverse decision. Your request has been referred to a [USDA-funded state mediation program] [Community Based Mediation Center] or [you must select from the attached list of certified mediation providers].

As indicated in our adverse decision letter, there may be a cost for the mediation. The following is an estimate, but you will be advised by the mediation service provider if there will be a cost. Rural Development policy is to pay 50 percent of the reasonable cost for mediation.

$ ______ USDA-funded state mediation program [and address]

$_______ Community-Based Mediation Center [and address]

Attached is an alphabetical list of certified mediators to select a mediator, or subject to our concurrence you may request the use of another mediator.

Within 10 days of the date of this letter, you must provide this office, in writing, with the concurrence/selection of the mediator. If you do not, you will waive your right to mediation. Rural Development will then contact the mediator, who in turn will contact you to determine if
they can mediate the issues in your case. You will have 45 days to complete the mediation. When the mediation is concluded, you may file an appeal of the original adverse decision by immediately contacting the National Appeals Division (NAD):

[NAD Assistant Director Address]

Once you have been contacted by the mediation provider and if you decide not to pursue mediation, you must immediately contact this office (address at the top of this letter). You are responsible for all costs incurred by the mediation provider from the time of selection until your cancellation.

Mediation, or the cancellation of mediation, does not affect your rights to seek an appeal with NAD.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant’s income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.
HANDBOOK LETTER 5
ATTACHMENT FOR ASSIGNMENT BY RURAL DEVELOPMENT/USDA
OF A CUSTOMER MEDIATION REQUEST TO A MEDIATION
SERVICES PROVIDER

TO: [Mediation Service Provider]
FROM: Director, Origination and Processing Division
SUBJECT: Request for Mediation
CUSTOMER: [Name of the Rural Development customer requesting mediation]

The above Rural Development customer has received an adverse decision from our Agency and has requested mediation. Attached is a copy of the adverse decision letter and the customer’s request for your mediation.

Informal Administrative Review:

___ The Customer was provided with the opportunity for an informal administrative review with the Agency; however, the customer chose not to exercise this option.

___ An informal administrative review was conducted; however, the Agency did not reverse its decision.

Jurisdiction of the Case

The adverse decision in this case was made by the Origination and Processing Division. You should contact this office for further information on the case.

[Agency contact: program, individual, address phone and e-mail]

Payment for Service:

The Rural Development policy is to pay 50 percent of the reasonable cost of the mediation service and the customer will pay 50 percent. In addition, we encourage the mediation service to consider the customer’s ability to pay. The customer is solely responsible for their portion of the cost of this service and should be billed directly. The bill for the Agency’s portion should be submitted to Director, Origination and Processing Division:
Mediation must be completed within 45 days from the date of this letter, unless both parties agree to an extension. We also request a teleconference prior to your acceptance of this case to determine whether the adverse decision lends itself to mediation by your service.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant’s income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

Attachments (2):
Adverse decision letter
Customer’s request for mediation

CC:
NFAOC Single Family Housing Appeals Coordinator
HANDBOOK LETTER 6
ATTACHMENT FOR NOTIFYING CUSTOMERS OF UNRESOLVED RESULT OF THE MEDIATION OF THE ADVERSE

TO: [CUSTOMER]

FROM: [Director, Origination and Processing Division]

SUBJECT: Unresolved Result of the Requested Mediation

Your request for mediation has been completed. We regret that mediation did not result in resolution of the issues. [We are unable to grant the assistance you requested, or will terminate, or reduce the assistance you requested].

If you believe the decision or facts used in the case are in error, you may continue to pursue your right to an appeal by the National Appeals Division (NAD). There is no cost for an appeal. Please follow the guidance in the paragraph indicated with an “X”.

___ You requested an appeal hearing to NAD prior to entering into mediation. You must immediately write to the Assistant Director of NAD at the address below to determine the number of days remaining, if any, to schedule the appeal hearing:

[NAD Assistant Director Address]

___ You did not request an appeal hearing to NAD prior to entering into mediation. If you wish to schedule an appeal hearing, you must immediately write to the Assistant Director of NAD at the address below to determine the number of days remaining, if any, to schedule the appeal hearing. Your appeal request must be received within the remaining days, as determined by NAD, from the date when you requested mediation:

[NAD Assistant Director Address]

Information Regarding Appeals

If NAD determines that you have appeal rights and you want to exercise those appeal rights, you, or your representative or counsel, may contact the OPD anytime during regular office hours to request copies of the Agency’s record relevant to this adverse decision. Electronic images or photocopies will be provided to you. Your representative or counsel must have your written authorization to represent you and review your file. The NAD Hearing Officer will contact you regarding a time and place for the hearing.
The NAD Hearing Officer will contact you regarding a time and place for the hearing. You may also request a teleconference hearing in lieu of the face-to-face hearing. At any time before the scheduled hearing you may also request that the Hearing Officer make a decision without a hearing.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant’s income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U.S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

CC:    NFAOC Single Family Housing Appeals Coordinator
HANDBOOK LETTER 7
ATTACHMENT FOR NOTIFYING CUSTOMERS OF EXPIRATION OF THE 10 DAYS TO SELECT A MEDIATION SERVICE PROVIDER

TO: [Customer]

FROM: [Director Origination and Processing Division]

SUBJECT: Expiration of Selection of Mediation Service Provider

On [date], you requested mediation of the adverse decision as outlined in the attached letter which did not [grant the assistance you requested or will terminate or reduce the assistance you are currently receiving or will give you relief from foreclosure]. You were also informed that you had 10 days from [date] to either concur in the mediation service assigned by Rural Development to your case, or name mediation service for our consideration.

The 10 days to acknowledge the selection of the mediation service provider had expired. Your request for mediation therefore has expired, and Rural Development will begin to process the initial adverse decision as outlined in the attached letter.

Request an Appeal Hearing

Your request for mediation did not take the place of or limit your right to request an appeal to the National Appeals Division (NAD). You may request an appeal hearing by NAD as long as there are days remaining from the original 30 days to request an appeal as outlined in the original adverse decision letter. You must immediately contact the NAD Assistant Director for your region (at the following address) to determine if you can file for an appeal hearing.

[ NAD Assistant Director Address ]
There is no cost for an appeal hearing. Your request must state the reasons why you believe the decision is wrong, be personally signed by you, and include a copy of the attached original decision letter. A copy of your request must also be sent to the Director, Origination and Processing Division:

[Director, Origination and Processing Division Address]

You may alternatively select to file your appeal electronically through the NAD website. You can set up a NAD efile account and then follow the prompts to request an appeal electronically. Your request for an appeal must be made no later than 30 days from the date you received the attached letter. To file an appeal online go to the following internet address:

http://www.nad.usda.gov/app_appeal.html

You, or your representative or counsel, may contact the OPD anytime during regular office hours to request copies of the Agency’s record relevant to this adverse decision. Electronic images or photocopies will be provided to you. Your representative or counsel must have your written authorization to represent you and review your file. The NAD Hearing Officer will contact you regarding a time and place for the hearing.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant’s income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U.S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U.S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

Attachment: Copy of denial letter

CC: NFAOC Single Family Housing Appeals Coordinator
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§ 11.1 Definitions.

For purposes of this part:

Adverse decision means an administrative decision made by an officer, employee, or committee of an agency that is adverse to a participant. The term includes a denial of equitable relief by an agency or the failure of an agency to issue a decision or otherwise act on the request or right of the participant within timeframes specified by agency program statutes or regulations or within a reasonable time if timeframes are not specified in such statutes or regulations. The term does not include a decision over which the Board of Contract Appeals has jurisdiction.

Agency means:

(1) The Agricultural Stabilization and Conservation Service (ASCS);
(2) The Commodity Credit Corporation (CCC);
(3) The Farm Service Agency (FSA);
(4) The Farmers Home Administration (FmHA);
(5) The Federal Crop Insurance Corporation (FCIC);
(6) The Natural Resources Conservation Service (NRCS);
(7) The Rural Business-Cooperative Service (RBS);
(8) The Rural Development Administration (RDA);
(9) The Rural Housing Service (RHS);
(10) The Rural Utilities Service (RUS) (but not for programs authorized by the Rural Electrification Act of 1936 and the Rural Telephone Bank Act, 7 U.S.C. 901 et seq.);
(11) The Soil Conservation Service (SCS);
(12) A State, county, or area committee established under section 8(b)(5) of the Soil Conservation and Domestic Allotment Act (16 U.S.C. 590h(b)(5)); and
(13) Any successor agency to the above-named agencies, and any other agency or office of the Department which the Secretary may designate.
Agency record means all the materials maintained by an agency related to an adverse decision which are submitted to the Division by an agency for consideration in connection with an appeal under this part, including all materials prepared or reviewed by the agency during its consideration and decision-making process, but shall not include records or information not related to the adverse decision at issue. All materials contained in the agency record submitted to the Division shall be deemed admitted as evidence for purposes of a hearing or a record review under Sec. 11.8 of this Appendix.

Agency representative means any person, whether or not an attorney, who is authorized to represent the agency in an administrative appeal under this part.

Appeal means a written request by a participant asking for review by the National Appeals Division of an adverse decision under this part.

Appellant means any participant who appeals an adverse decision in accordance with this part. Unless separately set forth in this part, the term “appellant” includes an authorized representative.

Authorized representative means any person, whether or not an attorney, who is authorized in writing by a participant, consistent with Sec. 11.6(c), to act for the participant in an administrative appeal under this part. The authorized representative may act on behalf of the participant except when the provisions of this part require action by the participant or appellant personally.

Case record means all the materials maintained by the Secretary related to an adverse decision. The case record includes both the agency record and the hearing record.

Days means calendar days unless otherwise specified.

Department means the United States Department of Agriculture (USDA).

Director means the Director of the Division or a designee of the Director.

Division means the National Appeals Division established by this part.

Equitable relief means relief which is authorized under section 326 of the Food and Agriculture Act of 1962 (7 U.S.C. 1339a) and other laws administered by the agency.
Ex parte communication means an oral or written communication to any officer or employee of the Division with respect to which reasonable prior notice to all parties is not given, but it shall not include requests for status reports, or inquiries on Division procedure, in reference to any matter or proceeding connected with the appeal involved.

Hearing, except with respect to Sec. 11.5, means a proceeding before the Division to afford a participant the opportunity to present testimony or documentary evidence or both in order to have a previous determination reversed and to show why an adverse determination was in error.

Hearing Officer means an individual employed by the Division who conducts the hearing and determines appeals of adverse decisions by any agency.

Hearing record means all documents, evidence, and other materials generated in relation to a hearing under Sec. 11.8.

Implement means the taking of action by an agency of the Department in order fully and promptly to effectuate a final determination of the Division.

Participant means any individual or entity who has applied for, or whose right to participate in or receive, a payment, loan, loan guarantee, or other benefit in accordance with any program of an agency to which the regulations in this part apply is affected by a decision of such agency. With respect to guaranteed loans made by FSA, both the borrower and the lender jointly must appeal an adverse decision except that the denial or reduction of a final loss payment to a lender shall be appealed by the lender only. The term does not include persons whose claim(s) arise under:

1. Programs subject to various proceedings provided for in 7 CFR part 1;
2. Programs governed by Federal contracting laws and regulations (appealable under other rules and to other forums, including to the Department's Board of Contract Appeals under 7 CFR part 24);
3. The Freedom of Information Act (appealable under 7 CFR part 1, subpart A);
4. Suspension and debarment disputes, including, but not limited to, those falling within the scope of 7 CFR parts 1407 and 3017;
5. Export programs administered by the Commodity Credit Corporation;
6. Disputes between reinsured companies and the Federal Crop Insurance Corporation;
(7) Tenant grievances or appeals prosecutable under the provisions of 7 CFR part 1944, subpart L, under the multi-family housing program carried out by RHS;

(8) Personnel, equal employment opportunity, and other similar disputes with any agency or office of the Department which arise out of the employment relationship;


(10) Discrimination complaints prosecutable under the nondiscrimination regulations at 7 CFR parts 15, 15a, 15b, and 15e.

Record review means an appeal considered by the Hearing Officer in which the Hearing Officer's determination is based on the agency record and other information submitted by the appellant and the agency, including information submitted by affidavit or declaration.

Secretary means the Secretary of Agriculture.

§ 11.2 General statement.

(a) This part sets forth procedures for proceedings before the National Appeals Division within the Department. The Division is an organization within the Department, subject to the general supervision of and policy direction by the Secretary, which is independent from all other agencies and offices of the Department, including Department officials at the state and local level. The Director of the Division reports directly to the Secretary of Agriculture. The authority of the Hearing Officers and the Director of the Division, and the administrative appeal procedures which must be followed by program participants who desire to appeal an adverse decision and by the agency which issued the adverse decision, are included in this part.

(b) Pursuant to section 212(e) of the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, Public Law 103-354 (the Act), 7 U.S.C. 6912(e), program participants shall seek review of an adverse decision before a Hearing Officer of the Division, and may seek further review by the Director, under the provisions of this part prior to seeking judicial review.
§ 11.3 Applicability.
(a) Subject matter. The regulations contained in this part are applicable to adverse decisions made by an agency, including, for example, those with respect to:

(1) Denial of participation in or receipt of benefits under, any program of an agency;

(2) Compliance with program requirements;

(3) The making or amount of payments or other program benefits to a participant in any program of an agency; and

(4) A determination that a parcel of land is a wetland or highly erodible land.

(b) Limitation. The procedures contained in this part may not be used to seek review of statutes or USDA regulations issued under Federal law.

§ 11.4 Inapplicability of other laws and regulations.

The provisions of the Administrative Procedure Act generally applicable to agency adjudications (5 U.S.C. 554, 555, 556, 557, & 3105) are not applicable to proceedings under this part. The Equal Access to Justice Act, as amended, 5 U.S.C. 504, does not apply to these proceedings. The Federal Rules of Evidence, 28 U.S.C. App., shall not apply to these proceedings.

§ 11.5 Informal review of adverse decisions.

(a) Required informal review of FSA adverse decisions. A participant must seek an informal review of an adverse decision issued at the field service office level by an officer or employee of FSA, or by any employee of a county or area committee established under section 8(b)(5) of the Soil Conservation and Domestic Allotment Act, 16 U.S.C. 590h(b)(5), before NAD will accept an appeal of an FSA adverse decision. Such informal review shall be done by the county or area committee with responsibility for the adverse decision at issue. The procedures for requesting such an informal review before FSA are found in 7 CFR part 780. After receiving a decision upon review by a county or area committee, a participant may seek further informal review by the State FSA committee or may appeal directly to NAD under Sec. 11.6(b).
(b) Optional informal review. With respect to adverse decisions issued at the State office level of FSA and adverse decisions of all other agencies, a participant may request an agency informal review of an adverse decision of that agency prior to appealing to NAD. Procedures for requesting such an informal review are found at 7 CFR part 780 (FSA), 7 CFR part 614 (NRCS), 7 CFR part 1900, subpart B (RUS), 7 CFR part 1900, subpart B (RBS), and 7 CFR part 1900, subpart B (RHS).

(c) Mediation. A participant also shall have the right to utilize any available alternative dispute resolution (ADR) or mediation program, including any mediation program available under title V of the Agriculture Credit Act of 1987, 7 U.S.C. 5101 et seq., in order to attempt to seek resolution of an adverse decision of an agency prior to a NAD hearing. If a participant:

1. Requests mediation or ADR prior to filing an appeal with NAD, the participant stops the running of the 30-day period during which a participant may appeal to NAD under Sec. 11.6(b)(1), and will have the balance of days remaining in that period to appeal to NAD once mediation or ADR has concluded.

2. Requests mediation or ADR after having filed an appeal to NAD under Sec. 11.6(b), but before the hearing, the participant will be deemed to have waived his right to have a hearing within 45 days under Sec. 11.8(c)(1) but shall have the right to have a hearing within 45 days after conclusion of mediation or ADR.

§ 11.6 Director review of agency determination of appealability and right of participants to Division hearing.

(a) Director review of agency determination of appealability.

1. Not later than 30 days after the date on which a participant receives a determination from an agency that an agency decision is not appealable, the participant must submit a written request to the Director to review the determination in order to obtain such review by the Director.

2. The Director shall determine whether the decision is adverse to the individual participant and thus appealable or is a matter of general applicability and thus not subject to appeal, and will issue a final determination notice that upholds or reverses the determination of the agency. This final determination is not appealable. If the Director reverses the determination of the agency, the Director will notify the participant and the agency of that decision and inform the participant of his or her right to proceed with an appeal.
(3) The Director may delegate his or her authority to conduct a review under this subsection to any subordinate official of the Division other than a Hearing Officer. In any case in which such review is conducted by such a subordinate official, the subordinate official's determination shall be considered to be the determination of the Director and shall be final and not appealable.

(b) Appeals of adverse decisions.

(1) To obtain a hearing under Sec. 11.8, a participant personally must request such hearing not later than 30 days after the date on which the participant first received notice of the adverse decision or after the date on which the participant receives notice of the Director's determination that a decision is appealable. In the case of the failure of an agency to act on the request or right of a recipient, a participant personally must request such hearing not later than 30 days after the participant knew or reasonably should have known that the agency had not acted within the timeframes specified by agency program regulations, or, where such regulations specify no timeframes, not later than 30 days after the participant reasonably should have known of the agency's failure to act.

(2) A request for a hearing shall be in writing and personally signed by the participant, and shall include a copy of the adverse decision to be reviewed, if available, along with a brief statement of the participant's reasons for believing that the decision, or the agency's failure to act, was wrong. The participant also shall send a copy of the request for a hearing to the agency, and may send a copy of the adverse decision to be reviewed to the agency, but failure to do either will not constitute grounds for dismissal of the appeal. Instead of a hearing, the participant may request a record review.

(c) If a participant is represented by an authorized representative, the authorized representative must file a declaration with NAD, executed in accordance with 28 U.S.C. 1746, stating that the participant has duly authorized the declarant in writing to represent the participant for purposes of a specified adverse decision or decisions, and attach a copy of the written authorization to the declaration.
§ 11.7 Ex parte communications.

(a) Ex parte communications.

(1) At no time between the filing of an appeal and the issuance of a final determination under this part shall any officer or employee of the Division engage in ex parte communications regarding the merits of the appeal with any person having any interest in the appeal pending before the Division, including any person in an advocacy or investigative capacity. This prohibition does not apply to:

   (i) Discussions of procedural matters related to an appeal; or

   (ii) Discussions of the merits of the appeal where all parties to the appeal have been given notice and an opportunity to participate.

(2) In the case of a communication described in paragraph (a)(1)(ii) of this section, a memorandum of any such discussion shall be included in the hearing record.

(b) No interested person shall make or knowingly cause to be made to any officer or employee of the Division an ex parte communication relevant to the merits of the appeal.

(c) If any officer or employee of the Division receives an ex parte communication in violation of this section, the one who receives the communication shall place in the hearing record:

   (1) All such written communications;

   (2) Memoranda stating the substance of all such oral communications; and

   (3) All written responses to such communications, and memoranda stating the substance of any oral responses thereto.

(d) Upon receipt of a communication knowingly made or knowingly caused to be made by a party in violation of this section the Hearing Officer or Director may, to the extent consistent with the interests of justice and the policy of the underlying program, require the party to show cause why such party's claim or interest in the appeal should not be dismissed, denied, disregarded, or otherwise adversely affected on account of such violation.
§ 11.8 Division hearings.
(a) General rules.

(1) The Director, the Hearing Officer, and the appellant shall have access to the agency record of any adverse decision appealed to the Division for a hearing. Upon request by the appellant, the agency shall provide the appellant a copy of the agency record.

(2) The Director and Hearing Officer shall have the authority to administer oaths and affirmations, and to require, by subpoena, the attendance of witnesses and the production of evidence. A Hearing Officer shall obtain the concurrence of the Director prior to issuing a subpoena.

(i) A subpoena requiring the production of evidence may be requested and issued at any time while the case is pending before the Division.

(ii) An appellant or an agency, acting through any appropriate official, may request the issuance of a subpoena requiring the attendance of a witness by submitting such a request in writing at least 14 days before the scheduled date of a hearing. The Director or Hearing Officer shall issue a subpoena at least 7 days prior to the scheduled date of a hearing.

(iii) A subpoena shall be issued only if the Director or a Hearing Officer determines that:

(A) For a subpoena of documents, the appellant or the agency has established that production of documentary evidence is necessary and is reasonably calculated to lead to information which would affect the final determination or is necessary to fully present the case before the Division; or

(B) For a subpoena of a witness, the appellant or the agency has established that either a representative of the Department or a private individual possesses information that is pertinent and necessary for disclosure of all relevant facts which could impact the final determination, that the information cannot be obtained except through testimony of the person, and that the testimony cannot be obtained absent issuance of a subpoena.
(iv) The party requesting issuance of a subpoena shall arrange for service. Service of a subpoena upon a person named therein may be made by registered or certified mail, or in person. Personal service shall be made by personal delivery of a copy of the subpoena to the person named therein by any person who is not a party and who is not less than 19 years of age. Proof of service shall be made by filing with the Hearing Officer or Director who issued the subpoena a statement of the date and manner of service and of the names of the persons served, certified by the person who made the service in person or by return receipts for certified or registered mail.

(v) A party who requests that a subpoena be issued shall be responsible for the payment of any reasonable travel and subsistence costs incurred by the witness in connection with his or her appearance and any fees of a person who serves the subpoena in person. The Department shall pay the costs associated with the appearance of a Department employee whose role as a witness arises out of his or her performance of official duties, regardless of which party requested the subpoena.

The failure to make payment of such charges on demand may be deemed by the Hearing Officer or Director as sufficient ground for striking the testimony of the witness and the evidence the witness has produced.

(vi) If a person refuses to obey a subpoena, the Director, acting through the Office of the General Counsel of the Department and the Department of Justice, may apply to the United States District Court in the jurisdiction where that person resides to have the subpoena enforced as provided in the Federal Rules of Civil Procedure (28 U.S.C. App.).

(3) Testimony required by subpoena pursuant to paragraph (a)(2) of this section may, at the discretion of the Director or a Hearing Officer, be presented at the hearing either in person or telephonically.

(b) Hearing procedures applicable to both record review and hearings.

(1) Upon the filing of an appeal under this part of an adverse decision by any agency, the agency promptly shall provide the Division with a copy of the agency record. If requested by the appellant prior to the hearing, a copy of such agency record shall be provided to the appellant by the agency within 10 days of receipt of the request by the agency.
(2) The Director shall assign the appeal to a Hearing Officer and shall notify the appellant and agency of such assignment. The notice also shall advise the appellant and the agency of the documents required to be submitted under paragraph (c)(2) of this section, and notify the appellant of the option of having a hearing by telephone.

(3) The Hearing Officer will receive evidence into the hearing record without regard to whether the evidence was known to the agency officer, employee, or committee making the adverse decision at the time the adverse decision was made.

(c) Procedures applicable only to hearings.

(1) Upon a timely request for a hearing under Sec. 11.6(b), an appellant has the right to have a hearing by the Division on any adverse decision within 45 days after the date of receipt of the request for the hearing by the Division.

(2) The Hearing Officer shall set a reasonable deadline for submission of the following documents:

(i) By the appellant:

(A) A short statement of why the decision is wrong;

(B) A copy of any document not in the agency record that the appellant anticipates introducing at the hearing; and

(C) A list of anticipated witnesses and brief descriptions of the evidence such witnesses will offer.

(ii) By the agency:

(A) A copy of the adverse decision challenged by the appellant;

(B) A written explanation of the agency's position, including the regulatory or statutory basis therefore;

(C) A copy of any document not in the agency record that the agency anticipates introducing at the hearing; and

(D) A list of anticipated witnesses and brief descriptions of the evidence such witnesses will offer.
(3) Not less than 14 days prior to the hearing, the Division must provide the appellant, the authorized representative, and the agency a notice of hearing specifying the date, time, and place of the hearing. The hearing will be held in the State of residence of the appellant, as determined by the Hearing Officer, or at a location that is otherwise convenient to the appellant, the agency, and the Division. The notice also shall notify all parties of the right to obtain an official record of the hearing.

(4) Pre-hearing conference. Whenever appropriate, the Hearing Officer shall hold a pre-hearing conference in order to attempt to resolve the dispute or to narrow the issues involved. Such pre-hearing conference shall be held by telephone unless the Hearing Officer and all parties agree to hold such conference in person.

(5) Conduct of the hearing.

(i) A hearing before a Hearing Officer will be in person unless the appellant agrees to a hearing by telephone.

(ii) The hearing will be conducted by the Hearing Officer in the manner determined by the Division most likely to obtain the facts relevant to the matter or matters at issue. The Hearing Officer will allow the presentation of evidence at the hearing by any party without regard to whether the evidence was known to the officer, employee, or committee of the agency making the adverse decision at the time the adverse decision was made. The Hearing Officer may confine the presentation of facts and evidence to pertinent matters and exclude irrelevant, immaterial, or unduly repetitious evidence, information, or questions. Any party shall have the opportunity to present oral and documentary evidence, oral testimony of witnesses, and arguments in support of the party's position; controvert evidence relied on by any other party; and question all witnesses. When appropriate, agency witnesses requested by the appellant will be made available at the hearing. Any evidence may be received by the Hearing Officer without regard to whether that evidence could be admitted in judicial proceedings.

(iii) An official record shall be made of the proceedings of every hearing. This record will be made by an official tape recording by the Division. In addition, either party may request that a verbatim transcript be made of the hearing proceedings and that such transcript shall be made the official record
of the hearing. The party requesting a verbatim transcript shall pay for the transcription service, shall provide a certified copy of the transcript to the Hearing Officer free of charge, and shall allow any other party desiring to purchase a copy of the transcript to order it from the transcription service.

(6) Absence of parties.

(i) If at the time scheduled for the hearing either the appellant or the agency representative is absent, and no appearance is made on behalf of such absent party, or no arrangements have been made for rescheduling the hearing, the Hearing Officer has the option to cancel the hearing unless the absent party has good cause for the failure to appear. If the Hearing Officer elects to cancel the hearing, the Hearing Officer may:

   (A) Treat the appeal as a record review and issue a determination based on the agency record as submitted by the agency and the hearing record developed prior to the hearing date;

   (B) Accept evidence into the hearing record submitted by any party present at the hearing, and then issue a determination; or

   (C) Dismiss the appeal.

(ii) When a hearing is cancelled due to the absence of a party, the Hearing Officer will add to the hearing record any additional evidence submitted by any party present, provide a copy of such evidence to the absent party or parties, and allow the absent party or parties 10 days to provide a response to such additional evidence for inclusion in the hearing record.

(iii) Where an absent party has demonstrated good cause for the failure to appear, the Hearing Officer shall reschedule the hearing unless all parties agree to proceed without a hearing.

(7) Post-hearing procedure. The Hearing Officer will leave the hearing record open after the hearing for 10 days, or for such other period of time as the Hearing Officer shall establish, to allow the submission of information by the appellant or the agency, to the extent necessary to respond to new facts, information, arguments, or evidence presented or raised at the hearing. Any such new information will be added
by the Hearing Officer to the hearing record and sent to the other party or parties by
the submitter of the information. The Hearing Officer, in his or her discretion, may
permit the other party or parties to respond to this post-hearing submission.
(d) Interlocutory review. Interlocutory reviews by the Director of rulings of a Hearing
Officer are not permitted under the procedures of this part.

(e) Burden of proof. The appellant has the burden of proving that the adverse decision of
the agency was erroneous by a preponderance of the evidence.

(f) Timing of issuance of determination. The Hearing Officer will issue a notice of the
determination on the appeal to the named appellant, the authorized representative, and the
agency not later than 30 days after a hearing or the closing date of the hearing record in
cases in which the Hearing Officer receives additional evidence from the agency or
appellant after a hearing. In the case of a record review, the Hearing Officer will issue a
notice of determination within 45 days of receipt of the appellant's request for a record
review. Upon the Hearing Officer's request, the Director may establish an earlier or later
deadline. A notice of determination shall be accompanied by a copy of the procedures for
filing a request for Director review under Sec. 11.9. If the determination is not appealed to
the Director for review under Sec. 11.9, the notice provided by the Hearing Officer shall
be considered to be a notice of a final determination under this part.

§ 11.9 Director review of determinations of Hearing Officers.

(a) Requests for Director review.

(1) Not later than 30 days after the date on which an appellant receives the
determination of a Hearing Officer under Sec. 11.8, the appellant must submit a
written request, signed personally by the named appellant, to the Director to review
the determination in order to be entitled to such review by the Director. Such
request shall include specific reasons why the appellant believes the determination is
wrong.

(2) Not later than 15 business days after the date on which an agency receives the
determination of a Hearing Officer under Sec. 11.8, the head of the agency may
make a written request that the Director review the determination. Such request
shall include specific reasons why the agency believes the determination is wrong,
including citations of statutes or regulations that the agency believes the
determination violates. Any such request may be made by the head of an agency only, or by a person acting in such capacity, but not by any subordinate officer of such agency.

(3) A copy of a request for Director review submitted under this paragraph (a) shall be provided simultaneously by the submitter to each party to the appeal.

(b) Notification of parties. The Director promptly shall notify all parties of receipt of a request for review.

(c) Responses to request for Director review. Other parties to an appeal may submit written responses to a request for Director review within 5 business days from the date of receipt of a copy of the request for review.

(d) Determination of Director.

(1) The Director will conduct a review of the determination of the Hearing Officer using the agency record, the hearing record, the request for review, any responses submitted under paragraph (c) of this section, and such other arguments or information as may be accepted by the Director, in order to determine whether the decision of the Hearing Officer is supported by substantial evidence. Based on such review, the Director will issue a final determination notice that upholds, reverses, or modifies the determination of the Hearing Officer. The Director's determination upon review of a Hearing Officer's decision shall be considered to be the final determination under this part and shall not be appealable. However, if the Director determines that the hearing record is inadequate or that new evidence has been submitted, the Director may remand all or a portion of the determination to the Hearing Officer for further proceedings to complete the hearing record or, at the option of the Director, to hold a new hearing.

(2) The Director will complete the review and either issue a final determination or remand the determination not later than--

(i) 10 business days after receipt of the request for review, in the case of a request by the head of an agency; or

(ii) 30 business days after receipt of the request for review, in the case of a request by an appellant.
(3) In any case or any category of cases, the Director may delegate his or her authority to conduct a review under this section to any Deputy or Associate Directors of the Division. In any case in which such review is conducted by a Deputy or Associate Director under authority delegated by the Director, the Deputy or Associate Director's determination shall be considered to be the determination of the Director under this part and shall be final and not appealable.

e) Equitable relief. In reaching a decision on an appeal, the Director shall have the authority to grant equitable relief under this part in the same manner and to the same extent as such authority is provided an agency under applicable laws and regulations.

§ 11.10 Basis for determinations.

(a) In making a determination, the Hearing Officers and the Director are not bound by previous findings of facts on which the agency's adverse decision was based.

(b) In making a determination on the appeal, Hearing Officers and the Director shall ensure that the decision is consistent with the laws and regulations of the agency, and with the generally applicable interpretations of such laws and regulations.

(c) All determinations of the Hearing Officers and the Director must be based on information from the case record, laws applicable to the matter at issue, and applicable regulations published in the Federal Register and in effect on the date of the adverse decision or the date on which the acts that gave rise to the adverse decision occurred, whichever date is appropriate under the applicable agency program laws and regulations.

§ 11.11 Reconsideration of Director determinations.

(a) Reconsideration of a determination of the Director may be requested by the appellant or the agency within 10 days of receipt of the determination. The Director will not consider any request for reconsideration that does not contain a detailed statement of a material error of fact made in the determination, or a detailed explanation of how the determination is contrary to statute or regulation, which would justify reversal or modification of the determination.

(b) The Director shall issue a notice to all parties as to whether a request for reconsideration meets the criteria in paragraph (a) of this section. If the request for reconsideration meets such criteria, the Director shall include a copy of the request for reconsideration in the notice to the non-requesting parties to the appeal. The non-requesting parties shall have 5 days from receipt of such notice from the Director to file a response to the request for reconsideration with the Director.
§ 11.12 Effective date and implementation of final determinations of the Division.

(a) On the return of a case to an agency pursuant to the final determination of the Division, the head of the agency shall implement the final determination not later than 30 days after the effective date of the notice of the final determination.

(b) A final determination will be effective as of the date of filing of an application, the date of the transaction or event in question, or the date of the original adverse decision, whichever is applicable under the applicable agency program statutes or regulations.

§ 11.13 Judicial review.

(a) A final determination of the Division shall be reviewable and enforceable by any United States District Court of competent jurisdiction in accordance with chapter 7 of title 5, United States Code.

(b) An appellant may not seek judicial review of any agency adverse decision appealable under this part without receiving a final determination from the Division pursuant to the procedures of this part.

§ 11.14 Filing of appeals and computation of time.

(a) An appeal, a request for Director review, or any other document will be considered "filed" when delivered in writing to the Division, when postmarked, or when a complete facsimile copy is received by the Division.

(b) Whenever the final date for any requirement of this part falls on a Saturday, Sunday, Federal holiday, or other day on which the Division is not open for the transaction of business during normal working hours, the time for filing will be extended to the close of business on the next working day.
(c) The time for filing an appeal, a request for Director review, or any other document expires at 5:00 p.m. local time at the office of the Division to which the filing is submitted on the last day on which such filing may be made.

§ 11.15 Participation of third parties and interested parties in Division proceedings.

In two situations, parties other than the appellant or the agency may be interested in participating in Division proceedings. In the first situation, a Division proceeding may in fact result in the adjudication of the rights of a third party, e.g., an appeal of a tenant involving a payment shared with a landlord, an appeal by one recipient of a portion of a payment shared by multiple parties, an appeal by one heir of an estate. In the second situation, a party may desire to receive notice of and perhaps participate in an appeal because of the derivative impact the appeal determination will have on that party, e.g., guaranteed lenders and reinsurance companies. The provisions in this section set forth rules for the participation of such third and interested parties.

(a) Third parties. When an appeal is filed, the Division shall notify any potential third party whose rights may be adjudicated of its right to participate as an appellant in the appeal. This includes the right to seek Director review of the Hearing Officer determination. Such third parties may be identified by the Division itself, by an agency, or by the original appellant. The Division shall issue one notice to the third party of its right to participate, and if such party declines to participate, the Division determination will be binding as to that third party as if it had participated. For purposes of this part, a third party includes any party for which a determination of the Division could lead to an agency action on implementation that would be adverse to the party thus giving such party a right to a Division appeal.

(b) Interested parties. With respect to a participant who is a borrower under a guaranteed loan or an insured under a crop insurance program, the respective guaranteed lender of reinsurance company having an interest in a participant’s appeal under this part may participate in the appeal as an interested party, but such participation does not confer the status of an appellant upon the guaranteed lender or reinsurance company such that it may request Director review of a final determination of the Division.
APPENDIX 4

AGENCY AND EMPLOYEE ADDRESSES

The following is contact information for National, State, National Finance and Account Operations Center, and Customer Service Center (CSC). Additional information can also be obtained regarding each State from the Rural Development website at:
http://www.rd.usda.gov/programs-services/single-family-housing-guaranteed-loan-program
Select “Contact Us”

RURAL DEVELOPMENT

Housing and Community Facilities Programs

Administrator
RURAL DEVELOPMENT
National Office
1400 Independence Avenue SW
Room 5014-S, Mail Stop 0701
Washington, DC  20250-0701

Single Family Housing Guaranteed Loan Division – (202) 720-1452
Fax # (202) 205-2476
E-mail address
SFHGLD.PROGRAM@wdc.usda.gov

SFHGLP National Headquarters – Issuance of Rules/Regulations, Oversight
Director SFHGLP OR…….. Servicing: Guaranteed Lender Oversight Program Manager

RURAL DEVELOPMENT
National Office - Headquarters
1400 Independence Ave., SW
Room 2250, Mail Stop 0784
Washington, DC  20250-0784

(03-09-16) SPECIAL PN
Members of the public may contact the national office or their state representatives with information obtained at the following website:

http://www.rurdev.usda.gov/ContactUs.html
NATIONAL FINANCE AND ACCOUNT OPERATIONS CENTER (NFAOC)
ST. LOUIS, MISSOURI

Servicing SFHGLP Loans – Electronic Reporting System (default and portfolio), Guaranteed Underwriting System Agreements, Lender Loan Closing Agreements, Guarantee Fees, Annual Fee Collection

Mailing Address:
USDA, National Finance and Accounting Operations Center (NFAOC)
Program Management Division, Guaranteed Loan Branch
FC-350
Goodfellow Boulevard - Federal Center
P. O. Box 200011
St. Louis, MO  63120-0011

Courier Address:
USDA, National Finance and Accounting Operations Center (NFAOC)
Program Management Division, Guaranteed Loan Branch
4300 Goodfellow Boulevard - Federal Center
Building 104 - South End
2nd Floor – Post H37
St. Louis, MO  63120

E-Mail Address:  RD.DCFO.GLB@stl.usda.gov
Fax Number:      (314) 457-4279
Toll Free Telephone Number: (877) 636-3789

(03-09-16) SPECIAL PN
CUSTOMER SERVICE CENTER (CSC)  
ST. LOUIS, MISSOURI

Servicing SFHGLP Loans – Loss Mitigation, Loss Claims

Priority Mail:

Customer Service Center – USDA Rural Development  
4300 Goodfellow Boulevard  
Building 105E  
FC-225  
St. Louis, MO  63120-1703

E-Mail Address:  
guarantee.svc@stl.usda.gov

Toll Free Telephone Number:  
(866) 550-5887

Fax Server Telephone Number:  
(314) 457-4463

State Representatives:

SFHGLP Delivery – Process Conditional Commitments and Issue Loan Note Guarantee, Provide Program Loan Guidance

To obtain a complete list of SFHGLP servicing representatives, visit the following website:  

Under the “Documentation and Resource” menu item of the Loss Claim Administration and Servicing menu, select “Guaranteed Servicing Contact Information.”

To obtain information from a State Representative regarding the Single Family Housing Guaranteed Loan Program (SFHGLP) the following web address will provide you a list of Agency representatives in your State to assist you.

- From the navigation menu, under “Contact Us” select: “Guaranteed”

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**HELP RESOURCES**
**CENTRALIZED HELP DESK**
**ST. LOUIS, MISSOURI**

*SFHGLP Assistance – Guaranteed Underwriting System, e-Authentication questions, Guaranteed Loan System (internal to Agency)*

Centralized Help Desk  
Email: rd.hd@stl.usda.gov  
Telephone: 800-457-3642 (Select option 2 at 1st menu item (USDA Applications); then select option 2 at the 2nd menu item (RD))
APPENDIX 5

INCOME LIMITS
APPENDIX 5

INCOME LIMITS

The following USDA Income and Property Eligibility site is used to determine eligibility for USDA home loan programs. To determine income eligibility:

  
  Note: Bookmark this site for future reference/use.
To view the county income limits of a specific state:

- From the “Eligibility” Navigation Menu on the left side of the page, under “Income Limits” select “Guaranteed” to obtain a listing of all States Income Limits.
- Select the State.

Once a state is selected, the income limits utilizing this method will display all counties, within the selected state, by number of persons in the household.
- Some counties that are contained within a Metropolitan Statistical Area (MSA) will be listed under the MSA metropolitan.
If no selection of state is made by the user, the user may utilize the right screen navigational tool to scroll by page through all states.

To determine eligibility of an individual or applicant/household:

Select “Income Eligibility” from the “Eligibility” Navigation Menu. Select “Single Family Housing.” The following is a step-by-step guide in utilizing the website.
Select a State from the drop down menu.
Select a county within the State selected by utilizing the dropdown.
Complete Household Members Information.

This site is utilized to determine program eligible income and will include income from all household members, regardless if they are a party to the note to be taken. The “question” symbol - ? may be utilized to seek additional information on each topic.

This site is dynamic.

- Enter the total number of people in the household.
- Enter the number of residents in the household under 18 years of age, disabled, or are full-time students. A deduction field for annual child care expenses will display on the following page.
- If loan applicant or co-applicant is age 62 years of age or older, select “Yes.” A deduction field for eligible expenses will display on the following page.
- If there are any disabled household members select “Yes.” A deduction field for eligible expenses will display on the following page.
- Select “Next”.

(03-09-16) SPECIAL PN
Complete Expenses and Deductions portion of the page. Available data fields will appear based upon the responses provided on the “Household Member Information” page.

Complete Gross Monthly Income for all adult household members of the household, regardless if a household member is a party to the note.

Select “Finish” to complete the calculation of program eligible income.

An Income eligibility Determination Summary will display.
The summary will outline the applicant’s eligibility for the Single Family Housing Guaranteed Loan Program AND the Section 502 Direct Rural Housing Loan Program.
APPENDIX 6

INTEREST ASSISTANCE
APPENDIX 6

INTEREST ASSISTANCE

In 1991, the Agency provided interest assistance to eligible borrowers to enhance their repayment ability. Beyond 1991, interest assistance was not offered in connection with a SFHGLP guarantee. A relatively small number of loans providing interest assistance are still active. For those lenders who have interest assistance guarantees in their portfolio, it is important to administer the remaining loans correctly. Section 1, Interest Assistance, provides instructions for conducting annual and interim reviews, calculating interest assistance, and paying the lender’s processing fee. Section 2 of this Appendix provides guidance on what triggers recapture and how it is calculated.

SECTION 1: INTEREST ASSISTANCE

AGREEMENTS

The lender is responsible for conducting annual and interim reviews of household income to ensure that the household continues to be eligible to receive interest assistance, and that the amount of the assistance provided is correct. Form RD 3555-13, “Annual Interest Assistance Agreement,” is used to determine the amount of assistance for the coming year. The Agency’s Deputy Chief Financial Officer, St. Louis, Missouri generates to lenders on an annual basis a Notice of SFH Interest Assistance Expiring within 90 Days which provides lenders with a list of expiring interest assistance agreements within the ensuing 90 days. A copy of this notice is provided to the Agency office. The lender provides Form RD 3555-13 to the borrower, who fills out Section II, signs the form, attaches any required documentation, and returns it to the lender. When the borrower returns the form to the lender, the lender verifies sources and amounts and determines adjusted income.

The lender then submits Form RD 3555-13 to the Agency for approval, and the Agency reviews the lender’s calculations. If any errors are found, the Agency will contact the lender and provide guidance on the necessary corrective actions. It is the lender’s responsibility to resolve any inconsistencies with the borrower.

In the case of a transfer/assumption, approved by the Agency, in accordance with Chapter 17 of this handbook, interest assistance may be granted to the transferor provided the eligibility criteria of this appendix are met and the transferor executes Form RD 3555-12, “Master Interest Assistance and Shared Equity Agreement with Promissory Note.”
PROCESSING FEE

The Agency will reimburse the lender in the amount of $40.00 for the cost of processing Form RD 3555-13 whether or not the agreement results in continued assistance. The Agency will pay the fee upon receipt of a valid agreement if:

- A new agreement is made at the annual renewal date;
- The borrower has a change in circumstances that requires a revision to the current agreement. However, a processing fee will not be paid when the revision to an existing agreement is required due to an error on the part of the lender or borrower; or
- The borrower is eligible for but not presently on interest assistance and enters into a new Form RD 3555-13.

ANNUAL AND INTERIM REVIEWS

Annual Reviews

The lender must review annually each borrower receiving interest assistance to determine whether the household is eligible to continue to receive interest assistance, and whether any adjustments need to be made. It is expected that borrower incomes will change from year to year. However, if the household’s income exceeds the previous year’s income by 20 percent or more, the lender must determine when the change in income occurred, and whether it resulted in an overpayment of interest assistance. If so, the lender must follow the procedures for collecting overpayment of interest assistance.

Approximately 90 days before the expiration date of the borrower’s current interest assistance agreement the National Finance and Accounting Operation Center (NFAOC) will generate a notice to the lender to initiate the annual review process. The lender should complete the annual review in time for the new amount to be effective on the anniversary date of the borrower’s current agreement. If the annual review is not completed by the expiration date of the existing agreement, the renewal date will be either:

- The expiration date of the previous agreement, if an Agency or lender error caused the delay; or
- In all other cases the next payment due date after the renewal is approved.
The Review Period for Self-Employed Applicants

For a self-employed applicant, the initial interest assistance agreement will run from the effective date to three months after the end of the applicant’s business fiscal year, but not more than a 12-month period. This will allow subsequent agreements to coincide with the applicant’s business fiscal year, with a three-month overlap, to provide sufficient time for the applicant to supply verification of the previous year’s income.

The Review Period for Unemployed Applicants

For an applicant receiving unemployment benefits, the agreement will be effective for the period during which the applicant will receive unemployment benefits, or, if the period is unknown, no longer than six months. The lender will establish the expiration date of the agreement.

Interim Reviews

Interim reviews are triggered when the lender becomes aware that an adult member of the household receiving interest assistance changes jobs or obtains employment, when the household composition changes, or when income increases by more than $100.00 per month. A borrower whose income decreases by $100 or more per month may report the change and ask the lender to determine whether the decrease qualifies the borrower for additional interest assistance. When the borrower provides new information, the lender must determine whether the change would grant at least $20 per month additional interest assistance. If so, the lender processes a new interest assistance agreement. The borrower’s next annual review is scheduled for 12 months after the effective date of the change in payments.

DETERMINING ELIGIBILITY FOR CONTINUED INTEREST ASSISTANCE

Lenders must determine whether any of the following conditions keep the borrower from qualifying for continued interest assistance:

The borrower has ceased to occupy the property, unless the lender determines that the dwelling is uninhabitable or that the borrower may be absent temporarily from the property for reasons such as seasonal or migratory employment, military callings, or hospitalization;

- The security property has been sold or title to the property has been transferred;
- The borrower’s subsidized interest rate equals or exceeds the promissory note rate; or
The borrower qualifies for less than $20 per month interest assistance.

If the borrower has ceased to occupy the property, or has sold or transferred title to the property, the lender must determine when the change occurred. If the borrower has received interest assistance since the change, the lender must notify the Agency that the borrower may have received an overpayment. The lender must also notify the borrower of the potential for repayment of the overpayment.

CALCULATING INTEREST ASSISTANCE

The household’s adjusted median income and whether the property is located in a high-cost area are the key factors in determining the subsidized interest rate the borrower must pay. The amount of interest assistance granted will be the difference between the monthly installment due on the promissory note eligible for interest assistance and the amount the borrower would pay if the note were amortized at the rate corresponding to the borrower’s income range as follows: However, the borrower’s interest rate can never fall below the floor interest rate – the subsidized interest rate that was in place at loan closing. The interest rate to be paid by the borrower is determined as follows. Note that the interest rate will be either the rate described below or the note rate, whichever is less; in no case will the interest rate be less than 3 percent or less than the floor interest rate the borrower received at loan closing.

<table>
<thead>
<tr>
<th>Percentage of Median Income</th>
<th>Interest Assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>When the Borrower’s income is:</strong></td>
<td><strong>Borrower’s Floor Rate is:</strong></td>
</tr>
<tr>
<td>More Than:</td>
<td>But Less Than:</td>
</tr>
<tr>
<td>55 percent</td>
<td>60 percent</td>
</tr>
<tr>
<td>60 percent</td>
<td>65 percent</td>
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<tr>
<td>65 percent</td>
<td>70 percent</td>
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<tr>
<td>70 percent</td>
<td>75 percent</td>
</tr>
<tr>
<td>75 percent</td>
<td>80 percent</td>
</tr>
</tbody>
</table>

If the dollar amount of the payment to be made by the Agency falls below $20 per month, the borrower will no longer be eligible for interest assistance.

PROCESSING ANNUAL INTEREST ASSISTANCE

Upon review and approval of a lender’s submitted Form RD 3555-13, the Agency will access the system production environment (block mode) known as NITC. Choose Guaranteed Loan
from the NITC menu. At the Guaranteed Loan MAIN MENU, select Loan Servicing Menu. 
Select UPDATE Interest Asst Agreement to renew or change the interest assistance. Select 
CANCEL Interest Asst Agreement to cancel the interest assistance. Select VIEW Interest 
Assistance for summary information regarding the interest assistance.

The Agency will not receive a report that the agreement will be expiring. The Agency may 
monitor the agreements in their portfolio by pulling a GLS Report from the Single Family 
Housing Reports menu under “Lender Notice” submenu, followed by the selection of “GLSNT07 - Notice of SFH Interest Assistance expiring in 90 Days” report.

The Agency may also monitor payment of interest assistance to borrowers, by processing a 
GLSBR01 – Borrower Register report from the Activity Register Reports submenu of the Single 
Family Housing Reports menu in GLS. The transaction code to enter at the search criteria for 
payments is transaction code “4055.”

From the “GLS Loan View” screen, the Agency may confirm the eligibility or continued 
assistance of a borrower by viewing the “RH Information” section. The subsection “Interest 
Asst” will bear a code 1 (Eligible for Int Asst); 2 (Ineligible for Int Asst) or 3 (Eligible & Receiving Int Asst). The “Active Interest Asst” will be Yes (receiving) or No (not receiving).

The Agency remains responsible for the timely submission of interest assistance renewal 
requests by lenders. Assistance with processing questions can be directed to NFAOC.

RETURNING TO INTEREST ASSISTANCE

Some borrowers who have received interest assistance experience increases in income 
such that they no longer qualify for interest assistance. Should such a household experience a 
decline in income later in the life of the loan, the borrower may be eligible to begin receiving 
interest assistance again. To qualify to receive assistance again, the loan must have been 
approved as a subsidized guaranteed loan on or after April 17, 1991, the borrower must have 
executed Form RD 3555-12 at loan closing, and must have an adjusted household income that is 
at or below the applicable low-income limit.

INTEREST ASSISTANCE DURING LOAN LIQUIDATION

If a borrower’s loan is accelerated, the interest assistance is not canceled. However, 
should the agreement expire during the liquidation process, it will not be renewed. If the lender
stops its liquidation proceedings after the interest assistance agreement has expired, interest assistance can be reinstated, provided the borrower remains eligible for assistance. The lender must request reinstatement from the Agency approving office, which will then update the action in the Guaranteed Loan System.

**OVERPAYMENT OF INTEREST ASSISTANCE**

*Requirements after an Overpayment*

Borrowers may receive more interest assistance than they were eligible for as a result of factors such as misreported household income, calculation errors, or failure on the part of the borrower to report income increases. The difference between the amount of interest assistance the borrower received and the amount that would have been received at the proper interest rate constitutes an overpayment.

The lender must ensure that an arrangement for repayment of the overpayment amount are done through one of the approved methods and is put in place within 30 days after all appeal rights have been exhausted. If no arrangement has been made, the lender must accelerate the guaranteed loan. If a satisfactory repayment arrangement is made, the Agency will continue to honor the loan guarantee.

*Methods of Collecting Overpayments of Interest Assistance*

Borrowers who provided false information must repay the overpayment amount in a lump sum within 30 days after all appeal rights have been exhausted, or the loan will be accelerated. For all other borrowers, including borrowers who unintentionally provide inaccurate information, repayment can be made in the following ways.

- Borrowers who can do so are encouraged to repay the overpayment amount in a lump sum.
- If the borrower is eligible for further interest assistance and has not repaid the overpayment amount in a lump sum, the Agency will collect the overpayment amount over the course of the following 12 months by reducing the amount of its interest assistance payments by 1/12 of the overpayment amount each month as shown on Form RD 3555-13.
Some borrowers who do not repay the overpayment amount in a lump sum may not be eligible for further interest assistance, or the amount of interest assistance may not be sufficient to cover the overpayment. In this case, the lender must negotiate a repayment schedule with the borrower in a way that will minimize the possibility that the repayment of the loan will suffer. The lender will collect monthly payments from the borrower and remit the payments to the Agency. Interest Assistance repayment will never take more than 12 months unless prior authorization is obtained by the State Director.

If the borrower is unwilling to cooperate and repay the interest assistance overpayment through interest assistance deductions or voluntary repayment, the Rural Development servicing official will obtain the advice of the State or National Office as appropriate.

SECTION 2: INTEREST ASSISTANCE SHARED EQUITY RECAPTURE REQUIREMENTS

OVERVIEW

Borrowers with interest assistance receive substantial amounts of subsidy over the course of the loan repayment period. At the time of loan closing, the borrower will have signed Form RD 3555-12 which requires repayment of some or the entire subsidy when the borrower ceases to occupy the property or transfers title. The purpose of this policy is to provide borrowers with the opportunity to realize a benefit from increased equity in their properties, while requiring repayment of a portion of the assistance received if the borrower has realized value appreciation.

TRIGGERING RECAPTURE

General Rule

Interest assistance subject to recapture must be repaid whenever the borrower ceases to occupy the property or transfers title. If the borrower is absent from the property temporarily for reasons such as seasonal or migratory employment, military duty, or hospitalization, recapture is not triggered.
Exceptions

When a loan is assumed in connection with a transfer, recapture will not be calculated or collected at that time. When the new borrower transfers title or ceases to occupy the property, all interest assistance subject to recapture from both before and after the assumption must be repaid.

Generally, when a loan is foreclosed the Agency will not require the recapture of interest assistance. However, recapture is required if:

- The property is sold at or prior to foreclosure for an amount exceeding the lender’s unpaid balance and costs of foreclosure; or
- A junior lienholder takes over the lender’s loan.

Lender Responsibilities

The lender is responsible for collecting the amount of recapture due from the borrower. When recapture is triggered, the lender must notify the Agency and request information regarding the amount of interest assistance that could be subject to recapture. Agency staff will obtain the amount of interest assistance from the Guaranteed Loan System account records and the average interest rate paid from the Deputy Chief Financial Office in St. Louis, Missouri. The lender must then notify the borrower of the maximum potential recapture amount and offer the borrower an opportunity to provide the information needed to calculate a reduced amount. If an entity other than the Agency provides assistance to a borrower and requires recapture, collection of the Agency’s recapture amounts has priority over recapture by the other entity.

The recapture amount is calculated based on a projected payoff date. If the actual payoff date is different than the date used to calculate the recapture amount, the borrower may be entitled to a refund, or may owe an additional amount. If the borrower is entitled to a refund, the Agency will provide the lender with the reimbursement. If the borrower owes an additional amount, the lender must collect the remaining funds and submit them to the Agency before releasing the security instruments. Security instruments must not be released until the Agency receives and verifies the recapture payment.

SHARED EQUITY DETERMINATION - CALCULATING RECAPTURE

Even though the Agency will calculate the recapture amount, it is important for lenders to understand the recapture calculation well enough to explain to borrowers, should they have questions. This paragraph describes each component of the recapture formula. At the end of this
Appendix is a recapture worksheet that illustrates how the recapture amount is calculated and a case study that illustrates the recapture concepts discussed in this section. The lender will submit the final documentation requesting calculation of the recapture to the Agency. The Agency will utilize Form RD 3555-14 to calculate the recapture due the Agency.

The amount of recapture the borrower must pay is the lesser of:

- The total amount of interest assistance received over the life of the loan; or
- The calculation of shared equity due Rural Development. Thus, if there is no value appreciation in the property, there will be no recapture amount due.

**CALCULATION OF VALUE APPRECIATION**

“Appreciation” generally means the difference between the value of the property when it was purchased and its current market value. “Value appreciation” for the purposes of recapture is calculated with a specific formula that accounts for the borrower’s mortgage debt and sales expenses related to the property, as well as equity. The formula for calculating value appreciation is:

\[
\text{Current market value} \quad \text{less the following:}
\]

- Balance due prior lien holders;
- Guaranteed mortgage balance owed by borrower;
- Sales/refinancing costs;
- Principal reduction;
- Original equity; and
- Capital improvement equity.

\[
\text{equals Value Appreciation}
\]
The following paragraphs explain each element of the calculation of the distribution of funds.

CURRENT MARKET VALUE

Recapture must be based on the current value of the property, whether it is being sold or not. The amount of the recapture to be collected can only be reduced based on an accurate assessment of market value documented from one of the following sources:

- A sales contract;
- An appraisal conducted by a lender;
- Another current appraisal that meets the Agency’s requirements if neither a sales contract nor a lender’s appraisal is available;
- The amount of the insurance payoff, information from tax records, comparable sales, or a recent appraisal that represents an accurate indication of the value, if the property has been damaged or destroyed so that an appraisal is not a viable alternative for determining value; or
- Agency appraisal, with prior approval of the State Director.

A BPO is not acceptable documentation of market value for this purpose.

BALANCE DUE TO PRIOR LIEN HOLDERS

Deferred and past-due real estate taxes and assessments that are to be paid by the borrower without reimbursement by another party should be included in this figure.

BALANCE OWED BY BORROWER

With the exception of late fees, all amounts owed by the borrower that are being paid off, including principal and interest, protective advances, and unauthorized assistance, should be included.

SALES/REFINANCING COSTS

The costs involved in selling or refinancing the property can be deducted from the market value if they are not reimbursed from another source, such as an employer, and if they are
documented by a good faith estimate provided by the lender or closing agent. Such costs should be customary and typical for the type of transaction and include, but are not limited to the following:

- Sales commission;
- Advertising costs;
- Recording fees;
- Pro rata share of taxes;
- Points based on the current interest rate;
- Appraisal fees;
- Transfer tax;
- Deed preparation fee; and
- Loan origination fee.

In refinancing situations, only those expenses necessary to refinance the amount of the current guaranteed debt, plus recapture, are allowed. Estimated expenses may be used if Agency staff is confident that the estimates are accurate. Anticipated costs for future transactions are not permissible.

**PRINCIPAL REDUCTION**

This figure is based on the amount of principal reduction at the note rate on the account.

**ORIGINAL EQUITY**

Original equity includes any down payment made by the borrower and any difference between the original market value of the property and the amount of the original loan. Prepaid taxes and insurance are not considered original equity, nor are contributions toward closing costs. This amount can be found on *Form RD 3555-12*.

Recapture amounts paid may be considered mortgage interest paid, which may be a deductible expense for the purposes of personal income taxes in the year paid. The borrower should be advised to seek the guidance of a tax counselor or the IRS regarding allowable tax deductions.
CAPITAL IMPROVEMENT CREDIT

Capital improvements are additions that add to the value of the property above and beyond repairs that maintain the property in good condition. General maintenance to keep the property in good condition is not considered a capital improvement. Examples of activities that do not qualify as capital improvements include: yard maintenance, painting, wallpapering, floor coverings, roofing, siding, wells, septic systems, appliances, furnaces, or water heaters. Examples of capital improvements include: building a garage, constructing a den or playroom, or adding a deck, patio, pool, porch, fence, storm windows, sky lights, outside lighting, or landscaping.

The value of a capital improvement can be determined by an appraiser based on the change in the property’s value attributable to the improvement. The cost of making the improvement should not be considered when making this assessment. A borrower who wishes to receive credit for capital improvements should specifically request the appraiser to provide this service.

CALCULATION OF SHARED EQUITY DUE THE AGENCY

If there is no value appreciation, there is no shared equity due the Agency. For guarantees who received interest assistance, the calculation of shared equity due the Agency is computed by considering the average interest rate factor (obtained from the Deputy Chief Financial Officer) applied to the following table to obtain the table factor. Multiply the table factor by the value appreciation less the percentage of original equity to determine amount. The amount due equals the lesser of the amount arrived at when utilizing the table factor calculation or the actual interest assistance received over the life of the loan.

<table>
<thead>
<tr>
<th>months</th>
<th>1%</th>
<th>2%</th>
<th>3%</th>
<th>4%</th>
<th>5%</th>
<th>6%</th>
<th>7%</th>
<th>8%</th>
<th>&gt;8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>loan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>outstanding</td>
<td>1.1</td>
<td>2.1</td>
<td>3.1</td>
<td>4.1</td>
<td>5.1</td>
<td>6.1</td>
<td>7.1</td>
<td>8.1</td>
<td>&gt;8.1</td>
</tr>
<tr>
<td>0 - 59</td>
<td>.50</td>
<td>.50</td>
<td>.50</td>
<td>.50</td>
<td>.44</td>
<td>.32</td>
<td>.22</td>
<td>.11</td>
<td></td>
</tr>
<tr>
<td>60 - 119</td>
<td>.50</td>
<td>.50</td>
<td>.50</td>
<td>.49</td>
<td>.42</td>
<td>.31</td>
<td>.21</td>
<td>.11</td>
<td></td>
</tr>
<tr>
<td>120 - 179</td>
<td>.50</td>
<td>.50</td>
<td>.50</td>
<td>.48</td>
<td>.40</td>
<td>.30</td>
<td>.20</td>
<td>.10</td>
<td></td>
</tr>
<tr>
<td>180 - 239</td>
<td>.50</td>
<td>.50</td>
<td>.49</td>
<td>.42</td>
<td>.36</td>
<td>.26</td>
<td>.18</td>
<td>.09</td>
<td></td>
</tr>
<tr>
<td>240 - 299</td>
<td>.50</td>
<td>.50</td>
<td>.46</td>
<td>.38</td>
<td>.33</td>
<td>.24</td>
<td>.17</td>
<td>.09</td>
<td></td>
</tr>
<tr>
<td>300 - 359</td>
<td>.50</td>
<td>.45</td>
<td>.40</td>
<td>.34</td>
<td>.29</td>
<td>.21</td>
<td>.14</td>
<td>.09</td>
<td></td>
</tr>
<tr>
<td>360 &amp; up</td>
<td>.47</td>
<td>.40</td>
<td>.36</td>
<td>.31</td>
<td>.26</td>
<td>.19</td>
<td>.13</td>
<td>.09</td>
<td></td>
</tr>
</tbody>
</table>

The Agency will process receipt of the shared equity payment on Form RD 451-2 as a
Miscellaneous Collection Code 35. *Form RD 3555-87, “Shared Equity Payment”* will be forwarded to NFAOC as notification of the payoff of recapture.

The lender is responsible for requesting calculation of the shared equity due the Agency for any loan granted interest assistance during the term of the loan and prior to payment in full of unpaid principal balance, accrued interest and fees, if any.
## RECAPTURE WORKSHEET

### Part I. Value Appreciation *(If any calculation in this section yields zero or less, skip to Line 21 and record a zero.)*

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Current market value</td>
</tr>
<tr>
<td>2.</td>
<td><em>(less)</em> Balance due prior lien holders</td>
</tr>
<tr>
<td>3.</td>
<td>Balance (Line 1 - Line 2)</td>
</tr>
<tr>
<td>4.</td>
<td><em>(less)</em> Balance owed by borrower</td>
</tr>
<tr>
<td>5.</td>
<td>Balance (Line 3 - Line 4)</td>
</tr>
<tr>
<td>6.</td>
<td><em>(less)</em> Sales/Refinancing costs</td>
</tr>
<tr>
<td>7.</td>
<td>Balance (Line 5 - Line 6)</td>
</tr>
<tr>
<td>8.</td>
<td><em>(less)</em> Principal reduction</td>
</tr>
<tr>
<td>9.</td>
<td>Balance (Line 7 - Line 8)</td>
</tr>
<tr>
<td>10.</td>
<td><em>(less)</em> Original equity</td>
</tr>
<tr>
<td>11.</td>
<td>Balance (Line 9 - Line 10)</td>
</tr>
<tr>
<td>12.</td>
<td><em>(less)</em> Capital improvement credit</td>
</tr>
<tr>
<td>13.</td>
<td>Value appreciation (Line 11 - Line 12)</td>
</tr>
</tbody>
</table>

### Part II. Value Appreciation Subject to Recapture

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>14.</td>
<td>Dollar value of value appreciation (Line 13)</td>
</tr>
<tr>
<td>15.</td>
<td>Table factor.</td>
</tr>
<tr>
<td>16.</td>
<td>Value appreciation by table factor (Line 14 x Line 15)</td>
</tr>
<tr>
<td>17.</td>
<td>Percentage of original equity (from Interest Assistance Agreement)</td>
</tr>
<tr>
<td>18.</td>
<td>Value appreciation (Line 16 x Line 17)</td>
</tr>
<tr>
<td>19.</td>
<td>Value appreciation subject to recapture (Line 16 - Line 18)</td>
</tr>
</tbody>
</table>

### Part III. Amount Due if There is Value Appreciation

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>20.</td>
<td>Amount of interest assistance received</td>
</tr>
<tr>
<td>21.</td>
<td>Recapture amount (lesser of Line 19 or 20)</td>
</tr>
</tbody>
</table>
INTEREST ASSISTANCE RECAPTURE CASE STUDY

THE SITUATION

John and Sharon Potter bought their home 10 years ago for $50,500. The home appraised for $50,500 but they only qualified for a loan of $50,000. They borrowed $50,000 through a 30 year guaranteed loan and paid the remaining $500 of the purchase price and $1,000 for closing costs out of their savings.

The Potters’ note rate is 7 percent, but they received interest assistance with a reduced interest rate of 4 percent for the first 5 years. Then John got a big promotion, at which point the Potters were no longer eligible for interest assistance.

Last year, the Potters added a deck. The materials cost $1,250, but since they built it themselves, there were no labor costs.

Sharon just got a great new job, and the family is selling the house and moving to a larger home. They are working with Big Bank to finance the new home. They are putting down $5,000, paying $1,000 in points, and are financing the rest of the closing costs.

In preparation for selling the house, the Potters spent $3,000 on new wall-to-wall carpeting and installed a new high-efficiency water heater for $500.

The Potters have found buyers for their house and have signed a sales contract for $65,000. They must pay $1,500 in sales costs, and must pay their current lender $42,988 to pay off their existing loan (exclusive of recapture).

INPUTS FOR VALUE APPRECIATION CALCULATION

- **Current market value.** The house is being sold in an arm's length transaction, the $65,000 sales contract price can be used as current market value.

- **Balance due to prior lien holders.** There are no prior lien holders in this case.

- **Balance owed by borrower.** The remaining loan balance due the lender is $42,988.

- **Non-reimbursable sales costs.** The Potters are paying $1,500 in non-reimbursable sales costs to sell their home.

- **Principal reduction.** The Potters’ principal reduction at the note rate was $7,012.

- **Original equity.** The difference between the purchase price and the amount of the loan was $500 and represents 1% of the market value of the security at the time the loan was made to the Potters.
• **Capital improvement credit.** When the new buyer's appraiser appraised the property, the Potters asked if he would document the increased value attributable to the improvements they had made. They showed him their receipts for $1,250 for the deck and described the labor they had put into it. However, the appraiser concluded that the deck only added $500 to the overall value of the home. They also provided receipts for the carpet ($3,000) and the water heater ($500) for a total of $3,500. However, since the carpet and water heater are not capital improvements, only the $500 value increase from the deck can be counted.

**INPUTS FOR RECAPTURE CALCULATION**

• **Value appreciation.** As Part I. of the Recapture Worksheet shows, the Potters’ value appreciation was $12,500.

• **Recapture factor from table.** The Potters’ average interest rate was .50, derived from information obtained from [NFAOC](#) and the factor table above.

• **Appreciation attributable to original equity.** The Potters’ original equity was $500 or 1 percent of the original market value of $50,500.

• **Amount of interest assistance received.** The Agency provided $7,101 of interest assistance over the course of the loan.

**RESULTS**

• **Value appreciation subject to recapture.** As line 19 of the Potter Family Recapture Worksheet shows, the value appreciation subject to recapture is $6,188.

  Recapture amount. The value appreciation subject to recapture is less than the amount of interest assistance the household received; therefore, the Potter’s recapture amount is $6,188.
### POTTER FAMILY
### RECAPTURE WORKSHEET

<table>
<thead>
<tr>
<th>Part I. Value Appreciation (If any calculation in this section yields zero or less, skip to Line 21 and record a zero.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Current market value</td>
</tr>
<tr>
<td>2. (less) Balance due prior lien holders</td>
</tr>
<tr>
<td>3. Balance (Line 1 - Line 2)</td>
</tr>
<tr>
<td>4. (less) Balance owed by borrower</td>
</tr>
<tr>
<td>5. Balance (Line 3 - Line 4)</td>
</tr>
<tr>
<td>6. (less) Sales/Refinancing costs</td>
</tr>
<tr>
<td>7. Balance (Line 5 - Line 6)</td>
</tr>
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<td>8. (less) Principal reduction</td>
</tr>
<tr>
<td>9. Balance (Line 7 - Line 8)</td>
</tr>
<tr>
<td>10. (less) Original equity</td>
</tr>
<tr>
<td>11. Balance (Line 9 - Line 10)</td>
</tr>
<tr>
<td>12. (less) Capital improvement credit</td>
</tr>
<tr>
<td>13. Value appreciation (Line 11 - Line 12)</td>
</tr>
</tbody>
</table>

### Part II. Value Appreciation Subject to Recapture

| 14. Dollar value of value appreciation (Line 13) | $12,500 |
| 15. Recapture percentage (lesser of 50% or percentage contained in Interest Assistance Agreement) | 50% |
| 16. Value appreciation reduced by recapture percentage (Line 14 x Line 15) | $6,250 |
| 17. Percentage of original equity (from Interest Assistance Agreement) | 1% |
| 18. Value appreciation, reduced by recapture percentage, attributable to original equity (Line 16 x Line 17) | $62 |
| 19. Value appreciation subject to recapture (Line 16 - Line 18) | $6,188 |

### Part III. Amount Due if There is Value Appreciation

| 20. Amount of interest assistance received | $7,101 |
| 21. Recapture amount (lesser of Line 19 or 20) | $6,188 |
APPENDIX 7

CREDIT ALERT INTERACTIVE VOICE RESPONSE SYSTEM (CAIVRS)

What is CAIVRS?

CAIVRS is a Federal government database of delinquent Federal debtors that allows federal agencies to reduce the risk to federal loan and loan guarantee programs. CAIVRS alerts participating Federal lending agencies when an applicant for credit benefits, or for a position of trust in support of the administration of a Federal credit program, has a Federal lien, judgment or a Federal loan that is currently in default or foreclosure, or has had a claim paid by a reporting agency.

What does it do?

CAIVRS allows authorized employees of participating Federal agencies and approved private lenders acting on the Government’s behalf to access a database of delinquent Federal borrowers for the purpose of pre-screening applicants for credit worthiness for federal assistance.

How does it work?

CAIVRS has delinquent borrower records from the Department of Housing and Urban Development (HUD), the Department of Veterans Affairs (VA), the Department of Education (DOE), the Department of Agriculture (USDA), the Small Business Administration (SBA), the Federal Deposit Insurance Corporation (FDIC), and the Department of Justice (DOJ). Authorized users may access CAIVRS via the Internet.

How does CAIVRS relate to Government Financial Management?

Federal law prevents “delinquent Federal debtors from obtaining Federal loans or loan insurance guarantees.” CAIVRS provides a single repository of delinquent Federal debtor records with easy access through a variety of media for pre-screening applicants for Federal benefits. Most credit bureau reports do not identify insured debts as being delinquent Federal debts. By participating in CAIVRS, Federal lending agencies have ready access to an interdepartmental database of delinquent Federal debts that provide Federal financial managers with the information necessary to comply with the U.S. Code requirements.
ACCESS TO CAIVRS

A. CAIVRS Access through GUS

Through a business to government agreement, an interface with CAIVRS occurs once adequate information is complete. GUS will automatically obtain a CAIVRS number once the “Borrower Information” page of GUS is complete and saved. When the lender opens the “Assets and Liabilities” page of GUS, the results of the CAIVRS request will be displayed in the “CAIVRS Information” section. A new CAIVRS result number will display for each borrower.

Possible Results Codes of A CAIVRS Request

“A” There are no Government loan claims/defaults against a Social Security Number.

“B” There is more than one “hit” on a Social Security Number - mostly on Department of Education Guaranteed Loans – when an FHA insured loan is in default and a claim is paid.

“C” A “claim” has been paid to the mortgage company to pay off the loan that has gone into foreclosure. This will remain on the CAIVRS system for 3 years. (These can be either on Title II or Title I -Title I is for mobile homes or home improvement.)

When a “claim” has been paid then HUD/FHA gets title back HUD/FHA sells the property as a HUD-Repo.

PLEASE NOTE: There are “C” codes in CAIVRS for the Loss Mitigation Program. These are what are HUD calls “partial claims” but since a dollar amount was paid by HUD/FHA it is input into CAIVRS as a “C” or “claim paid”.

“D” The loan is more than 90 days past due.

“F” FHA insured loan is the first stages of foreclosure via the mortgage company (if the loan is brought current then it can be reinstated).

“J” Judgments – via the Department of Justice (these can be for the Department of Education Guarantee Loans, child support, and a few FHA-insured loans if the borrower was an investor.)

If GUS automatically retrieves a CAIVRS response, the CAIVRS response cannot be revised/overridden. If an applicant that will be a party to the loan does not receive a clear “A” CAIVRS response the lender must obtain evidence of an “A” CAIVRS response outside of GUS. This documentation must be uploaded as part of a complete loan application submission of the GUS application to USDA.

For manually submitted loans, USDA will retrieve and confirm an “A” CAIVRS response when the loan file is processed in the Agency’s internal Guaranteed Loan System (GLS).
B. Access to CAIVRS outside of GUS

FHA approved lenders may use their FHA Connection User IDs to access CAIVRS.

Non-FHA Lenders

Each non-FHA lender must request at least one Application Coordinator User ID and a Standard User ID for each individual use.

- Non-FHA lenders new to Single Family Housing Guaranteed Loan Program (SFHGLP) that have not yet made a SFHGLP loan, must request CAIVRS access from the National Finance and Accounting Operations Center (NFAOC) guaranteed loan branch in St. Louis prior to completing the steps below. This may be requested at:

  E-Mail Address: RD.NFAOC.HSB@usda.gov
  Telephone Number: (314) 457-4192
  Toll Free Telephone Number: (877) 636-3789

- Non FHA Lenders—Currently participating Single Family Housing Guaranteed Loan Program (SFHGLP) that have previously participated in the SFHGLP can request CAIVRS access from HUD’s Internet site at https://entp.hud.gov/caivrs/public/home.html.

Once access is granted, register as Application Coordinator or Standard User by selecting “Registering Lender User ID” from the main menu.
Register for Application Coordinator ID:

- To apply for an Application Coordinator ID, check the “Coordinator” radio button fill out the form below, and click Send Application.

- A six-character password will be required in the password field. The password is case sensitive and can include numbers and letters. The password must contain at least one number and can consist entirely of numbers.

- Your business email address will require the @ sign. Example:johndoe@internet.org.

- Select the USDA – Rural Development for the Agency. Ensure the user selects the correct Agency, as there are multiple USDA choices.

- The Lender ID must correspond to the Tax ID Number (no hyphens or spaces) reflected on Form RD 3555-16, “Agreement for Participation in Single Family Housing Guaranteed/Insured Loan Programs of the United States Government.” This will be a 9-digit number.

- As a security question, the page will require the user to type the last name of their mother, before marriage, in the Mother’s Maiden Name field.
Registering as a Standard User:

- To apply for a **Standard User ID**, check the “**User**” radio button, fill out the form below and click **Send Application**. Upon verification of the information below, a User ID will be assigned. The **Application Coordinator** of your organization will retrieve the **User ID**. The password will not be disclosed.

The user will need to remember it.
After clicking Send Application on the CAIVRS Application Coordinator or Standard User Registration form, the user is notified by email if processing was successfully completed or if there are errors that need to be corrected before processing can be completed. Help guides are available online at this website to assist with questions.

Upon verification of the information, an ID will be assigned and e-mailed. The password will not be disclosed, so ensure users remember it.

After successful submission, the following screen will appear.

NOTE: Displayed as an Example only – Coordinator
Obtaining a CAIVRS Authorization:

When CAIVRS is obtained outside of GUS, a printout of the result must be placed in the lender’s permanent file and a copy submitted to the Agency.

1. Once the user receives access capabilities, at the same website, the user selects “CAIVRS Prescreening” under the “Lending Institutions” menu to obtain a CAIVRS number for borrower(s).

2. Enter your username and password. Click “Login” to continue.
3. Review CAIVRS message. Check “I Agree” and then click “Continue.”

**NOTE:** Password expires every 21 days. If your password is about to expire, you may get this pop-up screen before or after the initial login screen. It is suggested that you have a reminder to change your password every 20 days to avoid being locked out.
4. At the “CAIVRS Prescreening” page enter the following:

- Borrower’s social security number;
- “Lender ID”; and
- Choose “USDA – Rural Development” as the Agency and click “Send”. TIN numbers for borrowers are not allowed.

5. A CAIVRS number will be issued upon successful submission.

If assistance is needed, the lender may email the CAIVRS Administrator at caivrs_admin@hud.gov.
APPENDIX 8
PENALTIES
APPENDIX 8
PENALTIES

1. Claim for Unallowable Expenses

The servicer’s loss claim request should reflect only allowable expenses. If the Agency’s review of the servicer’s claim shows that unallowable expenses have been claimed, the loss claim amount will be reduced by the amount of unallowable expenses to reflect only allowable costs. The Agency will document any costs it disallows and the reasons for its determination. The following are some of the costs the Agency will disallow:

- Additional interest accrued beyond 60 days of acquisition;
- Interest accrued after allowable foreclosure time frame;
- Late fees;
- In-house servicer expenses such as employee salaries, in-house legal fees, travel, or REO management fees; and
- Liquidation or disposition costs that is not reasonable and customary for the area or fees that exceed fees as noted in Attachment 18-C of Chapter 18.

2. Failure to Adhere to Required Collection Procedures

The servicer is responsible for ensuring that all required collection actions are taken within the prescribed time frames and carefully documented. The Agency will reduce or deny a servicer’s claim if the servicer fails to document that all required collection actions were taken at the appropriate times as noted in Chapter 18. The following are the penalties for failure to fulfill required collection obligations. Penalties take into consideration grace periods offered by the Agency outlined Chapter 18 of this Handbook.

- If the servicer fails to attempt to make any contact with the borrower within 65 days past due, the claim may be denied.
- If the servicer fails to provide timely and accurate Electronic Status Reporting (ESR) including when the account is in default, the claim may be reduced or denied.

(03-09-16) SPECIAL PN
Renumbered (04-30-20) PN 536
• If the servicer does not initiate contact with the borrower within 25 days past due but makes contact within 65 days past due, accrued interest may be reduced by 50 percent.

• If the servicer fails to inspect the property within 65 days past due, but no loss results, the accrued interest may be reduced by 10 percent.

• If the servicer fails to inspect and secure an abandoned property, the loss claim will be reduced by 10 percent and the dollar value of the loss attributable to the servicer’s failure to secure property, as documented in an appraisal. If a loss has not been documented by an appraisal, the claim may be denied.

3. Failure to Adhere to Required Foreclosure Time Frames

The servicer is responsible for foreclosing on the property within the time frames detailed in Attachment 18-B of Chapter 18. If the servicer fails to do so, the Agency may reduce the claim by the amount of any interest accrued beyond the allowable foreclosure time line.

4. Failure to Adhere to Servicing Guidelines

Although the Agency does not service loans, there are servicing requirements that lenders must follow. If the Agency determines that the loan was not serviced in accordance with Agency requirements, the Agency may take any action up to and including reduction or denial of claim, terminating the loan note guarantee, or the requiring the servicing lender to indemnify the Agency if a loss claim is paid.

5. Failure to File a Loss Claim Accurately and Within Required Timelines

The servicer is responsible for filing a timely and accurate loss claim. If the servicer fails to meet agency required timelines when filing claims, the Agency may reduce any additional interest paid from the allowable days to zero.

6. Failure to Ensure That All Applicable Property Standards Were Met

If a loss claim is filed that indicates that some or all of the loss may be attributable to problems with the property itself, the Agency will investigate the cause of the problem and determine if the originating lender is subject to indemnification in accordance with 7 CFR §3555.108(d).
7. **Failure to Maintain the Property**

Servicers are responsible for ensuring that properties securing guaranteed loans are adequately maintained throughout the life of the loan. Servicers are responsible for making protective advances to protect the security property at any point necessary during the life of the loan determining occupancy status, and securing the property. If the Agency determines that failure to maintain the property has resulted in a loss, the Agency will determine the dollar value of the loss attributable to the servicer’s failure to act and may deduct that amount from the loss claim.

8. **Failure to Dispose of the Property for an Appropriate Amount**

The servicer is responsible for ensuring that when property is liquidated, either voluntarily or through foreclosure, it is sold for an amount supported by an appraisal and is acceptable to the Agency. Chapter 18 outlines the minimum requirements for meeting the Agency’s price expectations in various disposition scenarios. If the servicer fails to dispose of a property at an appropriate price, the Agency may reduce the loss claim by the difference between the sale price and the price that should have been obtained.

9. **Failure to Obtain Required Security**

The servicer is responsible for obtaining the needed security for the loan. If the borrower becomes delinquent on the loan and it is shown that the servicer failed to obtain all required security, the loss claim will be denied in accordance with 7 CFR §3555.108(c).

10. **Failure to Maintain the Required Security**

If the servicer fails to make a needed protective advance in accordance with 7 CFR §3555.302(b), the claim will be reduced by the cost of repairing damage caused by failure to act.

If the servicer fails to contact the borrower within 65 days past due to determine whether the property has been abandoned and/or fails to secure an abandoned property by 95 days past due and no damage attributable to the servicer’s failure can be documented, the claim must be reduced by 10 percent.

If damage attributable to the servicer’s failure can be documented, the claim must be reduced by 10 percent plus the cost of repairing damage caused by the failure to act.
11. Provision of Unauthorized Assistance

The Agency cannot make a loss claim payment in the case of unauthorized assistance. If, at the time the loan note guarantee was approved, a borrower did not qualify for the SFHGLP or evidence is present that the property did not meet all property requirements, the Agency must deny the loss claim.

In very unusual circumstances, it is possible that a borrower might use some portion of the loan funds for an unauthorized purpose without the servicer’s knowledge (i.e. – cash returned at closing that did not represent cash from personal funds contributed by or on behalf (gift funds) of the borrower) or purchase of furniture. In such a case, the Agency would honor the loss claim, but reduce the loss claim payment by the amount of the funds that were used for the unauthorized purpose.

12. Commission of, or Failure to, Report Knowledge of Fraud

If a lender or servicer commits fraud or fails to report fraud about which the lender or servicer knew, or should have known, the Agency will deny the loss claim.

13. Failure to Carry Out Established Monitoring Guidelines for Real Estate tax and Hazard Insurance Premium

If the servicer fails to carry out established monitoring guidelines for real estate tax and hazard insurance premium, the Agency may revoke servicer approval.

14. Sale of Loan to Non-Approved Servicer or Other Party

If the loan is sold to a party not approved to participate in the SFHGLP, the loan note guarantee will be considered invalid for the non-approved lender.

15. Failure to Adhere to Underwriting Guidelines

Although the Agency does not underwrite loans, there are underwriting requirements that lenders must follow. If the Agency determines that the loan was not underwritten in accordance with Agency requirements, the Agency may terminate the loan note guarantee, or the originating lender may be required to indemnify the Agency if a loss claim is paid.
16. **Incomplete Closing Documentation**

If the Agency determines that closing documentation is incomplete, or that there were minor, correctable errors in the documents, the lender may be granted up to 30 days to correct the situation. If the complete package is not resubmitted within 30 days, and the account is in default, the Conditional Commitment will not be honored.

17. **Unauthorized Sale or Transfer**

The Agency will withdraw the guarantee if the security property is transferred without an assumption of the debt, unless transferred under the Garn-St. Germaine rule.

18. **Failure to Adhere to Agency Standards for Handling Bankruptcy**

The Agency may reduce or deny any loss claim by 10 percent resulting from an account in bankruptcy that is subsequently foreclosed when accurate and timely actions were not initiated.

19. **Property with Environmental Issues at Time of Liquidation**

If the property’s value at the time of liquidation is affected by environmental issues, the servicer must document how the hazard developed and became known. If the servicer failed to conduct appropriate due diligence at loan origination, the loss claim will be denied or reduced by the decrease in market value attributable to the environmental hazard.
APPENDIX 9
UN-NUMBERED LETTERS AND
STATE SUPPLEMENTS
Appendix 10
Unnumbered Letters and State Supplements

In accordance with RD Instruction 2006-B, all unnumbered letters and State issuances must be submitted to the National Office for either prior approval or post approval.

Appendix 10 may serve as a placeholder for unnumbered letters and State issuances if a paper master manual is retained.
<table>
<thead>
<tr>
<th>TERM</th>
<th>DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>abandonment</td>
<td>A property status indicating that (1) the property is vacant and is not being maintained and (2) the property is not offered for sale or rent with a broker.</td>
</tr>
<tr>
<td>acceleration</td>
<td>Demand for immediate repayment of the entire balance of a debt if the covenants in the promissory note, assumption agreement, or security instruments are breached.</td>
</tr>
<tr>
<td>acquired property</td>
<td>A property owned by the lender as a result of foreclosure or acceptance of a deed-in-lieu; often referred to as “real estate owned.”</td>
</tr>
<tr>
<td>acquisition date</td>
<td>The date of foreclosure sale, the date title is lawfully transferred to lender, or deed-in-lieu recordation.</td>
</tr>
<tr>
<td>additional interest</td>
<td>The amount of interest accrued on the amount of the principal loss between the settlement date and the loss claim check date on a properly filed claim.</td>
</tr>
<tr>
<td>additional recovery</td>
<td>Any proceeds recovered by the Lender which occurred after a previously paid loss payment or report of REO sold. Examples may be a trailing insurance refund, collection of a deficiency judgment or similar type proceeds. Additional recovery is to be reported to the Agency through use of the Additional Recovery Calculator.</td>
</tr>
<tr>
<td>adjustable rate</td>
<td>A mortgage in which the interest rate is adjusted periodically according to a specified index.</td>
</tr>
<tr>
<td>mortgage (ARM)</td>
<td></td>
</tr>
<tr>
<td>adjusted annual</td>
<td>Income from all household members who live or propose to live in the dwelling as their primary residence for all or part of the ensuing 12 months. Adjusted annual income is used to determine whether an applicant is income-eligible for a guaranteed loan, or interest assistance, if applicable. Adjusted annual income provides for deductions to account for varying household circumstances and expenses. See Chapter 9 of this Handbook.</td>
</tr>
<tr>
<td>income</td>
<td></td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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<tr>
<td>-------------------------------</td>
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</tr>
<tr>
<td>Administrator</td>
<td>The official of the Rural Housing Service within the Rural Development mission area (or official of its successor agency) delegated authority by the Secretary of the U.S. Department of Agriculture to ensure that Rural Housing Service mission objectives are fulfilled, including those involving the provision of decent, safe, and affordable housing and the development of essential community facilities in rural areas.</td>
</tr>
<tr>
<td>ad valorem taxes</td>
<td>Property taxes based on assessed value of property.</td>
</tr>
<tr>
<td>adverse decision</td>
<td>An administrative decision made by an officer, employee or committee of the Agency that has a negative impact on the applicant or borrower.</td>
</tr>
<tr>
<td>affidavit</td>
<td>A written statement made under oath before an officer of the court or notary public.</td>
</tr>
<tr>
<td>Agency</td>
<td>The Rural Housing Service of the U.S. Department of Agriculture, Rural Development, or its successor agency.</td>
</tr>
<tr>
<td>agency employee</td>
<td>Any employee of the Rural Housing Service or any employee of the USDA Rural Development mission area who carries out Section 502 guaranteed loan program functions.</td>
</tr>
<tr>
<td>aka</td>
<td>Also known as.</td>
</tr>
<tr>
<td>alien</td>
<td>See &quot;qualified alien.&quot;</td>
</tr>
<tr>
<td>alienation</td>
<td>Alienation of real property refers to the transfer of the interest in and/or title to real property by its owner to another, whether voluntary, for example by sale, gift, mortgage or lease; or involuntary, for example, by judicial process such as a tax sale, bankruptcy, or adverse possession.</td>
</tr>
<tr>
<td>alternative dispute resolution (ADR)</td>
<td>Processes and techniques that act as a means for disagreeing parties to come to an agreement short of litigation.</td>
</tr>
<tr>
<td>American Indian restricted lands</td>
<td>Land or any interest in land, which is: (1) held by an individual American Indian or federally recognized Indian Tribe or Tribes, including any band, Rancheria, colony, pueblo, group, community or nation of Indians or Alaska Natives; and (2) is subject to federal restrictions against alienation or encumbrance.</td>
</tr>
<tr>
<td>amortization</td>
<td>A gradual reduction of the mortgage debt through equal monthly principal and interest payments sufficient to fully repay the unpaid principal balance over the mortgage term.</td>
</tr>
<tr>
<td>amortized payment</td>
<td>Equal monthly payments under a fully amortized mortgage loan that provides for the scheduled payment of principal and interest over the term of the loan.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td>annual fee</td>
<td>A periodic amount that is based on the average annual scheduled unpaid principal balance of the loan and is paid by the servicing lender to Rural Development on an annual basis for issuance of a Loan Note Guarantee. The fee is included in the monthly mortgage payment of a borrower and is used when calculating payment ratios.</td>
</tr>
<tr>
<td>annual income</td>
<td>Used to determine an applicant’s eligibility for assistance. All amounts, monetary or not, of the applicant's household not specifically excluded by regulations, and amounts derived from assets any members of the family have access to.</td>
</tr>
<tr>
<td>applicant</td>
<td>An adult member of the household who will be responsible for repayment of the loan and is applying to a lender for a guaranteed loan.</td>
</tr>
<tr>
<td>appraisal</td>
<td>An opinion or estimate of value. Also refers to the process by which a value estimate is obtained.</td>
</tr>
<tr>
<td>appraised value</td>
<td>An opinion of value reached by an appraiser based upon knowledge, experience and a study of pertinent data.</td>
</tr>
<tr>
<td>appraiser</td>
<td>A person qualified by education, training and experience to estimate the value of real and personal property.</td>
</tr>
<tr>
<td>appreciation</td>
<td>An increase in value of property for any reason, except inflation.</td>
</tr>
<tr>
<td>approved lender</td>
<td>A financial institution that meets the requirements to participate in the Single Family Guaranteed Rural Housing program. See &quot;lender.&quot;</td>
</tr>
<tr>
<td>area median income</td>
<td>The median income in a specific locality; typically a county or Metropolitan Statistical Area (MSA), as determined by the Department of Housing and Urban Development.</td>
</tr>
<tr>
<td>ARM</td>
<td>See &quot;adjustable rate mortgage.&quot;</td>
</tr>
<tr>
<td>arm's length transaction</td>
<td>A negotiation where the agents involved deal completely with each other as strangers and do not collude.</td>
</tr>
<tr>
<td>assessed valuation</td>
<td>Value assigned to a piece of property by the local governmental unit for taxation purposes. This is usually less than the market value of the property. The relationship between assessed and market value varies widely depending on location and jurisdiction.</td>
</tr>
<tr>
<td>assessment</td>
<td>A charge made against property by a state, county, city or other authorized taxing jurisdiction.</td>
</tr>
<tr>
<td><strong>asset management</strong></td>
<td>The process of managing a property or properties from acquisition to disposition within owner-defined objectives ranging from investment &amp; operation analysis to the positioning of the property in the marketplace.</td>
</tr>
<tr>
<td>---------------------</td>
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</tr>
<tr>
<td><strong>assignment of mortgage</strong></td>
<td>A document that evidences a transfer of ownership of a mortgage from one mortgagee to another.</td>
</tr>
<tr>
<td><strong>assumption</strong></td>
<td>A method of selling real estate wherein the property purchaser accepts the liability for payment of an existing mortgage.</td>
</tr>
<tr>
<td><strong>attachment</strong></td>
<td>The act of taking property into the custody of the law to provide security for payment of a judgment in an impending suit.</td>
</tr>
<tr>
<td><strong>attorney costs</strong></td>
<td>Actual costs incurred associated with the most recent liquidation action. Does not include attorney fees. Applicable to foreclosure and bankruptcy.</td>
</tr>
<tr>
<td><strong>attorney fees</strong></td>
<td>Actual fees incurred associated with the most recent liquidation action. Does not include costs. Maximum claimable expense varies from state to state. Applicable to foreclosure and bankruptcy.</td>
</tr>
<tr>
<td><strong>AU</strong></td>
<td>See “Automated Underwriting.”</td>
</tr>
<tr>
<td><strong>automated underwriting (AU) system</strong></td>
<td>An AU system automates a manual underwriting process. It serves as a “transaction manager” that includes communication links between transaction participants, the capability to retrieve data from a variety of sources, and a scorecard. Lenders transmit loan-level data electronically to an AU system, the data is evaluated by the scorecard and lenders receive a credit risk classification based on the risk inherent in the loan application.</td>
</tr>
<tr>
<td><strong>automated valuation model (AVM)</strong></td>
<td>Also known as a comparable sale report. Online databases are used to try to match up similar properties to provide the range of sales prices that have been historically recorded. This information is limited to factual data, such as house size, number of rooms and bedrooms, age, and distance surrounding the house. Some databases use historical information, taken from mostly county record data. Some databases collect information from appraisal reports.</td>
</tr>
<tr>
<td><strong>automatic stay</strong></td>
<td>A provision of the Federal Bankruptcy Code that stops any act that can be construed to be an act against the interests of the debtor or the debtor’s property.</td>
</tr>
<tr>
<td><strong>AVM</strong></td>
<td>See &quot;automated valuation model.&quot;</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
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</tr>
<tr>
<td><strong>balloon mortgage</strong></td>
<td>A mortgage with periodic installments of principal and interest that do not fully amortize a loan. The balance of the mortgage is due in a lump sum at a specified date, usually at the end of the term.</td>
</tr>
</tbody>
</table>
| **bankrupt** | A person, firm or corporation who, through a court proceeding, is relieved from the payment of all debts after the surrender of all assets to a court-appointed trustee, for the protection of creditors. Bankruptcy may be declared under one of several chapters of the Federal Bankruptcy Code:  
- Chapter 7, which covers individual or business bankruptcy liquidation;  
- Chapter 11, which covers reorganization of bankrupt businesses;  
- Chapter 12, which covers certain farm bankruptcies; and  
- Chapter 13, which covers workouts of debts by individuals in which a debtor retains possession of property while making payments to creditors under a court-approved plan. |
<p>| <strong>bankruptcy discharge</strong> | Legal petition releasing the debtor from all dischargeable debts. |
| <strong>bankruptcy dismissal</strong> | Legal order as a result of a motion filed by either the debtor or another interested party seeking to dismiss the bankruptcy case. |
| <strong>basis point</strong> | One one-hundredth of one percent. Used to describe changes in yield on debt instruments, including mortgages. |
| <strong>borrower</strong> | An individual obligated to repay the loan guaranteed under the Guaranteed Rural Housing loan program. |
| <strong>BPO</strong> | See &quot;broker price opinion.&quot; |
| <strong>BOV</strong> | Broker opinion of value. See &quot;broker price opinion.&quot; |
| <strong>broker price opinion (BPO) or broker opinion of value (BOV)</strong> | Used to estimate value of a property based upon a comparison to other similar properties recently sold. Also known as comparative market analysis (CMA). |
| <strong>business day</strong> | A business day is a day other than a Saturday or Sunday or a day on which the offices of the Federal Government are closed. For the purposes of this handbook, the word &quot;day&quot; without the modifier &quot;business&quot; refers to a calendar day. |
| <strong>buy-down mortgage</strong> | A mortgage with a below-market interest rate made by a lender in return for an interest rate subsidy in the form of additional discount points paid by the builder, seller or buyer. |
| <strong>CAIVRS</strong> | See &quot;Credit Alert Verification Reporting System.&quot; |</p>
<table>
<thead>
<tr>
<th>Glossary Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>calendar day</td>
<td>Every day of the calendar month, which includes Saturday, Sunday, and state and federal holidays.</td>
</tr>
<tr>
<td>capital improvement</td>
<td>Any structure or component erected as a permanent improvement to real property, which adds to its value and useful life.</td>
</tr>
<tr>
<td>capitalization</td>
<td>The adding of expected payments to the remaining unpaid balance of the loan.</td>
</tr>
<tr>
<td>case file</td>
<td>A file established for each application to contain all documents used for loan origination.</td>
</tr>
<tr>
<td>cash flow</td>
<td>Money left from gross income after all expenses, both operating and debt service, have been deducted.</td>
</tr>
<tr>
<td>Customer Service Center (CSC)</td>
<td>Formerly known as the Centralized Servicing Center. The Agency branch located in St. Louis, Missouri, that is responsible for servicing Section 502 and 504 loans.</td>
</tr>
<tr>
<td>certificate of foreclosure</td>
<td>(Connecticut Only) A document found on the land records which is evidence that a foreclosure has been completed and the mortgagee now owns the property.</td>
</tr>
<tr>
<td>charge off</td>
<td>To treat as a loss; to designate as an expense an amount originally recorded as an asset.</td>
</tr>
<tr>
<td>closing costs</td>
<td>Various fees required to conclude a real estate transaction.</td>
</tr>
<tr>
<td>closing date</td>
<td>In real estate, the delivery of a deed, financial adjustments, the signing of notes and the disbursement of funds necessary to consummate a sale or loan transaction. See also “settlement date.”</td>
</tr>
<tr>
<td>Closing Disclosure</td>
<td>A form that provides final details about the mortgage loan prior to the closing or settlement date. It includes the loan terms, projected monthly payments, and the amount of fees and other costs related to finalizing the real-estate transaction. The lender must provide the borrower with the Closing Disclosure at least 3 business days prior to loan consummation. This form replaced the HUD-1 Settlement Statement.</td>
</tr>
<tr>
<td>cloud on title</td>
<td>Any outstanding claim or encumbrance that, if valid, would affect or impair the title search. It can be removed by a quitclaim deed, release, or court action.</td>
</tr>
<tr>
<td>CMA</td>
<td>Comparative market analysis. See &quot;broker price opinion.&quot;</td>
</tr>
<tr>
<td><strong>cohort</strong></td>
<td>A group with similar characteristics. OMB Circular A-11 refers to a cohort as all direct loans or loan guarantees of a program for which a subsidy appropriation is provided for a given year. A cohort is usually defined by the fiscal year of the appropriation.</td>
</tr>
<tr>
<td><strong>collateral</strong></td>
<td>Property pledged as security for a debt, for example, real estate pledged as security for a mortgage.</td>
</tr>
<tr>
<td><strong>collateral estoppel</strong></td>
<td>Prior judgment from a lawsuit between parties on a different cause of action that bars re-litigation of those matters in a subsequent lawsuit.</td>
</tr>
<tr>
<td><strong>combination construction and permanent loan</strong></td>
<td>A guaranteed loan on which the Rural Development guarantee becomes effective at the time construction of an eligible single-family housing project begins.</td>
</tr>
<tr>
<td><strong>committee of sale</strong></td>
<td>(Connecticut Only) An attorney appointed by the Court to conduct the auction of the mortgaged property in a foreclosure action.</td>
</tr>
<tr>
<td><strong>common law</strong></td>
<td>As distinguished from law created by legislatures (statutory law), the common law is that law which is founded in ancient customs and practices as interpreted by the Courts.</td>
</tr>
<tr>
<td><strong>community land trust</strong></td>
<td>A private nonprofit community housing development organization that is established to acquire parcels of land, held in perpetuity, primarily for conveyance under long-term ground leases. See § 502(a)(3)(b) of the Housing Act of 1949, as amended.</td>
</tr>
<tr>
<td><strong>comparables</strong></td>
<td>Properties used for comparative purposes in the appraisal process that have similar characteristics to the subject property.</td>
</tr>
<tr>
<td><strong>compensating factors</strong></td>
<td>Information that indicates that an applicant may be able to make larger regular loan payments than a ratio analysis indicates.</td>
</tr>
<tr>
<td><strong>compliance review</strong></td>
<td>An official review, on-site or desk audit, to determine lender or Agency field office compliance with program regulations. Agency field office compliance reviews are conducted under RD Instruction 2006-M.</td>
</tr>
<tr>
<td><strong>concessions</strong></td>
<td>Sales concessions influence the price paid for real estate and may be in the form of loan discount points, loan origination fees, interest rate buy downs, closing cost assistance, payment of condominium fees, builder incentives, down payment assistance, repairs or repair credits given by the seller or any other party involved in the transaction.</td>
</tr>
<tr>
<td><strong>condemnation</strong></td>
<td>The taking of private property for public use. Under a condemnation proceeding, property is taken with or without the consent of the owner, but with just compensation. See also eminent domain.</td>
</tr>
<tr>
<td>------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Conditional Commitment</strong></td>
<td>Rural Development’s agreement that a proposed loan will be guaranteed if all conditions and requirements established by Rural Development are met.</td>
</tr>
<tr>
<td><strong>condominium</strong></td>
<td>A form of property ownership whereby the purchaser receives title to a specified residential unit and a proportionate interest in common areas of the condominium project in which the unit is located.</td>
</tr>
<tr>
<td><strong>condominium project</strong></td>
<td>A real estate project in which each owner has title to a unit in a building, an undivided interest in the common areas of the project and sometimes the exclusive use of certain limited common areas.</td>
</tr>
<tr>
<td><strong>confirmation hearing (bankruptcy)</strong></td>
<td>A legal proceeding where the debtor’s proposed Chapter 13 plan is reviewed and either approved or denied by the Bankruptcy Judge.</td>
</tr>
<tr>
<td><strong>confirmation hearing (foreclosure)</strong></td>
<td>A legal proceeding where the Sheriff’s Sale is confirmed and title is transferred to the successful bidder from the sale.</td>
</tr>
<tr>
<td><strong>confirmation of bankruptcy plan</strong></td>
<td>A Bankruptcy Court order which approves a debtor's plan to pay the debts owed to his/her/their creditors as of the date of the filing of the bankruptcy petition. In some jurisdictions, “confirmation” may be referred to as &quot;ratification.&quot;</td>
</tr>
<tr>
<td><strong>conventional financing</strong></td>
<td>In real estate, mortgage financing which is not insured or guaranteed by a government agency such as HUD/FHA, VA or the Rural Housing Service.</td>
</tr>
<tr>
<td><strong>conveyance</strong></td>
<td>The document, such as a deed, lease or mortgage, used to affect a transfer.</td>
</tr>
<tr>
<td><strong>correspondent</strong></td>
<td>A specialized type of mortgage banker entity whose function is limited to the origination of mortgage loans that are sold to other mortgage bankers or investment bankers. The correspondent performs some or the entire loan processing functions such as taking the application; ordering credit reports, appraisals, and title reports; and verifying the borrower's income and employment. The correspondent may or may not have delegated underwriting and typically funds the loans at settlement. The mortgage is closed in the correspondent’s name and the correspondent may or may not service the mortgage. The correspondent may commission a mortgage broker to perform some of the processing functions. Also known as &quot;mortgage loan correspondent.&quot;</td>
</tr>
<tr>
<td><strong>co-signer</strong></td>
<td>One who agrees to assume a debt obligation if the principal borrower defaults on mortgage payments. A co-signer assumes only personal liability and has no ownership interest in the property; his or her income and obligations are used in the underwriting process to reinforce the credit of the principal borrower.</td>
</tr>
<tr>
<td><strong>cost approach to value</strong></td>
<td>A means of valuation where the worth of a property is determined by computing the replacement value of improvements, depreciation, and the value of the land.</td>
</tr>
<tr>
<td><strong>COTS</strong></td>
<td>Commercial off-the-shelf software.</td>
</tr>
<tr>
<td><strong>counterclaim</strong></td>
<td>A claim presented in a pending lawsuit by a defendant against plaintiff in opposition to, or deduction from, plaintiff's claim.</td>
</tr>
<tr>
<td><strong>cram down</strong></td>
<td>The effect of certain provisions of the Bankruptcy Code which allow the debtor to avoid the unsecured portion of an under-secured claim when the under-secured claim is not secured solely by the debtor's principal residence. Also known as lien stripping.</td>
</tr>
<tr>
<td><strong>Credit Alert Verification Reporting System (CAIVRS)</strong></td>
<td>CAIVRS is a HUD-maintained online information system that enables both government and participating lenders to learn when a potential borrower has previously defaulted on a federally-assisted loan.</td>
</tr>
<tr>
<td><strong>credit exception</strong></td>
<td>A consideration of mitigating circumstance to establish the intent for good credit. See Chapters 5, 10, and 11 of this Handbook.</td>
</tr>
<tr>
<td><strong>credit repository or credit bureau</strong></td>
<td>An institution that for a fee provides historical credit records of individuals provided to them by creditors subscribing to their services.</td>
</tr>
<tr>
<td><strong>credit score</strong></td>
<td>A credit score is an overall numerical rating, developed from an individual's credit profile including information on payment history, amounts owed, length of credit history, new credit, and types of credit used, that indicates the likelihood that a borrower will repay future obligations. Scores are weighted and range from approximately 365 to 840. Low scores reflect a &quot;high risk&quot;, while higher scores reflect a &quot;lower risk&quot;. See also &quot;FICO.&quot;</td>
</tr>
<tr>
<td><strong>cross-claim</strong></td>
<td>A claim in a pending lawsuit by a defendant against another defendant.</td>
</tr>
<tr>
<td><strong>custodial property</strong></td>
<td>Borrower-owned real property that serves as security for a loan that has been taken into possession by the Agency to protect Government’s interest.</td>
</tr>
<tr>
<td><strong>custodian</strong></td>
<td>The custodian is an institution that verifies and maintains the original notes and assignments of security instruments, which includes either a third-party custodian or a holding lender acting as its own custodian.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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<tr>
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</tr>
<tr>
<td>dba</td>
<td>Doing business as.</td>
</tr>
<tr>
<td>DCIA</td>
<td>See &quot;Debt Collection Improvement Act.&quot;</td>
</tr>
<tr>
<td>debarment</td>
<td>An action taken under part 3017 of this title or title 48 of the Code of Federal Regulations to exclude a person or entity from participating in federal programs.</td>
</tr>
<tr>
<td>debenture rate</td>
<td>The rate for purposes of calculating a claim to be paid by HUD is the monthly average yield, for the month in which the default on the mortgage occurred, on United States Treasury Securities adjusted to a constant maturity of 10 years. The yields can be found in Federal Reserve Statistical Release H-15.</td>
</tr>
<tr>
<td>Debt Collection Improvement Act (DCIA)</td>
<td>The Debt Collection Improvement Act of 1996 centralized the government-wide collection of delinquent debt. The Financial Management Service (FMS) is the US Treasury agency responsible for implementation of the debt collection provisions of the DCIA.</td>
</tr>
<tr>
<td>debt-to-income ratio</td>
<td>Total debt ratio is calculated by dividing monthly obligations (proposed PITI, assessments &amp; long-term obligations) by gross monthly income. PITI ratio is calculated by dividing PITI by gross monthly income. See Chapter 11 of this Handbook.</td>
</tr>
<tr>
<td>debt instrument</td>
<td>A collective term encompassing obligating documents for a loan, including any applicable promissory note, assumption agreement, or a grant agreement.</td>
</tr>
<tr>
<td>debt settlement</td>
<td>Actions undertaken to collect at least a portion of debt owed to the Agency in conjunction with a voluntary liquidation, forced liquidation, or after the debt is fully matured. Debt settlement, when complete, closes the account.</td>
</tr>
<tr>
<td>declaration page</td>
<td>A short form provided by an insurance company outlining pertinent information about an insurance policy, such as the insured party’s name and address, amount of coverage, terms, and additional provisions.</td>
</tr>
<tr>
<td>deed-in-lieu</td>
<td>A voluntary transfer of title on a defaulted mortgage by deed from the borrower to the lender as an alternative to foreclosure. By arrangement between the parties, the lender saves the expense of foreclosure and the borrower generally expects to receive credit for payment of the debt in full.</td>
</tr>
<tr>
<td>deed of trust</td>
<td>A type of security instrument in which the borrower conveys a trust to hold property to a third party (trustee) as security for the lender, with the condition that the trustee shall reconvey the title upon the payment of the debt and, conversely, will sell the land and pay the debt in the event of a default by the borrower.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td>default</td>
<td>A breach or nonperformance of the terms of a note or the covenants of a mortgage.</td>
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<tr>
<td>default judgment</td>
<td>Judgment entered in a lawsuit when a defendant has failed to enter a plea or otherwise defend himself.</td>
</tr>
<tr>
<td>defendant</td>
<td>Any person or entity that is being sued.</td>
</tr>
<tr>
<td>deficient housing</td>
<td>A dwelling that lacks complete plumbing; lacks adequate heating; is dilapidated or structurally unsound; has an overcrowding situation that will be corrected with loan funds; or that is otherwise uninhabitable, unsafe, or poses a health or environmental threat to the occupant or others.</td>
</tr>
<tr>
<td>deficiency</td>
<td>The negative difference between the balance outstanding on a loan and proceeds from the sale of the loan collateral.</td>
</tr>
<tr>
<td>deficiency judgment</td>
<td>A court order to pay the balance owed on a loan if the proceeds from the sale of the security are insufficient to pay off the loan.</td>
</tr>
<tr>
<td>delinquency</td>
<td>Failure to make timely payments under a loan agreement.</td>
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<td></td>
<td>Freddie Mac glossary: Delinquency occurs when all or part of the borrower's monthly installment of principal, interest and, where applicable, escrow is unpaid after the due date. If the due date is the first day of the month, the mortgage is thirty days delinquent when all or part of one or more payment(s) remain unpaid as of the close of business on the last business day of the month. If the due date is not the first day of the month (from the second through the thirty-first day of the month), the mortgage is thirty days delinquent when all or part of one or more payment(s) remain unpaid 30 or more calendar days as of close of business on the last business day of the month.</td>
</tr>
<tr>
<td>density</td>
<td>The ratio of land area to the number of structures built upon it.</td>
</tr>
<tr>
<td>Department of Housing and Urban Development (HUD)</td>
<td>A department of the Executive branch of the government responsible for the implementation and administration of housing and urban development programs. HUD was established by the Housing and Urban Development Act of 1965 to supersede the Housing and Home Finance Agency.</td>
</tr>
<tr>
<td>deposit</td>
<td>Money given as security for the performance of a contract, which is to be forfeited if the depositor fails in the undertaking. See also &quot;earnest money.&quot;</td>
</tr>
<tr>
<td>depreciation</td>
<td>A sum representing presumed loss in the value of a building or other real estate improvement, resulting from physical wear and economic obsolescence.</td>
</tr>
<tr>
<td><strong>DIL</strong></td>
<td>See &quot;deed-in-lieu.&quot;</td>
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<td><strong>discount point</strong></td>
<td>Amount payable to the lending institution by the borrower or seller to increase the lender's effective yield. It may represent a payment for services rendered in issuing a loan or additional interest to the lender payable in advance. One point is equal to 1 percent of the loan.</td>
</tr>
<tr>
<td><strong>dismissal with prejudice</strong></td>
<td>In the bankruptcy court, a court order dismissing the bankruptcy case with an order prohibiting the debtor from filing another bankruptcy until the expiration of some specified time. In a non-bankruptcy matter, the dismissal of an action is without the right to raise those issues again.</td>
</tr>
<tr>
<td><strong>disposition value</strong></td>
<td>See &quot;market value.&quot;</td>
</tr>
<tr>
<td><strong>docket</strong></td>
<td>A list of cases and their status on a court's calendar.</td>
</tr>
<tr>
<td><strong>down payment</strong></td>
<td>The amount of cash a borrower may need to pay in order to buy a piece of property; equal to the purchase price minus the amount of any mortgage loans used to finance the purchase.</td>
</tr>
<tr>
<td><strong>draw schedule</strong></td>
<td>A detailed schedule of payments agreed to by the borrower, Agency and contractor under which the contractor will receive payments for work completed.</td>
</tr>
<tr>
<td><strong>due date of last paid installment (DDLPI)</strong></td>
<td>The due date of the last fully paid monthly installment of principal, interest and escrow (if any), not the date on which such payment was credited or the date of the next scheduled installment. (Freddie Mac definition)</td>
</tr>
<tr>
<td><strong>due diligence</strong></td>
<td>Refers to a legal obligation, e.g. in connection with the public sale of securities in real estate syndicates, of the underwriting or selling group to ensure that the offering statement or prospectus does not misstate or omit material information.</td>
</tr>
<tr>
<td><strong>due-on-sale clause</strong></td>
<td>A clause in the mortgage providing that if the mortgagor sells, transfers, or in any way encumbers the property, the mortgagee has the right to implement the acceleration clause making the balance of the obligation due. Also known as encumbrance. See also “Garn-St. Germain Act.”</td>
</tr>
<tr>
<td><strong>Early Indicator</strong></td>
<td>A risk scoring model prescribed by Freddie Mac to identify high-risk loans.</td>
</tr>
<tr>
<td><strong>earnest money</strong></td>
<td>A sum of money given to bind a sale of real estate, to assure payment or an advance of funds in the processing of a loan; a deposit.</td>
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<tr>
<td><strong>easement</strong></td>
<td>The legal right to use land, or a portion of land, owned by another for a limited purpose.</td>
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<td>Term</td>
<td>Definition</td>
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<tr>
<td><strong>ECOA</strong></td>
<td>See &quot;Equal Credit Opportunity Act.&quot;</td>
</tr>
<tr>
<td><strong>EDI</strong></td>
<td>See &quot;electronic data interchange.&quot;</td>
</tr>
<tr>
<td><strong>EFT</strong></td>
<td>See &quot;electronic funds transfer.&quot;</td>
</tr>
<tr>
<td><strong>EIS</strong></td>
<td>See &quot;environmental impact statement.&quot;</td>
</tr>
<tr>
<td><strong>elderly family</strong></td>
<td>An elderly family consists of one of the following:</td>
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<td>(1) A person who is the head, spouse, or sole member of a family and who is 62 years of age or older, or who is disabled, and is an applicant or borrower; or</td>
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<td></td>
<td>(2) Two or more persons who are living together, at least one of whom is age 62 or older, or disabled, and who is an applicant or borrower; or</td>
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<td>(3) In the case of a family where the deceased borrower or spouse was at least 62 years old or disabled, surviving household members shall continue to be classified as an elderly family for determining adjusted income, even though the surviving members may not meet the definition of elderly family on their own, provided:</td>
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<td>• They occupied the dwelling with the deceased family member at the time of the death;</td>
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<td></td>
<td>• If one of the surviving family members is the spouse of the deceased family member, the family shall be classified as an elderly family only until the remarriage of the surviving spouse; and</td>
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<td></td>
<td>• At the time of the death of the deceased family member, the dwelling was financed under title V of the Housing Act of 1949.</td>
</tr>
<tr>
<td><strong>electronic data interchange (EDI)</strong></td>
<td>An electronic communication method that provides standards for exchanging data via any electronic means.</td>
</tr>
<tr>
<td><strong>electronic status reporting (ESR)</strong></td>
<td>A business process of exchanging standardized information by computer application-to-computer application between private industry and Rural Housing Services (RHS). This exchange is accomplished by accessing the USDA LINC Electronic Status Reporting web pages and includes the utilization of standardized EDI transaction sets.</td>
</tr>
<tr>
<td><strong>electronic funds transfer (EFT)</strong></td>
<td>The Debt Collection Improvement Act of 1996 (DCIA) required the use of electronic funds transfer (EFT) for most federal payments by 1999. The law itself defines the term &quot;electronic funds transfer&quot; as an instruction to a &quot;financial institution&quot; to credit or debit an &quot;account.&quot; These are also referred to as electronic payments.</td>
</tr>
<tr>
<td><strong>eminent domain</strong></td>
<td>The right of government bodies, public utilities, and public service corporations to take private property for public use (e.g. schools, roads, etc.) on payment of its fair market value.</td>
</tr>
<tr>
<td><strong>encroachment</strong></td>
<td>A property improvement that illegally violates another's property.</td>
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<tr>
<td><strong>encumbrance</strong></td>
<td>Mortgage, loans, or other restrictions that alter or restrain full title of ownership.</td>
</tr>
<tr>
<td><strong>ENR</strong></td>
<td>See &quot;estimated net recovery.&quot;</td>
</tr>
<tr>
<td><strong>environmental hazard</strong></td>
<td>A potentially harmful condition associated with the external physical conditions that surround one.</td>
</tr>
<tr>
<td><strong>Environmental Impact Statement (EIS)</strong></td>
<td>A detailed written statement in the public record of major federal action affecting human environment. The EIS explores and objectively evaluates reasonable alternatives to the federal action.</td>
</tr>
<tr>
<td><strong>environmental review (ER)</strong></td>
<td>An analysis of the potential for environmental impacts from a proposed action by the Agency and an examination of alternatives to avoid or minimize adverse impacts on the environment.</td>
</tr>
<tr>
<td><strong>Equal Credit Opportunity Act (ECOA)</strong></td>
<td>A Federal law that requires lenders and other creditors to make credit equally available without discrimination based on race, color, religion, national origin, age, sex, marital status or receipt of income from public assistance programs. Also called &quot;Regulation B.&quot;</td>
</tr>
<tr>
<td><strong>equitable</strong></td>
<td>Just; conformable to the principals of justice and right</td>
</tr>
<tr>
<td><strong>equity</strong></td>
<td>Net ownership, the difference between fair market value of the mortgaged premises and the current indebtedness, the total dollar amount of all mortgages and other liens secured by the property, sometimes called &quot;owner's interest.&quot;</td>
</tr>
<tr>
<td><strong>escrow account</strong></td>
<td>An account in which is deposited, the portion of the borrower's monthly payment collected to cover expenses to be paid under the mortgage, including, but not limited to, taxes, special assessments, ground rents and other charges that are or may become first liens on the mortgaged premises, as well as property (hazard) insurance premiums, and if applicable, mortgage insurance premiums, held in trust by the lender.</td>
</tr>
<tr>
<td><strong>escrow balance</strong></td>
<td>The balance of the escrow account as of the application of the last borrower payment.</td>
</tr>
<tr>
<td><strong>estimated net recovery (ENR)</strong></td>
<td>The figure used by Rural Development to settle a loss claim on an unsold REO. A lender's ENR is based on a liquidation value appraisal to which is applied the current REO cost factor to estimate REO expenses to be deducted.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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<tr>
<td>estoppel</td>
<td>A party prevented by his own acts from claiming a right to the detriment of a second party, when the second party did some act in reliance on the first party's acts. An estoppel arises when one is forbidden by law to speak against his own act or deed.</td>
</tr>
<tr>
<td>estoppel letter</td>
<td>A letter requesting the precise amount of indebtedness remaining to facilitate the conveyance of a mortgage to another.</td>
</tr>
<tr>
<td>eviction action</td>
<td>A court action to obtain possession of premises by the person entitled to actual possession. Also may be known as “forcible entry and detainer (FED).”</td>
</tr>
<tr>
<td>execute</td>
<td>To perform or complete.</td>
</tr>
<tr>
<td>existing dwelling or unit</td>
<td>A dwelling or unit that has either been previously owner-occupied or has been completed for more than 1-year as evidenced by an occupancy permit, certificate of occupancy, or confirmation of manufacture date or similar document issued by the local authority or affixed to a unit. It does not meet the definition of “new dwelling.”</td>
</tr>
<tr>
<td>extended-term loan modification</td>
<td>A loan modification in which the lender reduces the interest rate to a level at or below the maximum allowable interest rate and then extends the repayment term up to a maximum of 40 years from the date of loan modification, but only if necessary to achieve the targeted mortgage payment to income ratio.</td>
</tr>
<tr>
<td>Fair Credit Reporting Act (FCRA)</td>
<td>The Fair Credit Reporting Act governs how credit reports may be maintained and used. Among its purposes is to ensure that credit reporting agencies respect the consumer's right to privacy.</td>
</tr>
<tr>
<td>Fair Debt Collection Practices Act (FDCPA)</td>
<td>A Federal act that provides the ground rules for communication with a consumer debtor and prescribes the way debts may be collected.</td>
</tr>
<tr>
<td>fair market value</td>
<td>The price at which property is transferred between a willing buyer and a willing seller - both with good information and no compulsion to buy or sell. See also &quot;market value.&quot;</td>
</tr>
<tr>
<td>false information</td>
<td>Information that the recipient knew was incorrect or should have known was incorrect and was provided or omitted for the purposes of obtaining assistance for which the recipient was not eligible.</td>
</tr>
</tbody>
</table>
| **Fannie Mae** | A stock-holder-owned corporation established by Congress that supplies funds to mortgage lenders. Mortgages funded by Fannie Mae must comply with their selling and servicing requirements. Also considered a quasi-governmental secondary market organization, it offers various mortgage purchase and securitization programs. Mortgages funded by Fannie Mae must comply with their selling and servicing requirements. Formerly known as "Federal National Mortgage Association (FNMA)."

| **FAQ** | Frequently asked questions.

| **Farm Credit Administration (FCA)** | The Farm Credit Administration (FCA or Agency) is an independent agency in the executive branch of the U.S. Government. It is responsible for the regulation and examination of the banks, associations, and related entities that collectively comprise what is known as the Farm Credit System (FCS), including the Federal Agricultural Mortgage Corporation (Farmer Mac).

| **Farm Credit System (FCS)** | Chartered in 1917, FCS is a $65 billion-plus nationwide agricultural network of lending institutions providing credit and affiliated services to farm and ranch operators across the United States. FCS associations are owned by their stockholders/customers and are governed by a board of directors elected by the customer-owners and operate on a cooperative basis.

| **Farmers Home Administration (FmHA)** | Formerly, an agency of the Department of Agriculture that provided farm, community facility and housing loans and grants to eligible recipients in rural areas.

| **FDCPA** | See "Fair Debt Collection Practices Act."

| **Fed** | A shortened term for the Federal Reserve System.

| **FED** | See "forcible entry and detainer."

| **Federal Deposit Insurance Corporation (FDIC)** | Originally established by the Banking Act of 1933 to protect depositors from loss. As a result of FIRREA, the FDIC administers the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF). An FDIC-insured depository is a depository institution whose deposits are insured by FDIC.

| **Federal Home Loan Bank Board (FHLBB)** | The FHLBB was a regulatory and supervisory agency for federally chartered savings institutions and was abolished by FIRREA. It oversaw the operations of the Federal Savings and Loan Insurance Corporation (FSLIC) and the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac).

| **Federal Home Loan Mortgage Corporation (FHLMC)** | See "Freddie Mac."
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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</thead>
<tbody>
<tr>
<td>Federal Housing Administration (FHA)</td>
<td>A federal agency within the Department of Housing and Urban Development that provides mortgage insurance for residential mortgages and sets standards for construction and underwriting. The FHA does not lend money, nor does it plan or construct housing.</td>
</tr>
<tr>
<td>Federal National Mortgage Association (FNMA)</td>
<td>See &quot;Fannie Mae.&quot;</td>
</tr>
<tr>
<td>Federal Reserve</td>
<td>The Federal Reserve, the central bank of the U.S., founded by Congress in 1913 to provide a safer, more flexible, and more stable monetary and financial system. Federal Reserve's duties fall into four areas: (1) conducting the nation’s monetary policy; (2) supervising and regulating banking institutions and protecting the credit rights of consumers; (3) maintaining the stability of the financial system; and (4) providing certain financial services to the U.S. government, the public, financial institutions and foreign official institutions.</td>
</tr>
<tr>
<td>Federal Savings &amp; Loan Insurance Corporation (FSLIC)</td>
<td>Originally established in 1934 by the National Housing Act to insure deposits in participant savings and loan associations, FSLIC was dissolved by FIRREA. Under FIRREA, the Savings Association Insurance Fund (SAIF) is the new thrift insurance fund, administered by the Federal Deposit Insurance Corporation (FDIC).</td>
</tr>
<tr>
<td>Federally Manufactured Home Construction and Safety Standard (FMHCSS)</td>
<td>See &quot;manufactured home.&quot;</td>
</tr>
<tr>
<td>fee or fee simple</td>
<td>The greatest possible interest a person can have in real estate, including the right to dispose of the property or pass it on to one's heirs.</td>
</tr>
<tr>
<td>fee simple ownership</td>
<td>A form of ownership under which the owner has absolute title to a piece of property.</td>
</tr>
<tr>
<td>FHA</td>
<td>See &quot;Federal Housing Administration.&quot;</td>
</tr>
<tr>
<td>FHA insurance</td>
<td>An undertaking by FHA to insure the lender against loss arising from a default by the borrower.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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<tr>
<td><strong>FHA mortgage</strong></td>
<td>A home mortgage that is fully insured by the FHA under Sections 203(b), 203(h) or 203(i) [Home Unsubsidized], 222 [Servicemen] or 234 [Individual Condominium Unit] of the National Housing Act, as amended.</td>
</tr>
<tr>
<td><strong>FHLMC</strong></td>
<td>See &quot;Federal Home Loan Mortgage Corporation.&quot;</td>
</tr>
<tr>
<td><strong>FICA tax</strong></td>
<td>Also known as the “Social Security” tax. FICA stands for Federal Insurance Contributions Act.</td>
</tr>
<tr>
<td><strong>FICO score</strong></td>
<td>A credit scoring model developed by Fair Isaac and Company, Inc. See also &quot;credit score.&quot;</td>
</tr>
<tr>
<td><strong>fidelity bond</strong></td>
<td>A business insurance policy that protects an employer in case of any loss of money or property due to employee. It covers any type of stealing: theft, forgery, larceny, and embezzlement.</td>
</tr>
<tr>
<td><strong>Field Office</strong></td>
<td>An office that delivers services on Agency programs to the public.</td>
</tr>
<tr>
<td><strong>FIRREA (Financial Institutions Reform, Recovery and Enforcement Act of 1989)</strong></td>
<td>The law enacted to restructure the thrift industry. The Act created regulatory entities to oversee thrifts and established risk-based capital guidelines for Qualified Thrift Lenders (QTLs). The Act created the Office of Thrift Supervision (OTS), the Federal Housing Finance Board (FHFB), and the Resolution Trust Corporation (RTC); the Act dissolved the Federal Home Loan Bank Board (FHLBB) and the Federal Savings and Loan Insurance Corporation (FSLIC).</td>
</tr>
<tr>
<td><strong>first legal action</strong></td>
<td>The date of first action required by law to initiate foreclosure. See also “foreclosure initiation.” Action varies by state.</td>
</tr>
<tr>
<td><strong>first lien</strong></td>
<td>A first lien is any lien that meets both of the following requirements: (1) The lien is acceptable to private institutional first-mortgage investors in the area where the mortgaged premises are located, and (2) The lien grants to the lien holder a claim against the property that, under the law of the jurisdiction where the mortgaged premises are located, is prior to the rights of all others, subject only to prior liens and encumbrances expressly waived.</td>
</tr>
<tr>
<td><strong>first mortgage</strong></td>
<td>A real estate loan that creates a primary lien against real property.</td>
</tr>
</tbody>
</table>
**first-time homebuyers**  
A preference extended to households where the applicant meets one of the following criteria:  
(1) No ownership interest in a principal residence during the three-year period ending on the date of loan closing; or  
(2) A displaced homemaker or single parent who, except for owning with a spouse, had no ownership interest in a principal residence during the three-year period ending on the date of loan closing. Displaced homemakers include any individual who is:  
(i) An adult;  
(ii) Unemployed or underemployed;  
(iii) Experiencing difficulty in obtaining or upgrading employment; and  
(iv) In recent years has worked primarily without remuneration to care for the home and family, but has not worked full-time, full-year in the labor force.  
(3) An individual who is a single parent and who, except for owning a home with a spouse, has had no ownership interest in a principal residence during the three-year period ending on the date of loan closing. Single parents include any individual who is:  
(4) Unmarried or legally separated; and  
(5) Has custody or joint custody of one or more children or is pregnant.

**fiscal year**  
A fiscal year is a 12-month accounting period. The fiscal year for the Federal Government begins October 1 and ends September 30. The fiscal year is designated by the calendar year in which it ends; for example, fiscal year 1997 is the year beginning October 1, 1996, and ending September 30, 1997.

**fixed rate mortgage (FRM)**  
A mortgage in which the interest rate and payments remain the same for the life of the loan.

**flipping**  
The practice of buying property as an investment at a bargain price, making superficial repairs and re-selling it quickly at an inflated price. Elements of fraudulent "flipping" are older, decaying property, cosmetic repairs, inflated sale price and eager, unsophisticated buyers.

**float**  
In mortgage servicing, the period of time between the receipt of the borrower's funds and remittance of those funds to investors.

**FmHA**  
See "Farmers Home Administration."

**FNMA**  
See "Fannie Mae."

**forbearance**  
The act of refraining from taking legal action even though a mortgage is in arrears. It is usually granted only when a mortgagor makes a satisfactory arrangement by which the arrears will be paid at a later date.
<table>
<thead>
<tr>
<th><strong>force-placed insurance</strong></th>
<th>Required insurance coverage obtained by the lender on the borrower’s behalf, which the borrower has allowed to lapse. The borrower is required to pay the premium. Also known as forced-order or lender-placed insurance.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>forcible entry and detainer (FED)</strong></td>
<td>A court action to obtain possession of premises by the person entitled to actual possession (also may be known as an eviction action).</td>
</tr>
<tr>
<td><strong>foreclosure</strong></td>
<td>A legal procedure in which a mortgaged property is sold to pay the outstanding debt in case of default.</td>
</tr>
<tr>
<td><strong>foreclosure initiation</strong></td>
<td>The date of the first legal action required by law to initiate foreclosure. Action varies by state.</td>
</tr>
<tr>
<td><strong>foreclosure sale</strong></td>
<td>A forced sale of mortgaged property at public auction conducted either by the court or in some other prescribed fashion, with the proceeds of the sale going to satisfy the debt. The lender is usually the successful bidder at the foreclosure sale.</td>
</tr>
<tr>
<td><strong>fraud</strong></td>
<td>A deception deliberately practiced to secure unfair or unlawful gain.</td>
</tr>
<tr>
<td><strong>Freddie Mac</strong></td>
<td>A stock-holder-owned corporation established by Congress that supplies funds to mortgage lenders. Also considered a quasi-governmental secondary market organization, it offers various mortgage purchase and securitization programs to facilitate residential mortgages sponsored by the Veterans Administration and the Federal Housing Administration as well as residential mortgages that are not government protected. Mortgages funded by Freddie Mac must comply with their selling and servicing requirements. Formerly known as Federal Home Loan Mortgage Corporation (FHLMC).</td>
</tr>
<tr>
<td><strong>FSLIC</strong></td>
<td>See &quot;Federal Savings &amp; Loan Insurance Corporation.&quot;</td>
</tr>
<tr>
<td><strong>Full-time student</strong></td>
<td>A person who carries at least the minimum number of credit hours considered to be full-time by the college or vocational school in which the person is enrolled.</td>
</tr>
<tr>
<td><strong>funded buydown</strong></td>
<td>Using funds from the seller, lender or other interested third party to temporarily reduce the borrower’s monthly payment during the initial years of the loan.</td>
</tr>
<tr>
<td><strong>future recovery</strong></td>
<td>The recovery of additional funds to be applied to the REO account after the settlement of the original loss claim payment.</td>
</tr>
<tr>
<td><strong>GAO</strong></td>
<td>See &quot;General Accounting Office.&quot;</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td><strong>Garn-St. Germain Act</strong></td>
<td>In 1982, Congress passed the Garn-St. Germain Depository Institutions Act that provides that due-on-sale clauses are enforceable notwithstanding contrary state law. However, the act excludes from its coverage certain loans made during certain “window” periods when there may have been state law protection, and exempts certain specified transfers. See “OGC’s Compilation of Laws.”</td>
</tr>
<tr>
<td><strong>General Accounting Office (GAO)</strong></td>
<td>The audit, evaluation and investigative arm of the United States Congress. GAO exists to support the Congress in meeting its Constitutional responsibilities and to help improve the performance and ensure the accountability of the Federal Government.</td>
</tr>
<tr>
<td><strong>gift letter</strong></td>
<td>A letter certifying to the underwriter that funds in an applicant's account are truly a gift and need not be repaid.</td>
</tr>
<tr>
<td><strong>Ginnie Mae</strong></td>
<td>See &quot;Government National Mortgage Association.&quot;</td>
</tr>
<tr>
<td><strong>GNMA</strong></td>
<td>See &quot;Government National Mortgage Association.&quot;</td>
</tr>
<tr>
<td><strong>Government National Mortgage Association (GNMA)</strong></td>
<td>Also known as Ginnie Mae. A federal agency within the Department of Housing and Urban Development (HUD) that guarantees the timely payment of principal and interest for mortgage-backed securities backed by FHA-insured, RHS-guaranteed and VA-guaranteed mortgages.</td>
</tr>
<tr>
<td><strong>government sponsored enterprises (GSE)</strong></td>
<td>Privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government. Examples of GSEs include: Federal Home Loan Bank, Fannie Mae, Freddie Mac, Federal Farm Credit Bank, Resolution Funding Corporation and The Student Loan Marketing Association.</td>
</tr>
<tr>
<td><strong>guarantee</strong></td>
<td>Federal credit aid in which the federal government pledges its financial liability (full faith and credit) for loans made by private, state or local government institutions.</td>
</tr>
<tr>
<td><strong>guarantee fee</strong></td>
<td>The fee paid by the lender to the government for its guarantee. This is sometimes referred to as an insurance fee or upfront fee. The fee is calculated as a percentage of the principal loan amount, and may be passed on to the borrower to be paid separately or included in the loan. See Chapter 16 of this Handbook.</td>
</tr>
<tr>
<td><strong>guaranteed loan</strong></td>
<td>A loan made, held and serviced by a lender for which Rural Development has entered into a “Lender Agreement” with. See Chapter 3 of this Handbook.</td>
</tr>
<tr>
<td><strong>Guaranteed Loan System (GLS)</strong></td>
<td>The present automated loan accounting system for RHS guaranteed rural housing loans.</td>
</tr>
<tr>
<td>-------------------------------</td>
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</tr>
<tr>
<td><strong>Guaranteed Underwriting System (GUS)</strong></td>
<td>The automated system developed by Rural Development that allows lender's underwriters to review the eligibility of single family guaranteed rural housing loan applications for guarantees.</td>
</tr>
<tr>
<td><strong>GUS</strong></td>
<td>See &quot;Guaranteed Underwriting System.&quot;</td>
</tr>
<tr>
<td><strong>hazard</strong></td>
<td>A condition of the property that jeopardizes the health or safety of the occupants or members of the community, that does not necessarily make it unfit for habitation.</td>
</tr>
<tr>
<td><strong>hazard insurance</strong></td>
<td>Insurance coverage that provides compensation to the insured in case of property loss or damage.</td>
</tr>
<tr>
<td><strong>HCC</strong></td>
<td>See &quot;Housing Counseling Clearinghouse.&quot;</td>
</tr>
<tr>
<td><strong>highest and best use</strong></td>
<td>The use of land that will bring the greatest return.</td>
</tr>
<tr>
<td><strong>holder in due course</strong></td>
<td>A term that describes a person or other legal entity (such as a financial institution) that &quot;holds&quot; or owns a negotiable instrument (usually a check or promissory note) but is not the original payee of the instrument. As such, the &quot;holder&quot; may not be subject to some claims or defenses that might be raised against the original payee by the maker of the instrument (such as the borrower).</td>
</tr>
<tr>
<td><strong>Home Mortgage Disclosure Act (HMDA)</strong></td>
<td>This act requires all mortgage companies to report selected information to the federal government about each application received. HUD (U.S. Department of Housing and Urban Development) uses HMDA to detect discrimination and identify trends in lending patterns.</td>
</tr>
<tr>
<td><strong>household</strong></td>
<td>All persons routinely living in the dwelling as principal residence, except for live-in aides, foster children, and foster adults.</td>
</tr>
<tr>
<td><strong>Housing Act of 1949, as amended</strong></td>
<td>The Act which provides the authority for the single-family housing programs. It is codified at 42 U.S.C. 1471, et seq.</td>
</tr>
<tr>
<td><strong>Housing Counseling Clearinghouse (HCC)</strong></td>
<td>A HUD-established service for financially distressed mortgagors to call (1-800-569-4287) for information on HUD-approved housing counseling agencies. Required by the HUD Act of 1968, lenders must notify all eligible delinquent borrowers of the availability of housing counseling for residential mortgage loans, whether conventional, government insured or government guaranteed, including loans, direct or insured, by federal, state and local governmental agencies.</td>
</tr>
<tr>
<td><strong>housing finance agency (HFA)</strong></td>
<td>A State agency that is responsible for the financing of housing and the administration of certain subsidized housing programs.</td>
</tr>
<tr>
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</tr>
<tr>
<td><strong>HUD</strong></td>
<td>The Department of Housing and Urban Development.</td>
</tr>
<tr>
<td><strong>HUD-1 Settlement Statement</strong></td>
<td>A loan closing document listing funds paid by the Buyer and Seller, the distributions of those funds, and the remaining cash that should go to the Seller. The settlement statement refers to the Buyer as the &quot;Borrower&quot; because the Buyer is the one taking out a real estate mortgage. This form was replaced with the &quot;Closing Disclosure.&quot;</td>
</tr>
<tr>
<td><strong>inaccurate information</strong></td>
<td>Incorrect information inadvertently provided, used, or omitted without intent to obtain benefits for which the applicant was not eligible.</td>
</tr>
<tr>
<td><strong>income approach to value</strong></td>
<td>A method of estimating property value by capitalizing net property income.</td>
</tr>
<tr>
<td><strong>income limits</strong></td>
<td>Family income limits established by law, based on family size and geographic location, for eligibility for certain government subsidized housing programs.</td>
</tr>
<tr>
<td><strong>Indian reservation</strong></td>
<td>All land located within the limits of any Indian reservation under the jurisdiction of the United States notwithstanding the issuance of any patent and including rights-of-way running through the reservation; trust or restricted land located within the boundaries of a former reservation of a federally recognized Indian tribe in the State of Oklahoma; or all Indian allotments, the titles to which have not been extinguished if such allotments are subject to the jurisdiction of a federally recognized Indian tribe.</td>
</tr>
</tbody>
</table>
| **individual retirement account (IRA)** | A Traditional IRA is an account that allows you to defer taxes on your earnings until they are withdrawn. Contributions may be tax deductible in the year they are made if certain requirements are met.  

A Roth IRA is a nondeductible account that features tax-free withdrawals for certain distribution reasons after a five-year holding period. It allows your contributions and earnings to grow tax-free. Contributions may be withdrawn tax-free at any time.  

An Education IRA is a trust or custodial account created exclusively for paying the qualified higher education expenses of the Designated Beneficiary of the account. Use the IRA Calculator to determine how much you need to save a child's future education. See also "Keogh plan." |
<table>
<thead>
<tr>
<th>term</th>
<th>definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>interest assistance</td>
<td>Agency assistance available to eligible borrowers that reduces the effective interest rate on the guaranteed loan. Interest assistance applied to borrowers whose loans were approved as a subsidized guaranteed loan between April 17, 1991 and September 30, 1991 and who entered into interest assistance and shared equity agreements at loan closing.</td>
</tr>
<tr>
<td>interest rate</td>
<td>Percentage paid for the use of money, usually expressed as an annual percentage.</td>
</tr>
<tr>
<td>interim financing</td>
<td>Financing used from the beginning of a project to the closing of a permanent loan, usually a construction or development loan.</td>
</tr>
<tr>
<td>investor</td>
<td>Any person or institution that invests in mortgages or mortgage-backed securities. (18-3)</td>
</tr>
<tr>
<td>joint tenancy</td>
<td>Joint ownership by two or more persons giving each tenant equal interest and equal rights in the property, including the right of survivorship.</td>
</tr>
<tr>
<td>judgment</td>
<td>Final determination by a court of the rights and claims of the parties to an action.</td>
</tr>
<tr>
<td>judicial foreclosure</td>
<td>Type of foreclosure proceeding used in some states that is handled as a civil lawsuit and conducted entirely under the auspices of a court.</td>
</tr>
<tr>
<td>junior lien</td>
<td>Lien or claim against a property that is secondary or inferior to the lien of the first mortgage, e.g. a second mortgage.</td>
</tr>
<tr>
<td>Keogh plan (HR 10)</td>
<td>A form of tax-qualified retirement plan established by a non-incorporated business or self-employed individual. Investment contributions and appreciation are generally tax-deferred until actually received in the form of benefits. A self-employed retirement plan.</td>
</tr>
<tr>
<td>land contract</td>
<td>An agreement to transfer title to a property once the conditions of the contract have been fulfilled. Also known as a contract for deed.</td>
</tr>
<tr>
<td>late charge</td>
<td>An additional charge that a borrower is required to pay as a penalty for failure to pay a regular installment when due.</td>
</tr>
<tr>
<td><strong>law day</strong></td>
<td>(Connecticut Only) The last day for the mortgagor or other junior lien holder to redeem the foreclosing mortgagee's debt. If all the law days assigned pass without redemption, the foreclosing mortgagee will own the property and will record a certificate of foreclosure.</td>
</tr>
<tr>
<td><strong>leap day</strong></td>
<td>February 29th or 2/29 which may be included as an additional day of loss claim interest accrual if the lender is using a 365-day interest accrual basis and includes leap day in interest accrual calculations.</td>
</tr>
<tr>
<td><strong>leasehold estates</strong></td>
<td>A kind of real estate ownership through which the property owner doesn’t hold title to the property, but instead has use of the property subject to the terms of the lease.</td>
</tr>
<tr>
<td><strong>legal alien</strong></td>
<td>For the purposes of these programs, legal alien refers to any person lawfully admitted to the country who meets the criteria in Section 214 of the Housing and Community Development Act of 1980, as amended, 42 U.S.C. 1436a.</td>
</tr>
</tbody>
</table>
**lender**  
For Rural Development SFHGLP purposes, there are four main categories: submitting lender, originating lender, holding lender, and servicing lender.

**Submitting lender.** A submitting lender is one that has not been approved as a participating lender in the GRH program. The FHA calls these lenders “correspondents” and in the industry they are also known as mortgage brokers. Brokers or correspondents may submit GRH loan packages, but the loans must be underwritten by an approved originating or participating lender.

**Originating lender (aka participating lender).** This is a lender that has been approved as a participating lender in the GRH program. They are authorized to originate and close GRH loans. The FHA calls these “supervised lenders” (those regulated by a federal entity like the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), the National Credit Union Administration (NCUA), the Office of Thrift Supervision (OTS) or the Federal Reserve Banks (FRB) and "un-supervised lenders" (those not regulated by a federal entity but still qualified to originate loans for FHA).

**Holding lender.** A holding lender or holder is an approved lender that has originated or purchased GRH loans and “holds” or owns the promissory note. The holder is entitled to the income stream from the mortgage payments. The holder may service the loans they hold or own, or elect to sell the servicing rights to a servicing lender. The servicing lender pays the holder as mortgage payments are received or when foreclosed property has been sold.

**Servicing lender.** A servicing lender or servicer does not originate loans, but purchases the servicing rights to them from a holder. A servicer receives and applies payments, administers tax and insurance escrows, deploys collection efforts against a delinquent borrower, and liquidates defaulted loans and acquired collateral. Depending upon the servicing contract, a servicing lender or the holder may ultimately submit the loss claim to the Agency. A servicing lender may or may not “hold” or own the note.

**leveraged loan**  
An affordable housing product loan or grant to a Section 502 direct Agency borrower property, closed simultaneously with an RHS loan. Affordable leveraged loans are characterized by long term (not less than 30 years), amortized payments with a note interest rate equal to or less than 3 percent.

**lien**  
A legal hold or claim of a creditor on the property of another as security for a debt. Liens are always against property, usually real property.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>lien stripping</td>
<td>Used to describe the effect of certain provisions of the Bankruptcy Code which allow the debtor to avoid the unsecured portion of an under-secured claim when the under-secured claim is not secured solely by the debtor's principal residence. Also known as a &quot;cram down.&quot;</td>
</tr>
<tr>
<td>liquidation</td>
<td>Liquidation of the loan occurs when the Lender acquires title to the security, a third party buys the property at the foreclosure sale, or the borrower sells the property to a third party to avoid or cure a default situation with the prior approval of the lender and RHS. In states providing a redemption period, the lender does not typically acquire title until after expiration of the redemption period.</td>
</tr>
<tr>
<td>liquidation value</td>
<td>The most probable price which a specified interest in real property is likely to bring under all of the following conditions:</td>
</tr>
<tr>
<td></td>
<td>(1) Consummation of a sale will occur within a severely limited future marketing period specified by the client.</td>
</tr>
<tr>
<td></td>
<td>(2) Actual market conditions are those currently obtaining for the property interest appraised.</td>
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<tr>
<td></td>
<td>(3) The buyer is acting prudently and knowledgeably.</td>
</tr>
<tr>
<td></td>
<td>(4) The seller is under extreme compulsion to sell.</td>
</tr>
<tr>
<td></td>
<td>(5) The buyer is typically motivated.</td>
</tr>
<tr>
<td></td>
<td>(6) The buyer is acting in what he or she considers his or her best interests.</td>
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<td></td>
<td>(7) A limited marketing effort and time will be allowed for the completion of a sale.</td>
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<td></td>
<td>(8) Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.</td>
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<td></td>
<td>(9) The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.</td>
</tr>
<tr>
<td></td>
<td>This definition can be modified to provide for valuation with specified financing terms.</td>
</tr>
<tr>
<td>Lis Pendens</td>
<td>A notice filed on public record for the purposes of notifying all persons that a certain property is under litigation.</td>
</tr>
<tr>
<td>litigation</td>
<td>A legal action or process.</td>
</tr>
<tr>
<td>live-in aide</td>
<td>A person who:</td>
</tr>
<tr>
<td></td>
<td>(1) lives with an elderly person or a person with a disability, and</td>
</tr>
<tr>
<td></td>
<td>(2) is essential to that person’s care and well-being, and</td>
</tr>
<tr>
<td></td>
<td>(3) is not obligated for the person’s support, and</td>
</tr>
<tr>
<td></td>
<td>(4) would not be living in the unit except to provide the support services.</td>
</tr>
<tr>
<td>LNG</td>
<td>See &quot;loan note guarantee.&quot;</td>
</tr>
<tr>
<td><strong>loan administration</strong></td>
<td>A mortgage banking function which includes the receipt of payments, customer service, escrow administration, investor accounting, collections and foreclosures. Also called &quot;servicing.&quot;</td>
</tr>
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<td>------------------------</td>
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</tr>
<tr>
<td><strong>Loan Approval Official</strong></td>
<td>An Agency employee who has the authority to approve loans. Unless otherwise indicated, each State Director may determine which approval actions may be made by the Loan Approval Official, and which must come to the State Office for approval.</td>
</tr>
<tr>
<td><strong>Loan Estimate</strong></td>
<td>A form that provides a loan applicant with important information, including the estimated interest rate, monthly payment, and total closing costs for the loan being requested. The lender must provide the applicant with a Loan Estimate within three business days of receiving a complete application that identifies the property and loan amount requested.</td>
</tr>
<tr>
<td><strong>loan modification</strong></td>
<td>A written agreement that permanently changes an original note term, such as the interest rate, monthly payment, and/or the principal balance due to capitalization of interest or advances.</td>
</tr>
<tr>
<td><strong>loan note guarantee (LNG)</strong></td>
<td>Form RD 3555-17, &quot;Loan Note Guarantee,&quot; is used by RHS to guarantee a loan made in accordance with applicable regulations with the full faith and credit of the United States. See Chapter 16 of this Handbook.</td>
</tr>
<tr>
<td><strong>loan origination</strong></td>
<td>The process by which a mortgage bankers or direct lender brings into being a mortgage secured by real property.</td>
</tr>
<tr>
<td><strong>loan origination system (LOS)</strong></td>
<td>A system used by lenders and mortgage brokers to originate loans and track their pipeline of loans in process. An LOS electronically captures loan data, prints forms, and transmits data to automated underwriting systems.</td>
</tr>
<tr>
<td><strong>loan-to-value (LTV) ratio</strong></td>
<td>LTV ratio is the relationship between the amount to be financed and the market value of the security property.</td>
</tr>
<tr>
<td><strong>lockbox</strong></td>
<td>The service that receives and processes borrower payments.</td>
</tr>
<tr>
<td><strong>long arm statutes</strong></td>
<td>Laws that permit courts to acquire personal jurisdiction over non-residents by virtue of activity within the state.</td>
</tr>
<tr>
<td><strong>loss claim</strong></td>
<td>The method by which the Agency provides reimbursement to a lender who has fulfilled all program requirements but who has incurred a loss on a guaranteed loan.</td>
</tr>
<tr>
<td><strong>loss draft</strong></td>
<td>A payment from an insurance company to a borrower to cover the borrower’s adjusted losses due to damages covered under the insurance policy.</td>
</tr>
<tr>
<td><strong>loss mitigation</strong></td>
<td>A lender’s efforts with a borrower to work out a delinquency or resolve a defaulted loan to maximize recovery and avoid foreclosure. May include extension of loan terms, forbearance, moratorium, modification, refinancing, short sale or deed-in-lieu.</td>
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</tr>
<tr>
<td><strong>low income</strong></td>
<td>An adjusted income limit developed in consultation with HUD under 42 U.S.C 1437a(b)(2)(D).</td>
</tr>
<tr>
<td><strong>maintenance costs</strong></td>
<td>Recurring fees associated with holding custodial or REO property. An example is yard maintenance and/or mowing.</td>
</tr>
<tr>
<td><strong>major hazard</strong></td>
<td>A condition so severe that it makes the property unfit for habitation. See also the definition of “hazard.”</td>
</tr>
<tr>
<td><strong>manufactured home</strong></td>
<td>A structure that is built to Federally Manufactured Home Construction and Safety Standard (FMHCSS) and Agency Thermal Performance Standards (TPS). It is transportable in one or more sections, which in the traveling mode is 10-body feet (3.048 meters) or more in width, and when erected on site is 400 or more square feet (37.16 square meters), and which is built on a permanent chassis and designed to be used as a dwelling with or without a permanent foundation when connected to the required utilities. It is designed and constructed for permanent occupancy by a single family and contains permanent eating, cooking, sleeping, and sanitary facilities. The plumbing, heating, and electrical systems are contained in the structure. A permanent foundation is required.</td>
</tr>
<tr>
<td><strong>mark to market</strong></td>
<td>The process whereby the book value or collateral value of the security is adjusted to reflect current market value.</td>
</tr>
<tr>
<td><strong>market approach to value</strong></td>
<td>In appraisal, a market value estimate of property based on actual prices paid in similar market transactions.</td>
</tr>
<tr>
<td><strong>market value</strong></td>
<td>The most probable price that a property should bring after reasonable exposure in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowingly. It is the value of the property as determined by a current appraisal made in accordance with the Uniform Standards of Professional Appraisal Practices.</td>
</tr>
<tr>
<td><strong>marketable title</strong></td>
<td>A title that is free from material defects and under which a purchaser may have quiet and peaceful enjoyment of the property subject to easements, covenants and restrictions readily acceptable to a well-informed buyer. Also known as merchantable title.</td>
</tr>
<tr>
<td>---------------------</td>
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</tr>
<tr>
<td><strong>maturity</strong></td>
<td>The date on which a note or other negotiable instrument becomes due and payable.</td>
</tr>
<tr>
<td><strong>maximum allowable interest rate for extended-term loan modification</strong></td>
<td>The Agency may establish the maximum allowable interest rate in an extended-term loan modification by publishing a notice in the Federal Register describing how to calculate the maximum allowable interest rate. If the maximum allowable interest rate has not been established by notice in the Federal Register, the maximum allowable interest rate shall be 50 basis points greater than the most recent Freddie Mac Weekly Primary Mortgage Market Survey (PMMS) rate for 30-year fixed-rate mortgages (U.S. average), rounded to the nearest one-eighth of one percent (0.125%), as of the date the loan modification is executed. Weekly PMMS rates are published on the Freddie Mac website, and the Federal Reserve Board includes the average 30-year PMMS rate in the list of Selected Interest Rates that it publishes weekly in its Statistical Release H.15.</td>
</tr>
<tr>
<td><strong>MBA</strong></td>
<td>See &quot;Mortgage Bankers Association.&quot;</td>
</tr>
<tr>
<td><strong>MCC</strong></td>
<td>See &quot;mortgage credit certificate.&quot;</td>
</tr>
<tr>
<td><strong>mechanic's lien</strong></td>
<td>A claim created by law for the purpose of securing priority of payment for work performed and materials furnished by a mechanic or other person for the construction or repair of a building; such claim attaches to the land as well as buildings and improvements erected thereon.</td>
</tr>
<tr>
<td><strong>MERS</strong></td>
<td>See &quot;Mortgage Electronic Registration System.&quot;</td>
</tr>
<tr>
<td><strong>Metropolitan Statistical Area (MSA)</strong></td>
<td>MSA is a county or group of counties of 50,000 people or more, or “twin cities” with a combined population of at least 50,000. In addition to the county containing such a city, contiguous counties are included in a metro area according to commuting patterns. In New England States, metro areas consist of towns and cities instead of counties, otherwise the rules are similar.</td>
</tr>
<tr>
<td><strong>mineral lease</strong></td>
<td>A granting of rights to a third party to mine, drill or otherwise access oil, gas or other valuable natural resources on a property.</td>
</tr>
<tr>
<td><strong>minority-owned business enterprise</strong></td>
<td>An enterprise that is more than 50% owned, controlled and operated by one or more members of one or more of the following groups: African-American, Hispanic American, Native American, Asian-Pacific American, or Asian-Indian American.</td>
</tr>
<tr>
<td><strong>MIP</strong></td>
<td>See &quot;mortgage insurance premium.&quot;</td>
</tr>
<tr>
<td><strong>mobile home</strong></td>
<td>A manufactured unit often referred to as a “trailer,” designed to be used as a dwelling, but built prior to the enactment of Pub. L. 96-399 (October 8, 1980).</td>
</tr>
</tbody>
</table>
| **moderate income** | The greater of:
   1. 115 percent of the U.S. median family income,
   2. the average of the state-wide and state non-metro median family income,
   3. 115/80ths of the area low-income limit adjusted for household size for the county or MSA where the property is, or will be, located. |
<p>| <strong>modest housing</strong> | For purposes of this part, “modest housing” is the housing that a low- or moderate-income borrower can afford based on their repayment ability. In addition, the property must not be designed for income producing activities. |
| <strong>modular or panelized home</strong> | Housing, constructed of one or more factory-built sections or panels which, when completed, meets or exceed the requirements of the recognized development standards (model building codes) for site-built housing, and which is designed to be permanently connected to a site-built foundation. |
| <strong>moratorium</strong> | Legal authorization to delay the enforcement of liability for debt or to suspend an activity. |
| <strong>mortgage</strong> | A formal document executed by an owner of property, pledging that property as security for payment of a debt or performance of some other obligation; the security instrument. See also “deed of trust.” |
| <strong>mortgage-backed security (MBS)</strong> | An investment instrument backed by mortgage loans as security. Ownership is evidenced by an undivided interest in a pool of mortgages or trust deeds. Income from the underlying mortgages is used to pay off the securities and provides a return on investment. |
| <strong>mortgage banker</strong> | A firm that conducts mortgage lending activities from its own funds. Newly formed mortgages are sold to investors in the secondary market, providing funds for subsequent lending. |</p>
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<thead>
<tr>
<th>Glossary Term</th>
<th>Definition</th>
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<tr>
<td><strong>Mortgage Bankers Association (MBA)</strong></td>
<td>MBA is the primary trade association representing the real estate finance industry, representing their legislative and regulatory interests before Congress and federal agencies; meeting educational needs through programs, periodicals and publications; and supporting their business interests with a variety of research initiatives and other products and services.</td>
</tr>
<tr>
<td><strong>mortgage broker</strong></td>
<td>An independent mortgage originator who is not an employee of a mortgage lender, bank, thrift, finance company or credit union.</td>
</tr>
<tr>
<td><strong>mortgage credit certificate (MCC)</strong></td>
<td>A special tax credit, issued by a state or local housing finance agency, to qualified first-time homebuyers that are used to enhance repayment ability.</td>
</tr>
<tr>
<td><strong>Mortgage Electronic Registration System, Inc. (MERS)</strong></td>
<td>A cooperative undertaking by and for the entire mortgage industry, the system is an electronic registry specifically created for tracking the ownership of individual mortgages, servicing rights and security interests and used by MERS members.</td>
</tr>
<tr>
<td><strong>mortgage insurance</strong></td>
<td>See private mortgage insurance</td>
</tr>
<tr>
<td><strong>mortgage insurance premium (MIP)</strong></td>
<td>The amount paid by a mortgagor for mortgage insurance either to FHA or a private mortgage insurance carrier.</td>
</tr>
<tr>
<td><strong>mortgage payment to income ratio</strong></td>
<td>This ratio is defined as the monthly mortgage payment (principal, interest, taxes, and insurance) divided by the borrower’s gross monthly income.</td>
</tr>
<tr>
<td><strong>mortgage recovery advance</strong></td>
<td>A mortgage recovery advance is funds advanced by the Lender on behalf of a borrower to satisfy the borrower’s arrearage, pay legal fees and foreclosure costs related to a cancelled foreclosure action, and reduce principal. Upon request, RHS will reimburse the Lender for eligible mortgage recovery advances. The maximum mortgage recovery advance consists of the sum of: (1) arrearages not to exceed 12 months of principal, interest, taxes, and insurance; (2) legal fees and foreclosure costs related to a cancelled foreclosure action; and (3) principal reduction. The maximum mortgage recovery advance is 30 percent of the unpaid principal balance as of the date of default.</td>
</tr>
<tr>
<td><strong>mortgaged premises</strong></td>
<td>The land and improvements thereon subject to the lien of a mortgage.</td>
</tr>
<tr>
<td><strong>mortgagee</strong></td>
<td>The lender in a mortgage transaction.</td>
</tr>
<tr>
<td><strong>mortgagee clause</strong></td>
<td>A clause that may be attached to an insurance policy stipulating that the lender will receive a portion of insurance proceeds sufficient to satisfy the unpaid amount of a loan in the event of a loss.</td>
</tr>
<tr>
<td><strong>MortgageServ</strong></td>
<td>The mainframe-based computer application that is used by the Field Office to electronically communicate with, and transmit information to CSC, and by CSC to service and track a borrower’s loan.</td>
</tr>
<tr>
<td>------------------</td>
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</tr>
<tr>
<td><strong>mortgagor</strong></td>
<td>The borrower in a mortgage transaction who pledges property as a security for the debt.</td>
</tr>
<tr>
<td><strong>motion requesting relief from stay</strong></td>
<td>A pleading filed in a bankruptcy case wherein the creditor requests that its collateral be removed from the automatic stay imposed by the bankruptcy filing.</td>
</tr>
<tr>
<td><strong>motion to dismiss</strong></td>
<td>A formal request that the case be dismissed prior to the trial.</td>
</tr>
<tr>
<td><strong>motion to strike</strong></td>
<td>A formal request by either party for the court to order stricken from any pleading any insufficient defense, or any redundant, immaterial, impertinent or scandalous matter.</td>
</tr>
<tr>
<td><strong>MSA</strong></td>
<td>See &quot;Metropolitan Statistical Area.&quot;</td>
</tr>
<tr>
<td><strong>NAD</strong></td>
<td>See &quot;National Appeals Division.&quot;</td>
</tr>
<tr>
<td><strong>NAHB</strong></td>
<td>See &quot;National Association of Home Builders.&quot;</td>
</tr>
<tr>
<td><strong>NAR</strong></td>
<td>See &quot;National Association of Realtors.&quot;</td>
</tr>
<tr>
<td><strong>National Appeals Division (NAD)</strong></td>
<td>The organization within the United States Department of Agriculture that is responsible for the Department’s administrative appeals procedures which must be followed by participants who desire to appeal an adverse decision made by the Agency.</td>
</tr>
<tr>
<td><strong>National Credit Union Share Insurance Fund (NCUSIF)</strong></td>
<td>An NCUSIF-insured depository is a depository institution whose deposits are insured by the NCUSIF.</td>
</tr>
<tr>
<td><strong>NCUA</strong></td>
<td>See &quot;National Credit Union Administration.&quot;</td>
</tr>
<tr>
<td><strong>National Office or National Headquarters</strong></td>
<td>The headquarters of the Agency located in Washington, DC where the Administrator’s office and the national policy-making staff are located.</td>
</tr>
<tr>
<td><strong>negligent misrepresentation</strong></td>
<td>A failure of consideration or false representation which prevents a valid contract from ever being formed.</td>
</tr>
<tr>
<td><strong>negotiable instrument</strong></td>
<td>A document that meets the requirements set out in the Uniform Commercial Code (see UCC) Section 3-104. Specifically, it must be a writing signed by the maker or drawer; it must contain an unconditional promise or order to pay a sum certain in money; it must be payable on demand or at a definite time; it must be payable to the bearer or to order; and, it must not contain any other promise, order, obligation, or power given by the maker or drawer except as authorized.</td>
</tr>
<tr>
<td><strong>net family assets</strong></td>
<td>The value of assets available to a household that could be used towards housing costs. Net family assets are considered in the calculation of annual income and are used to determine whether the household must make additional cash contributions to improve or purchase the property.</td>
</tr>
<tr>
<td><strong>net recovery value (NRV)</strong></td>
<td>The amount available to apply to the outstanding unpaid loan balance after considering the value of the security property and other amounts recovered, and deducting the costs associated with liquidation, acquisition and sale of the property. Net recovery value is calculated differently depending on the type of disposition, as contained in Chapter 20 of this Handbook.</td>
</tr>
<tr>
<td><strong>net worth</strong></td>
<td>The value of all assets, including cash, less total liabilities. Often used as an underwriting guideline to indicate creditworthiness and financial strength.</td>
</tr>
<tr>
<td><strong>new dwelling</strong></td>
<td>A dwelling that is to be constructed, or is under construction, or existing dwelling that is less than one year old and has never been occupied.</td>
</tr>
<tr>
<td><strong>NOFA</strong></td>
<td>See &quot;Notice of Fund Availability.&quot;</td>
</tr>
<tr>
<td><strong>non-judicial foreclosure</strong></td>
<td>A foreclosure which does not involve filing an action in a state court. A typical procedure involves notice to the interested parties (either by personal service or an alternate method such as publication) and sale of the property. The Court provides no overview of the process unless petitioned by the mortgagor.</td>
</tr>
<tr>
<td><strong>note</strong></td>
<td>A general term for any kind of paper or document signed by a borrower that is an acknowledgement of the debt, and is, by inference, a promise to pay. When the note is secured by a mortgage, it is called a &quot;mortgage note&quot; and the mortgagee is named as the payee.</td>
</tr>
<tr>
<td><strong>note rate</strong></td>
<td>See “promissory note rate.”</td>
</tr>
<tr>
<td><strong>notice by publication</strong></td>
<td>The process of serving defendants who cannot be located through publication in the newspaper. Specific legislation controls whom and how a defendant can be served by such publication.</td>
</tr>
<tr>
<td><strong>Notice of Fund Availability (NOFA)</strong></td>
<td>A Federal Register public notice to inform potential applicants of federal funding authority.</td>
</tr>
<tr>
<td>Office of Management and Budget (OMB)</td>
<td>In the Executive Office of the President, OMB's mission is to assist the President in overseeing the preparation of the federal budget and to supervise its administration in Executive Branch agencies. In helping to formulate the President's spending plans, OMB evaluates the effectiveness of agency programs, policies, and procedures, assesses competing funding demands among agencies, and sets funding priorities. OMB ensures that agency reports, rules, testimony, and proposed legislation are consistent with the President's Budget and Administration policies.</td>
</tr>
<tr>
<td>Office of the General Counsel (OGC)</td>
<td>An independent legal agency within the U. S. Department of Agriculture (USDA). OGC provides legal advice and services to the Secretary of Agriculture and to all other officials and agencies of the Department with respect to all USDA programs and activities. All legal services are centralized within OGC and the General Counsel reports directly to the Secretary.</td>
</tr>
</tbody>
</table>
| Office of Inspector General (OIG) | An agency legislatively established in 1978 with the enactment of the Inspector General Act (Public Law 95-452). The act requires the Inspector General to independently and objectively:  
  • Perform audits and investigations of the Department's programs and operations;  
  • Work with the Department's management team in activities that promote economy, efficiency, and effectiveness or that prevent and detect fraud and abuse in programs and operations, both within USDA and in non-federal entities that receive USDA assistance;  
  • Report OIG activities to the Secretary and the U.S. Congress semiannually as of March 31 and September 30 each year. |
<p>| Office of Thrift Supervision (OTS) | The successor thrift regulator to the Federal Home Loan Bank Board (FHLBB) and a division within the Treasury Department. The OTS is responsible for the examination and regulation of federally chartered and state chartered savings associations. |
| OGC | See “Office of the General Counsel.” |
| OIG | See “Office of Inspector General.” |
| OMB | See &quot;Office of Management and Budget.&quot; |
| origination fee | The lender's fee charged a borrower to prepare documents, make credit checks, inspect and sometimes appraise a property. Usually stated as a percentage of the face value of the loan. |</p>
<table>
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<tr>
<th>Term</th>
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</thead>
<tbody>
<tr>
<td>other recovery</td>
<td>The recovery (return of funds, refund, etc.) of funds not previously reported in the primary claim or report of REO sale. Examples may include a delayed payment on an insurance refund, collection of a deficiency judgment or similar proceeds recovered. See also “additional recovery.”</td>
</tr>
<tr>
<td>OTS</td>
<td>See &quot;Office of Thrift Supervision.&quot;</td>
</tr>
<tr>
<td>partial release of security</td>
<td>An action by the Agency under which it releases a portion of the security property from the security instrument.</td>
</tr>
<tr>
<td>participant</td>
<td>For the purpose of reviews and appeals, a participant is any individual or entity who has applied for or whose right to participate in or receive a payment, loan, or other benefit is affected by an Agency decision.</td>
</tr>
<tr>
<td>payment assistance</td>
<td>A payment subsidy available to eligible Section 502 direct borrowers that reduces the effective interest rate of a loan.</td>
</tr>
<tr>
<td>payment shock</td>
<td>A term representing the applicant’s projected increase in housing expenses.</td>
</tr>
<tr>
<td>payment subsidy</td>
<td>A general term for subsidies which reduce the borrower’s scheduled payment. It refers to either payment assistance method 1 or 2, or interest credit.</td>
</tr>
<tr>
<td>person with a disability</td>
<td>Any person who has a physical or mental impairment that substantially limits on or more major life activities, including functions such as caring for one’s self, performing manual tasks, walking, seeing, hearing, speaking, breathing, learning and working; has a record of such an impairment; or is regarded as having such an impairment.</td>
</tr>
<tr>
<td>personal liability</td>
<td>A situation in which an individual's personal assets can be reached to satisfy his or her debt.</td>
</tr>
<tr>
<td>petition/complaint</td>
<td>A formal written request filed with the court requesting that something specific be done.</td>
</tr>
<tr>
<td>PITI ratio</td>
<td>The amount paid by the borrower for principal, interest, taxes, and insurance, divided by repayment income.</td>
</tr>
<tr>
<td>plaintiff</td>
<td>A person or entity filing a lawsuit.</td>
</tr>
</tbody>
</table>
| **planned unit development (PUD)** | A single-family residence located in a community with association dues and other required monthly payments.  
Freddie Mac definition: A Planned Unit Development (PUD) is a development that has all of the following characteristics:  
(1) the individual unit owners own or have a leasehold interest in a parcel of land improved with a dwelling, not in common with other unit owners.  
(2) The development is administered by a homeowners association that owns or has a leasehold interest in and is obligated to maintain property and improvements within the development (e.g. greenbelts, recreation facilities, parking areas) for the common use and benefit of the unit owners.  
(3) The unit owners have an automatic, non-severable interest in the homeowners association and pay mandatory assessments.  
For the purpose of this definition, a condominium project is not a PUD. |
<p>| <strong>plat or plot</strong> | A map showing subdivisions of a certain area of land giving proportions of each lot as well as other features such as roads, easements, etc. |
| <strong>pleadings</strong> | The formal allegations by the parties of their respective claims and defenses as presented to the court for a ruling. |
| <strong>PMI</strong> | See &quot;private mortgage insurance.&quot; |
| <strong>points</strong> | The percentage deduction from the nominal amount of a discounted loan, often charged as a finder's fee. On a $1,000 loan discounted 2 points, the borrower receives $980. (1 point = 1 percent) See also &quot;basis point.&quot; |
| <strong>pooling</strong> | When funds for a particular fiscal year are redistributed to each state based on the predetermined formula. |
| <strong>power of attorney (POA)</strong> | A written statement identifying a person as the agent for another with powers stated in the document. Full power may be granted, or the authority may be limited to certain functions, such as making deposits and withdrawals from a checking account. The statement must be executed before a notary and the signature of the agent is then placed on file with the bank |
| <strong>power of sale</strong> | A provision in a mortgage which empowers a mortgagee, without resort to any judicial procedures, to sell property in event of default by the mortgagor and to apply the proceeds of the sale to satisfy the obligation, the costs of invoking the procedure, and the expenses of the sale. |</p>
<table>
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<tr>
<th>Term</th>
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</thead>
<tbody>
<tr>
<td>predatory lending</td>
<td>Abusive practices in a segment of the mortgage lending market which may include inadequate or improper disclosure of interest rates and finance charges, prepayment penalties, credit life insurance, fraud, deception, etc.</td>
</tr>
<tr>
<td>pre-foreclosure sale</td>
<td>A procedure in which the borrower can sell his or her property in which the investor and borrower agree to accept the proceeds of the sale to satisfy a defaulted mortgage, even though this may be less than the amount owed on the mortgage, in order to avoid foreclosing on the property. See also “short sale.”</td>
</tr>
<tr>
<td>preservation costs</td>
<td>Costs associated with securing and preserving a custodial or REO property. Examples include changing locks, debris removal, and winterization.</td>
</tr>
<tr>
<td>primary residence</td>
<td>See “principal residence.”</td>
</tr>
<tr>
<td>prime rate</td>
<td>The interest rate which banks charge to their preferred customers. It tends to be the yardstick for general trends in interest rates.</td>
</tr>
<tr>
<td>principal</td>
<td>The amount of debt, exclusive of accrued interest, remaining on a loan. Before any principal has been repaid, the total loaned amount is the principal.</td>
</tr>
<tr>
<td>principal residence</td>
<td>The home physically occupied by the owner for the major portion of the year and the address of record for such activities as federal income tax reporting, voter registration, occupational licensing, etc.</td>
</tr>
<tr>
<td>prior lien</td>
<td>A lien against the security property, usually established by an earlier filing or recordation, but may be established by statute or agreement, that is superior to another lien.</td>
</tr>
<tr>
<td>private mortgage insurance (PMI)</td>
<td>Insurance written by a private company to protect the mortgage lender against a loss caused by a borrower’s default on a mortgage loan.</td>
</tr>
<tr>
<td>processing</td>
<td>The preparation of a mortgage loan application and supporting documents.</td>
</tr>
<tr>
<td>program-eligible applicant</td>
<td>Any applicant meeting the eligibility requirements of the guaranteed program.</td>
</tr>
<tr>
<td>program-eligible property</td>
<td>A property that meets the requirements to be guaranteed under the guaranteed loan program.</td>
</tr>
<tr>
<td>promissory note rate</td>
<td>The mortgage rate that is stated on the promissory note. This is different from the interest assistance rate or subsidized rate.</td>
</tr>
<tr>
<td>proof of claim</td>
<td>An official signed statement filed in bankruptcy court by a creditor which sets forth the amount the debtor owed the creditor as of the date the bankruptcy was filed.</td>
</tr>
<tr>
<td><strong>Property</strong></td>
<td>The land, dwelling, and related facilities, the Agency will use as collateral.</td>
</tr>
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</tr>
<tr>
<td><strong>property recovery firm</strong></td>
<td>A firm that may act as an agent to identify damages claimable under an insurance policy, file the claim &amp; pursue its settlement.</td>
</tr>
<tr>
<td><strong>proration of taxes</strong></td>
<td>Proportionate and equal division of taxes relative to time and use.</td>
</tr>
<tr>
<td><strong>protective advance</strong></td>
<td>An advance of funds by a lender for an emergency expense necessary to preserve or protect the physical security for the loan. Escrow advances for hazard or force-placed insurance or real estate property taxes, or attorney fees property. For the purposes of loss claim filing, advances may be claimed under liquidation or REO pending.</td>
</tr>
<tr>
<td><strong>Public Housing Authority (PHA)</strong></td>
<td>A public agency created by a state or local government to finance or operate low-income housing.</td>
</tr>
<tr>
<td><strong>purchase agreement</strong></td>
<td>A written proposal by a buyer to purchase real estate that becomes binding upon the acceptance of the seller.</td>
</tr>
</tbody>
</table>
**qualified alien**

Under Section 401 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (8 U.S.C. 1641) a qualified alien is defined as:

1. an alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act;
2. an alien who is granted asylum under section 208 of such Act;
3. a refugee who is admitted to the United States under section 207 of such Act;
4. an alien who is paroled into the United States under section 212(d)(5) of such Act for a period of at least 1 year;
5. an alien whose deportation is being withheld under section 243(h) of such Act;
6. an alien who is granted conditional entry pursuant to section 203(a)(7) of such Act as in effect prior to April 1, 1980;
7. an alien who has been battered or subject to extreme cruelty under the conditions set forth in section 431 of such Act (8 U.S.C. 1641(c)); or
8. an alien who is a Cuban/Haitian Entrant as defined by Section 501(e) of the Refugee Education Assistance Act of 1980.

9. Native Americans born in Canada may also be eligible as lawfully admitted for permanent residence under 7 CFR 3555, Section 3555.151. They might not possess any of the documentation described above, and the Agency might not be able to verify their status through Systematic Alien Verification for Entitlements Program. To establish that they are a qualified alien, the Native American should provide all documentation listed below, as described in the Wabanaki Legal News. The Wabanaki Legal News is available on the internet at [http://www.ptla.org/wabanaki/jaytreaty.htm](http://www.ptla.org/wabanaki/jaytreaty.htm).

- A letter from their Native American tribe stating that the alien has at least 50 percent Native American or Aboriginal blood (also referred to as the blood quantum);
- Their Canadian “Certificate of Indian Status Card” with a red stripe along the top;
- Their birth certificate;
- If an Haudenosaunee, their Red I.D. Card;
- If an Inuit, an Inuit enrollment card from one of the regional Inuit lands claim agreements;
- Their Social Security Card issued by the U.S. Social Security Administration; and
- Their Canadian or U.S. driver license.

**qualifying income**

Adjusted annual income compared to established income limits to determine eligibility for participation in the program.

**quality control plan**

A system of internal controls that sets standards, measures performance and determines compliance with legal, agency and investor requirements to provide management with an opportunity to examine, and if necessary, adjust its policies and procedures.
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<tr>
<td>quick-sale market value</td>
<td>See &quot;market value.&quot;</td>
</tr>
<tr>
<td>Quitclaim deed</td>
<td>A deed relinquishing all interest, title, or claim in a property by a grantor, but not representing that such title is valid, nor containing any warranty or covenants for title.</td>
</tr>
<tr>
<td>ratification of bankruptcy plan</td>
<td>See &quot;confirmation of bankruptcy plan.&quot;</td>
</tr>
<tr>
<td>real estate</td>
<td>Physical land and appurtenances attached to the land, e.g. structures. An identified parcel or tract of land, including improvements. See also &quot;real property.&quot;</td>
</tr>
<tr>
<td>real estate owned (REO)</td>
<td>Property that formerly served as security for a guaranteed loan and for which the lender holds title.</td>
</tr>
<tr>
<td>Real Estate Settlement Procedures Act (RESPA)</td>
<td>A federal statute and regulation promulgated by HUD governing real estate lending practices and disclosures. Its main features pertain to the provision of a good faith estimate of loan settlement costs and the provision of the HUD settlement cost booklet within three days of making a loan application.</td>
</tr>
<tr>
<td>real estate taxes</td>
<td>Taxes and the annual portion of assessments on property due and payable to government entities. The taxes are based on relative value of the property, reduced by any available tax exemption.</td>
</tr>
<tr>
<td>real property</td>
<td>All interests, benefits, and rights inherent in the ownership of physical real estate; the bundle of rights with which the ownership of the real estate is endowed. In some states, real property is defined by statute and is synonymous with &quot;real estate.&quot; See also &quot;real estate.&quot;</td>
</tr>
<tr>
<td>reamortization</td>
<td>The establishment of a new, revised schedule of equal monthly payments of principal and interest over the remaining term of a mortgage loan.</td>
</tr>
<tr>
<td>reamortization agreement</td>
<td>An instrument executed by the borrower which may establish the permanent loan in a construction-to-permanent loan type. Agreement could also be known as a modification agreement.</td>
</tr>
<tr>
<td>recapture amount</td>
<td>An amount of subsidy to be repaid by the borrower upon disposition or non-occupancy of the property.</td>
</tr>
<tr>
<td>redeem</td>
<td>The act of paying off a mortgage debt during a foreclosure suit to rid the property of that encumbrance.</td>
</tr>
<tr>
<td>redemption right</td>
<td>See “right of redemption.”</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td>redlining</td>
<td>The practice by lending institutions of restricting or denying mortgage loans for certain areas.</td>
</tr>
<tr>
<td>referral fees</td>
<td>A portion of the commission paid to some servicers in return for referring properties to a certain broker. Referral fees from the broker, returning a portion of the commission to the servicer are to be treated as “other recovery.”</td>
</tr>
<tr>
<td>refinancing</td>
<td>The repayment of a debt from the proceeds of a new loan using the same property as security.</td>
</tr>
<tr>
<td>Regional Attorney</td>
<td>See &quot;Office of General Counsel.&quot;</td>
</tr>
<tr>
<td>reinstatement</td>
<td>The curing of all defaults by a borrower; the restoration of a loan to current status through payment of all amounts past due including reasonable fees and costs incurred as a result of a default on a loan.</td>
</tr>
<tr>
<td>release of liability</td>
<td>Agreement in which a lender terminates the personal obligation of a mortgagor for the payment of a debt.</td>
</tr>
<tr>
<td>relief from automatic stay</td>
<td>A legal action permitting a lender to resume action to collect on the debt. See &quot;automatic stay&quot;.</td>
</tr>
<tr>
<td>REO</td>
<td>See &quot;real estate owned.&quot;</td>
</tr>
<tr>
<td>REO cost factor</td>
<td>A percentage which, when applied to a property appraised value, is intended to result in an estimate of the total cost of gaining possession, managing and disposing of an acquired property. It is published in the Federal Register by VA and it represents the 3-year average VA operating expenses incurred for acquired properties, including property taxes, assessments, liens, property maintenance, property improvement, administration and resale. For the purposes of this estimate, property improvement is defined as any repair that must be completed to satisfy minimum property requirements for existing construction. Selling expenses include sale commissions plus any other costs incurred in connection with the sale of the property. See Chapter 20 of this Handbook.</td>
</tr>
<tr>
<td>repayment income</td>
<td>Used to determine whether an applicant can make monthly loan payments. Repayment income is based only on the income attributable to parties to the note and includes some income sources excluded for the purpose of adjusted income.</td>
</tr>
<tr>
<td>repayment period</td>
<td>The term of the loan, which must be 30 years, and fully amortized in that period.</td>
</tr>
<tr>
<td>Resolution Trust Corporation (RTC)</td>
<td>An arm of the FDIC responsible for managing and resolving the affairs of insolvent savings and loan associations placed into receivership by the FDIC. This includes the liquidation, operation and sale of thrift institutions.</td>
</tr>
<tr>
<td>----------------------------------</td>
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</tr>
<tr>
<td>RESPA</td>
<td>See &quot;Real Estate Settlement Procedures Act.&quot;</td>
</tr>
<tr>
<td>right of redemption</td>
<td>In some states, a right permitting the mortgagor to reclaim foreclosed property by making full payment of the foreclosure sales price. The right of redemption exists for a specified period of time, called the &quot;redemption period.&quot; State statutes may provide for a waiver of redemption rights or an REO sale subject to redemption rights.</td>
</tr>
<tr>
<td>right of way</td>
<td>See &quot;easement.&quot;</td>
</tr>
</tbody>
</table>
| rural area                       | • Open country or any town, village, city, or place, including the immediate adjacent densely settled area, which is not part of or associated with an urban area and which:  
  o Has a population not in excess of 2,500 inhabitants; or  
  o Has a population in excess of 2,500 but not in excess of 10,000 if it is rural in character; or  
  o Has a population in excess of 10,000 but not in excess of 20,000, and-  
    ▪ Is not contained within a Metropolitan Statistical Area (MSA); and  
    ▪ Has a serious lack of mortgage credit for lower and moderate-income families as determined by the Secretary of Agriculture and the Secretary of Housing and Urban Development.  
  • Any area classified as “rural” or a “rural area” prior to October 1, 1990, and determined not to be “rural” or a “rural area” as a result of data received from or after the 1990, 2000, or 2010 decennial census, and any area deemed to be a “rural area” at any time during the period beginning January 1, 2000, and ending December 31, 2010, shall continue to be so classified until the receipt of data from the decennial census in the year 2020, if such area has a population in excess of 10,000 but not in excess of 35,000, is rural in character, and has a serious lack of mortgage credit for lower and moderate income families. |
<p>| SAIF                             | See &quot;Savings Association Insurance Fund.&quot;                                                             |</p>
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>sales expenses</td>
<td>Various fees paid by the seller at the time of real estate closing. See “closing costs.” Sales expense represents the total reduction due seller from the Closing Disclosure.</td>
</tr>
<tr>
<td>sales price</td>
<td>Amount REO property sold to third party. See contract price from Closing Disclosure.</td>
</tr>
<tr>
<td>satisfaction of mortgage</td>
<td>The recorded instrument the lender provides to evidence payment in full of the mortgage debt.</td>
</tr>
<tr>
<td>savings and loan association</td>
<td>Associations founded to promote thrift and home ownership. Their deposits have been traditionally invested in residential mortgage loans although they now have broader lending powers.</td>
</tr>
<tr>
<td>Savings Association Insurance Fund (SAIF)</td>
<td>The successor to the Federal Savings and Loan Insurance Corporation (FSLIC) insurance fund.</td>
</tr>
<tr>
<td>scheduled payment</td>
<td>The monthly or annual installment on a promissory note plus escrow (if required), as modified by any payment subsidy agreement, delinquency workout agreement, other documented agreements between the Agency and the borrower, or protective advances.</td>
</tr>
<tr>
<td>scorecard</td>
<td>A scorecard is an analytical tool used to predict the likelihood of borrower default. A scorecard is a mathematical algorithm that incorporates variables that predict borrower behavior. A scorecard is the central analytic element in an automated underwriting system.</td>
</tr>
<tr>
<td>scorecard data</td>
<td>The financial data and history of applicant/borrowers which enables the scorecard to run its algorithms against the applicant/borrower information and give the applicant/borrower a score predicting the applicant/borrower loan performance should credit be granted. The scorecard algorithm is based on statistic, actual and historic loan performance by thousands of borrower profiles on record with the scorecard vendor.</td>
</tr>
<tr>
<td>scorecard vendor</td>
<td>An entity that applies statistical models to historical records to develop algorithms which, when applied against individual applicant/borrower information, predicts future loan performance by generating a score. The pioneer of scorecards and recognized industry leader is Fair Isaac and Company. See “FICO.”</td>
</tr>
<tr>
<td>second mortgage</td>
<td>A mortgage that has rights subordinate to a first mortgage.</td>
</tr>
<tr>
<td>secondary mortgage marketing</td>
<td>A process whereby lenders and investors buy and sell existing mortgages or mortgage-backed securities, thereby providing greater availability of funds for additional mortgage lending by banks, mortgage bankers and savings institutions.</td>
</tr>
<tr>
<td><strong>secured loan</strong></td>
<td>A loan that is collateralized by property so that in the event of a default on the loan, the property may be sold to satisfy the debt. See also “unsecured loan.”</td>
</tr>
<tr>
<td><strong>securitization</strong></td>
<td>The process of pooling loans into mortgage-backed securities for sale into the secondary mortgage market.</td>
</tr>
<tr>
<td><strong>security instrument</strong></td>
<td>The mortgage or deed of trust evidencing the pledge of real estate security as distinguished from the note or other credit instrument.</td>
</tr>
<tr>
<td><strong>security property</strong></td>
<td>The property that serves as collateral for a loan.</td>
</tr>
<tr>
<td><strong>seller concessions</strong></td>
<td>Contributions made by a seller to offset the buyer’s cost. See “concessions”.</td>
</tr>
<tr>
<td><strong>service of process</strong></td>
<td>The delivery of writs, summonses, etc. to the party to whom or with whom they ought to be delivered or left.</td>
</tr>
<tr>
<td><strong>servicing</strong></td>
<td>Collection of payments and operational procedures related to a mortgage. Same as loan administration.</td>
</tr>
<tr>
<td><strong>settlement date</strong></td>
<td>The settlement date is the later of the following: (1) actual foreclosure date; (2) the closing date, if sold to a third party at the foreclosure sale; (3) the date the borrower sells the property to a third party to avoid or cure a default situation, with prior approval of the lender; and (4) when title is acquired to the security following the expiration of any state-required redemption or confirmation period.</td>
</tr>
<tr>
<td><strong>Settlement Statement</strong></td>
<td>Form HUD-1. See also “RESPA” and “Closing Disclosure.”</td>
</tr>
<tr>
<td><strong>sheriff’s sale</strong></td>
<td>The public auction at which the property being foreclosed is offered for sale.</td>
</tr>
<tr>
<td><strong>short sale</strong></td>
<td>A type of voluntary liquidation (also referred to as a pre-foreclosure sale or short payoff) where a borrower and the lender who holds the mortgage on the property agree to sell the property at fair market value, but for less than the current outstanding debt (including any missing payments, late fees, penalties, and advances for taxes and the like).</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td><strong>Soldiers and Sailors Civil Relief Act of 1940 (SSCRA)</strong></td>
<td>With certain exceptions, this act prohibits foreclosure of property owned by those in military service. See “OGC Compilation of Laws.”</td>
</tr>
<tr>
<td><strong>special defense</strong></td>
<td>Facts which are consistent with the allegations of the plaintiff’s complaint but show, not withstanding, that the plaintiff has no cause of action. Some examples of special defenses in collection and foreclosure cases are payment, improper acceleration of the loan, statute of limitations and anything that would attack the making, validity or enforcement, of the note and mortgage.</td>
</tr>
<tr>
<td><strong>Special Flood Hazard Area (SFHA)</strong></td>
<td>An area having special flood, mudslide and/or flood related erosion hazards as shown on Federal Emergency Management Agency (FEMA) floodplain maps.</td>
</tr>
<tr>
<td><strong>State Director</strong></td>
<td>The highest Agency decision making official at the State level.</td>
</tr>
<tr>
<td><strong>State Supplement</strong></td>
<td>Additional guidance provided by the State Director when state, local or tribal laws affect how Agency requirements are implemented in a particular state.</td>
</tr>
<tr>
<td><strong>statute of limitations</strong></td>
<td>State law identifying the time limit within which a lawsuit can be brought under law.</td>
</tr>
<tr>
<td><strong>statutory law</strong></td>
<td>Law created by legislative enactment.</td>
</tr>
<tr>
<td><strong>stay</strong></td>
<td>An order of the court whereby some action is forbidden until some event occurs or until the court lifts its order.</td>
</tr>
<tr>
<td><strong>straw buyer</strong></td>
<td>An individual who buys property in another's behalf to conceal the identity of the real buyer.</td>
</tr>
<tr>
<td><strong>strict foreclosure</strong></td>
<td>A type of foreclosure proceeding used in some states in which title to the foreclosed property is invested directly in the mortgagee by court decree, without holding a foreclosure sale.</td>
</tr>
<tr>
<td><strong>subdivision</strong></td>
<td>A tract of land that is split into lots.</td>
</tr>
<tr>
<td><strong>subordination</strong></td>
<td>Moving a lien position to a lower priority.</td>
</tr>
<tr>
<td><strong>subordination clause</strong></td>
<td>A clause in a junior lien acknowledging the prior claim of a higher loan, as in a second-mortgage loan contract legally acknowledging the prior claim of the first mortgage; also describes an agreement contained in purchase-money mortgage for land by which the purchase-money mortgage can be subordinated to a first mortgage to finance bona fide improvements.</td>
</tr>
<tr>
<td><strong>subsequent loans</strong></td>
<td>Additional Agency credit that is extended to an existing program borrower.</td>
</tr>
<tr>
<td><strong>subsidy</strong></td>
<td>Interest credit, payment assistance, or deferred mortgage assistance received by a borrower under the Section 502 direct program.</td>
</tr>
<tr>
<td><strong>subsidy cost (rate)</strong></td>
<td>The estimated long-term cost to the Government of a loan, calculated on a net present value basis, excluding administrative costs. A rate would be based on the portion of cost per $100 of loan.</td>
</tr>
<tr>
<td><strong>subsidy repayment agreement</strong></td>
<td>An agreement under which a borrower agrees to repay to the Agency any subsidy received under the Section 502 direct program upon disposition or non-occupancy of the security property.</td>
</tr>
<tr>
<td><strong>summary judgment</strong></td>
<td>A judgment obtained upon motion by any party on a claim, counterclaim or cross claim when there is no genuine issue of material fact that would prevail as a matter of law. The motion may be directed toward all or part of the claim or defense and may be made based on the pleadings or other portions of the record in the case or it may be supported by affidavit and a variety of outside material.</td>
</tr>
<tr>
<td><strong>summons</strong></td>
<td>A notice to a party in a law suit requiring said party to appear in court or have a judgment rendered against him for failing to do so.</td>
</tr>
<tr>
<td><strong>survey</strong></td>
<td>Measurement of a specific parcel of land to ascertain area, corners, boundaries, and divisions with distances and directions of such parcel.</td>
</tr>
<tr>
<td><strong>sweat equity</strong></td>
<td>Equity created through the performance of service or labor on a property by its intended owner.</td>
</tr>
<tr>
<td><strong>tenants in common</strong></td>
<td>Joint ownership by two or more persons holding individual but not necessarily equal interest in a property, but without the right of survivorship.</td>
</tr>
<tr>
<td><strong>tenancy by entirety</strong></td>
<td>A form of title vesting the entire estate in husband and wife with right of survivorship.</td>
</tr>
<tr>
<td><strong>term</strong></td>
<td>The period of time between the commencement date and the termination date of a note, mortgage, legal document or other contract.</td>
</tr>
<tr>
<td><strong>third party originator (TPO)</strong></td>
<td>Mortgage broker or correspondent.</td>
</tr>
<tr>
<td><strong>Three Repository Merged Credit Report (TRMCR)</strong></td>
<td>Reports from three selected repositories, for example, Equifax, Experian and Trans Union, are pulled to form a merged report. There is no duplication on the merged report. Every inquiry and public record contained in any of the selected repositories will appear only once on the merged report.</td>
</tr>
<tr>
<td><strong>title insurance</strong></td>
<td>Insurance through a title company to protect a property owner or lender from loss if title proves imperfect.</td>
</tr>
<tr>
<td>---------------------</td>
<td>------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>total debt ratio (TD) to income ratio</strong></td>
<td>Defined as the borrower’s monthly mortgage payment plus all recurring monthly debt divided by the borrower’s gross monthly income.</td>
</tr>
<tr>
<td><strong>TPO</strong></td>
<td>See &quot;third party originator.&quot;</td>
</tr>
<tr>
<td><strong>trading partner</strong></td>
<td>Any company, government department, or commercial or noncommercial entity with which an organization regularly exchanges documents of formatted data (not just letters or memos). For a more comprehensive glossary of EDI terms and acronyms, see the EDI Implementation Guide at <a href="http://www.rdinit.usda.gov/regs/handbook/edi.pdf">http://www.rdinit.usda.gov/regs/handbook/edi.pdf</a></td>
</tr>
<tr>
<td><strong>transfer and assumption</strong></td>
<td>A transfer of a property securing a guaranteed loan with an assumption of the outstanding debt to a 3rd party. See &quot;assumption.&quot;</td>
</tr>
<tr>
<td><strong>tribal allotted land</strong></td>
<td>Tribal land allotted to individual tribal members which is held in trust.</td>
</tr>
<tr>
<td><strong>tribe</strong></td>
<td>Any federally-recognized tribe, band, pueblo, group, community, or nation of Indians or Alaska natives.</td>
</tr>
<tr>
<td><strong>trust deed</strong></td>
<td>See &quot;deed of trust.&quot;</td>
</tr>
<tr>
<td><strong>trust land</strong></td>
<td>Land held in trust by the United States on behalf of an Indian tribe.</td>
</tr>
<tr>
<td><strong>Truth in Lending Act (TILA)</strong></td>
<td>A federal law which requires that a person applying for credit be given understandable information about interest rates.</td>
</tr>
<tr>
<td><strong>unauthorized assistance</strong></td>
<td>Any guaranteed loan or interest assistance for which there was no regulatory authorization or for which the borrower was not eligible.</td>
</tr>
<tr>
<td><strong>underwriting</strong></td>
<td>In mortgage banking, the analysis of the risk involved in making a mortgage loan to determine whether the risk is acceptable to the lender. Underwriting involves the evaluation of the property as outlined in the appraisal report and of the borrower’s ability and willingness to repay the loan.</td>
</tr>
<tr>
<td><strong>underwriting engine (UE)</strong></td>
<td>The communication link between transaction participants. It is the knowledge-based component of an automated underwriting system. A UE retrieves data from a variety of sources, routes data through the scorecard, analyses the loan data and applies it against loan program rules and requirements. The UE works in conjunction with the scorecard to determine program eligibility and to predict loan performance.</td>
</tr>
<tr>
<td><strong>Uniform Commercial Code (UCC)</strong></td>
<td>The laws that govern various commercial transactions.</td>
</tr>
<tr>
<td><strong>Uniform Consumer Credit (U-CCC)</strong></td>
<td>A guide that states may or may not use to further simplify the understanding of all aspects of credit and credit transactions.</td>
</tr>
<tr>
<td>-------------------------------------</td>
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</tr>
<tr>
<td><strong>Uniform Residential Appraisal Report (URAR)</strong></td>
<td>The most common appraisal form in use. The URAR is used to document the methods used to determine the market value of single-family residences and planned unit developments.</td>
</tr>
<tr>
<td><strong>Uniform Standards of Professional Appraisal Practice (USPAP)</strong></td>
<td>Minimum standards for real estate appraisal that financial institutions must follow.</td>
</tr>
<tr>
<td><strong>United States (U.S.) citizen</strong></td>
<td>An individual who resides as a U.S. citizen in any of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Marinas, the Federated States of Micronesia, the Republic of Palau, or the Republic of the Marshall Islands.</td>
</tr>
<tr>
<td><strong>U.S. non-citizen national</strong></td>
<td>A person born in American Samoa or Swains Island on or after the date the U.S. acquired American Samoa or Swains Island, or a person whose parents are U.S. non-citizen nationals.</td>
</tr>
<tr>
<td><strong>usury</strong></td>
<td>Taking or contracting for a rate of interest greater than permitted by law for a loan.</td>
</tr>
<tr>
<td><strong>VA</strong></td>
<td>See &quot;Veterans Benefits Administration.&quot;</td>
</tr>
<tr>
<td><strong>valuation</strong></td>
<td>The process of estimating the market value, insurable value, investment value, or some other properly defined value of an identified interest in a specified parcel of real estate as of a given date. Valuation is a term used interchangeably with appraisal.</td>
</tr>
<tr>
<td><strong>venue</strong></td>
<td>The particular county or geographical area, in which a court with jurisdiction may hear and determine a case.</td>
</tr>
<tr>
<td><strong>verification of deposit (VOD)</strong></td>
<td>A form that requests and secures verifications of amounts on deposit at financial institutions. When a depository institution is also the applicant's creditor, the VOD verifies the obligation.</td>
</tr>
<tr>
<td><strong>verification of employment (VOE)</strong></td>
<td>A form that requests and secures documentation of a mortgage applicant's work history and/or occupation, to assist in the lender's credit investigation.</td>
</tr>
<tr>
<td><strong>very low income</strong></td>
<td>An adjusted income limit developed in consultation with HUD under 42 U.S.C 1437a(b)(2)(D).</td>
</tr>
<tr>
<td><strong>Veterans Benefits Administration</strong></td>
<td>Within the Department of Veterans Affairs (VA), the Veterans Benefits Administration through the VA Loan Guaranty Service administers the VA Loan Guaranty Program.</td>
</tr>
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</tr>
<tr>
<td><strong>veterans preference</strong></td>
<td>A preference extended to any person applying for a loan or grant under the Section 502 or Section 504 programs who was honorably discharged or released on conditions other than dishonorable conduct from the active forces of the United States Army, Navy, Air Force, Marine Corps, or Coast Guard and who served in active duty during one of the following periods:</td>
</tr>
<tr>
<td>(1) April 6, 1917 through March 31, 1921;</td>
<td></td>
</tr>
<tr>
<td>(2) December 7, 1941 through December 31, 1946;</td>
<td></td>
</tr>
<tr>
<td>(3) June 27, 1950 through January 31, 1955;</td>
<td></td>
</tr>
<tr>
<td>(4) A period of more than 180 days, any part of which occurred after January 31, 1955, but on or before May 7, 1975; or</td>
<td></td>
</tr>
<tr>
<td>(5) During the period beginning August 2, 1990, and ending the date prescribed by Presidential Proclamation or law.</td>
<td></td>
</tr>
<tr>
<td>(6) During any other period as described by Presidential proclamation or law.</td>
<td></td>
</tr>
<tr>
<td><strong>warranty deed</strong></td>
<td>Deed in which a grantor warrants the status of the title.</td>
</tr>
<tr>
<td><strong>writ of assistance</strong></td>
<td>A court order directed to the sheriff (or other local official) ordering him to &quot;assist&quot; a party to a pending lawsuit (such as a bank in an eviction action) in obtaining the relief previously granted to the party by the court. An example would be a sheriff assisting a foreclosure sale purchaser in taking possession of the property after foreclosure.</td>
</tr>
<tr>
<td><strong>writ of execution</strong></td>
<td>An order of the court in which a party is granted authority to seize assets of the defendant to satisfy its judgment</td>
</tr>
<tr>
<td><strong>workout agreement</strong></td>
<td>A plan to correct a delinquent or defaulted mortgage. See also &quot;forbearance,&quot; &quot;loss mitigation.&quot;</td>
</tr>
<tr>
<td><strong>ZIP code</strong></td>
<td>Zone Improvement Program.</td>
</tr>
<tr>
<td><strong>zoning</strong></td>
<td>Prescription by governmental entity of the purpose to which land or buildings may be put in specific areas, and of the architectural, structural, and/or spatial elements of such land or buildings.</td>
</tr>
</tbody>
</table>
Sources:
7 CFR 3555
Dictionary of Banking and Financial Services
The Dictionary of Real Estate Appraisal, Appraisal Institute
Handbook of Mortgage Lending, Editor: Jess Lederman
Housing and Development Reporter
Senate Budget Committee Glossary of Budget Terms
Real Estate Problem Loans, Myers, T.A. & Co.
US Foreclosure Network

Online Resources:
www.efanniemae.com
www.hud.gov
www.whitehouse.gov/OMB
www.usfn.org
www.myFICO.com
www.investopedia.com
www.fcsamerica.com
<table>
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<tr>
<th>ACRONYM</th>
<th>DEFINITION</th>
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<tbody>
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<td>AAA</td>
<td>American Association of Arbitrators</td>
</tr>
<tr>
<td>ATR/AQM</td>
<td>Ability to Repay and Qualified Mortgage Rule</td>
</tr>
<tr>
<td>ADR</td>
<td>Alternative Dispute Resolution</td>
</tr>
<tr>
<td>AQB</td>
<td>Appraisal Qualification Board</td>
</tr>
<tr>
<td>ARM</td>
<td>Adjustable Rate Mortgage</td>
</tr>
<tr>
<td>AUS</td>
<td>Automated Underwriting System</td>
</tr>
<tr>
<td>BPO</td>
<td>Brokers Price Opinion</td>
</tr>
<tr>
<td>CAIVRS</td>
<td>Credit Alert Interactive Voice Response System</td>
</tr>
<tr>
<td>CBMC</td>
<td>Community-Based Mediation Center</td>
</tr>
<tr>
<td>CBRA</td>
<td>Coastal Barrier Resources Act</td>
</tr>
<tr>
<td>CD</td>
<td>Certificate of Deposit</td>
</tr>
<tr>
<td>CFPB</td>
<td>Consumer Financial Protection Bureau</td>
</tr>
<tr>
<td>CFR</td>
<td>Code of Federal Regulations</td>
</tr>
<tr>
<td>CIS</td>
<td>Citizenship and Immigration Services</td>
</tr>
<tr>
<td>COA</td>
<td>Class of Admission</td>
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<tr>
<td>CRA</td>
<td>Community Reinvestment Act</td>
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<tr>
<td>CSC</td>
<td>Centralized Servicing Center</td>
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<td>DCIA</td>
<td>Debt Collection Improvement Act</td>
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<tr>
<td>DIL</td>
<td>Deed-In-Lieu</td>
</tr>
<tr>
<td>DHS</td>
<td>Department of Homeland Security</td>
</tr>
<tr>
<td>DOE</td>
<td>Department of Education</td>
</tr>
<tr>
<td>DOJ</td>
<td>Department of Justice</td>
</tr>
<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>ECOA</td>
<td>Equal Credit Opportunity Act</td>
</tr>
<tr>
<td>EDI</td>
<td>Electronic Data Interchange</td>
</tr>
<tr>
<td>ENR</td>
<td>Estimated Net Recovery</td>
</tr>
<tr>
<td>EPLS</td>
<td>Excluded Parties List System</td>
</tr>
<tr>
<td>FCB</td>
<td>Fiscal Control Branch</td>
</tr>
<tr>
<td>FCL</td>
<td>Foreclosure</td>
</tr>
<tr>
<td>FCS</td>
<td>Farm Credit System</td>
</tr>
<tr>
<td>FDIC</td>
<td>Federal Deposit Insurance Corporation</td>
</tr>
<tr>
<td>FEMA</td>
<td>Federal Emergency Management Agency</td>
</tr>
<tr>
<td>FHLB</td>
<td>Federal Home Loan Bank</td>
</tr>
<tr>
<td>FHA</td>
<td>Federal Housing Administration</td>
</tr>
<tr>
<td>FICA</td>
<td>Federal Insurance Contribution Act</td>
</tr>
<tr>
<td>FMHCSS</td>
<td>Federal Manufactured Home Construction and Safety Standards</td>
</tr>
<tr>
<td>FRCA</td>
<td>Fair Credit Reporting Act</td>
</tr>
<tr>
<td>FSA</td>
<td>Farm Services Agency</td>
</tr>
<tr>
<td>GLB</td>
<td>Guaranteed Loan Branch</td>
</tr>
<tr>
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<td>NAD</td>
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<tr>
<td>NCUA</td>
<td>National Credit Union Administration</td>
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