Loan Purposes, Restrictions, and Terms

Single Family Housing Guaranteed Loan Program (SFHGLP)

November 2020
Loan Purposes and Restrictions

Be prepared to inform!
Eligible Loan Purposes

HB-1-3555, Chapter 6.2 & 7 CFR 3555.101

- Acquiring a Site and Dwelling
- Repairs and Rehabilitation
- Reasonable and Customary Expenses
- Refinancing Options
Eligible Loan Purposes

HB-1-3555, Chapter 6.2A & 7 CFR 3555.101

Acquiring a Site and Dwelling

- Acquire a site with a new or existing dwelling
- Must meet the Agency’s site, dwelling, and environmental requirements, OR
- Will meet once planned rehabilitation or repair work is completed
  - Requirements are addressed in Chapter 12 of HB-1-3555
Eligible Loan Purposes

HB-1-3555, Chapter 6.2B & 7 CFR 3555.101

Repairs and Rehabilitation

- Lender may request the Loan Note Guarantee prior to work completion.
- Loan Note Guarantee is issued post closing but prior to completion of repairs and renovation work.
- Loan may be sold immediately on the secondary market following issuance of the Loan Note Guarantee.
Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Loan Acquisition Expenses
  - Legal Fees
  - Architectural
  - Engineering
  - Title & Homeowners Insurance
  - Guarantee Fee
  - Appraisal
  - Survey
  - Tax Monitoring
  - Homeowners Education Counseling
Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable Lender Fees

- Financed fees may include the origination fee and other fees and charges.
  - Must meet limits published by the CFPB.
  - Must not exceed fees charged for similar transactions such as FHA-insured or VA-guaranteed first mortgage loans.
- Finder’s fees or placement fees may not be included in the loan amount.
- Only discount points that reduce the effective interest rate may be financed.
Reasonable and Customary Expenses

Closing Costs (Reasonable & Customary)

May be paid for with loan funds.

- Must not exceed costs charged for similar transactions such as FHA-insured or VA-guaranteed first mortgage loans.

Seller contributions (or other interested parties) are limited to 6% of the sales price and must represent an eligible loan purpose.

- Six percent limit does not include:
  - Closing costs and/or prepaid items paid by the lender through premium pricing.

- Seller contributions cannot be used to pay applicant’s personal debt or as an inducement to purchase by including movable articles of personal property.
Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Connection, Assessment, and Installment Fees
  - Connection Fees
  - Assessments
  - Pro Rata Utilities
  - Water
  - Sewer
  - Electricity
  - Gas
Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Taxes and Escrow Accounts
  - Real Estate Taxes
  - Hazard Insurance Premiums
  - Flood Insurance Premiums
Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Single Close to Permanent Construction
  - Inclusion of all reserve accounts
  - PITI
  - Contingency Reserve
  - Interest Payments During Construction
  - Customary Construction Costs
  - Landscaping
Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Design Features or Equipment for Physical Disabilities
  - Special design features
  - Permanently installed equipment
  - Interior or exterior
Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Essential Household Equipment
  - Wall to Wall Carpeting
  - Ovens
  - Ranges
  - Refrigerators
  - Washers and Dryers
  - Heating and Cooling Equipment
Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Energy Efficiency Measures
  - Insulation
  - Double-paned Glass
  - Solar Panels
Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- **Broadband**
  - Installation of Fixed Broadband Service

- **Site Preparation**
  - Grading
  - Foundation Plantings
  - Seeding or Sod Installation
  - Trees
  - Walks
  - Fences
  - Driveways
Eligible Loan Purposes

HB-1-3555, Chapter 6.2D & 7 CFR 3555.101

Refinance

➢ Construction Financing
  o “Take out/interim financing” to construct a new dwelling or improve an existing dwelling

➢ Site without a Dwelling
  o An eligible dwelling must be constructed on the site prior to the Loan Note Guarantee being issued.

➢ Existing Section 502 Direct and Guaranteed Loans
  o The interest rate must not exceed the interest rate of the existing loan.
  o Not a loss mitigation option.
  o “Cash out” not allowed.
Eligible Loan Purposes – Refinance Options

HB-1-3555, Chapter 6.2D3 & 7 CFR 3555.101

1. Non-Streamlined
   - Requires a new appraisal
   - Include all eligible loan costs up to appraised value (plus the upfront guarantee fee)
   - Add or remove borrowers
   - The GUS may be utilized

2. Streamlined
   - No appraisal required
   - Include only principal, interest, re-conveyance fee, and upfront guarantee fee
   - Add or remove borrowers
   - The GUS may be utilized

3. Streamlined-Assist
   - No appraisal required
   - Include all eligible loan costs
   - Add borrowers; remove only if deceased
   - Must receive tangible benefit of $50 or more
   - Credit history and DTI not considered except for 12-month verification of mortgage
   - Must be manually underwritten

Eligible Loan Purposes – Refinance Options

HB-1-3555, Chapter 6.2D3 & 7 CFR 3555.101

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Prohibited Loan Purposes

HB-1-3555, Chapter 6.3 & 7 CFR 3555.102

1. **LOAN DISCOUNT POINTS**
   - Other than to reduce the effective interest rate, such as compensate for low credit score, are prohibited.

2. **INCOME PRODUCING LAND OR BUILDINGS**
   - Principally used for income producing purposes is not allowed. (Ref. HB-1-3555, Ch. 12)

3. **EXISTING MANUFACTURED HOMES**
   - Are not eligible unless the unit is already financed by the Agency or is eligible under the Pilot Program. (Ref. HB-1-3555, Ch. 13)

4. **LEASE PAYMENTS**
   - Payment on any lease agreement associated with the proposed real estate transaction is prohibited.

5. **CASH BACK TO BORROWER**
   - Only reimbursement for out of pocket expenses paid prior to closing

6. **CLOSING COSTS**
   - Closing costs, including lender fees, may not exceed 3% of the total loan amount, unless allowed per CFPB. (Does not include guarantee or annual fee.)
LOAN TERMS

Loan Amount • Interest Rate
Determined by an applicant’s income and repayment ability.

Determined by the fair market value of the property.

Loan to value can exceed 100 percent of the market value when the upfront guarantee fee is financed.

Maximum Loan Amount

7 CFR 3555.103 & HB-1-3555, Chapter 7.2

Market Value / .99 = Maximum Loan Amount

(includes financed upfront guarantee fee)
Maximum interest rate cap was eliminated effective October 1, 2019!

- Lender and the borrower are free to negotiate any mutually acceptable fixed interest rate.
- Rate must be locked by the time of loan settlement.
- Term must be 30 years.

Fixed rates only!

- Adjustable Rate Mortgages (ARMs)
- Balloon Mortgages
- Term ≠ 30 Years
- Interest on Interest or Negative Amortization
- Prepayment Penalties
Loan Terms: Interest Rate Increases

7 CFR 3555.104(a) and HB-1-3555, Chapter 7.3B

**UPDATE FORMS**
- ✔️ Update URLA
- ✔️ Update Underwriting Analysis

**UPDATE THE GUS**
- ✔️ Contact USDA to release the application back in the GUS
- ✔️ Update the “Loan Terms” application page
- ✔️ Resubmit application to USDA for approval
Loan Terms: New Construction

7 CFR 3555.104(a)

Rate may exceed long-term note rate

Warehouse Lenders

Rate must be no higher than underlying note rate
Loan Terms: Repayment Period

7 CFR 3555.104(b) and HB-1-3555, Chapter 7.3A

- Loan term must be 30 years and the loan must fully amortize in that period.
- The promissory note must show regular monthly payments.
- Prepayment penalties are prohibited.
LEARNING CHECKS

7 CFR Part 3555 / HB-1-3555
QUESTION
Loan Purposes and Restrictions

- Appraised Value = $150,000
- Purchase Price = $135,000
- The Applicant wishes to use the equity available to finance a wheelchair ramp, new kitchen and laundry appliances, and shrubbery.
- These are eligible loan purposes.

A. TRUE  B. FALSE
A. TRUE

- Wheelchair ramp is eligible under “Design Features or Equipment for Physical Disabilities”
- Kitchen and laundry appliances are eligible under “Essential Household Equipment”
- Shrubbery is eligible under “Site Preparation”
QUESTION
Loan Purposes and Restrictions

• Purchase Price = $100,000
• Seller Concessions may not exceed

A. $3,000 (3%)  B. $6,000 (6%)
ANSWER

Loan Purposes and Restrictions

3555.101(b),  HB 6.2C

B. $6,000

- 6% of Purchase/Sales Price is eligible
- Limited to seller/interested third party contributions
- Must be used for authorized loan purposes
QUESTION
Loan Purposes and Restrictions

- Eligible Interest Rate = 5%
- Applicant uses $2,000 of seller concessions to permanently buydown the interest rate to 3.75%.
- This is an eligible use of loan funds.

A. TRUE       B. FALSE
3555.101(b)(6)(iv), HB 6.3

A. TRUE

- Discount Points to permanently reduce the interest rate is an eligible loan purpose.
- Seller Concessions are loan funds and must be used for eligible loan purposes.
USDA has published internal thresholds allowable for lender points, fees, and charges.

A. TRUE  B. FALSE
Loan Purposes and Restrictions

3555.101(b), HB 6.2C

B. FALSE

Although USDA requires lenders to follow Federal and State laws, it is the Consumer Financial Protection Bureau (CFPB) that publishes the guidelines.
QUESTION
Loan Purposes and Restrictions

Which of the following is not an eligible loan purpose:

A. Appraisal Fee
B. Realtor Administrative Fee
C. Discount Points to Permanently Reduce the Interest Rate
D. Realtor Commissions
D. Realtor Commissions

- Fees towards applicant’s cost to close such as real estate commission which are typically paid by the seller are not eligible for guaranteed loan funds.
- Additionally, real estate commission and other typical fees paid by the seller are not considered in the maximum six percentage points of sale price contribution calculation.
USDA publishes a daily interest rate for guaranteed loans.

A. TRUE        B. FALSE
3555.104(a)(2) and HB 7.3 B

B. FALSE

The interest rate is negotiated between the lender and the applicant.
Purchase price is $150,000. The loan amount will also include $2,500 in repairs, $1,000 in closing costs, and the 1% guarantee fee. The appraised value is $154,000. The correct loan amount is:

A. $155,050
B. $153,500
C. $154,000
D. $155,035
The loan amount is the total of the purchase price of $150,000 plus the repairs of $2,500 and the closing costs of $1,000 which equals $153,500.

Including the 1 percent guarantee fee results in a total loan amount of $155,050. ($153,500 divided by .99 = $155,050)
The applicant is refinancing their current guaranteed loan and would like to retain the remaining term of the existing loan. The applicant may elect to have the new loan amortized for less than 30 years.

A. TRUE  B. FALSE
A. FALSE

The term of the loan must be 30 years at the time of loan closing.
The upfront guarantee fee may be financed into the loan, paid with a seller contribution, paid with gift funds, or paid by the applicant with their own funds?

A. TRUE  B. FALSE
A. TRUE

The upfront guarantee fee may be financed into the loan amount or paid in full at the time of loan closing.
The maximum loan amount for a SFHGLP loan is:

A. 100 percent of the appraised value plus the upfront guarantee fee
B. 100 percent of the purchase price
3555.104(b), HB 7.2 A

A. 100 percent of the appraised value plus the upfront guarantee fee

The maximum loan amount is based on the appraised value and may also include the upfront guarantee fee.
Way to Go!

LEARNING CHECK COMPLETED!
Lender Toolkit
Navigate through these resources and tools like an expert!

Take the “Program Overview Training”


PART 3555—GUARANTEED RURAL HOUSING PROGRAM

Contents

Subpart D—Underwriting the Applicant

§3555.151 Eligibility requirements.
§3555.152 Calculation of income and assets.
§53555.153-35555.199 [Reserved]
§3555.200 OMB control number.

HB-1-3555 SFH GUARANTEED LOAN PROGRAM TECHNICAL HANDBOOK

A consolidated version of the handbook is available. HB-1-3555 is a large document and may take sometime to load.

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<table>
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<th>TOPIC</th>
<th>CONTACT</th>
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| File-Specific Questions                    | Production Team One: SFHGLP@usda.gov  
  Production Team Two: SFHGLPTW@usda.gov  
  Production Team Three: SFHGLPHTREE@usda.gov  
  Production Team Four: SFHGLP@usda.gov  
  FL, IN, OH, PA, PR, TN, VA, VI |
| Information to include in email:           |  
  - Identify the state the application is located in, if applicable; |
  - Provide applicant’s name and USDA borrower ID, if applicable;  
  - GUS loan number, if applicable;  
  - Include contact information; and  
  - Indicate if you would like a call back (otherwise you will receive an email reply) |
| Lender Approval/Renegotiation               | sfgld.compliance@usda.gov                                                |
| Lender Self-Report                          | sfgld.lenderpartner@usda.gov                                             |
| Program Training                            | sfgld.program@usda.gov                                                   |
| Program Marketing & Outreach                | sfgld.servicing@usda.gov                                                 |
| General Loan Scenario Questions             | sfgld.compliance@usda.gov                                                |
| Loan Policy/Regulation/Handbook             | sfgld.compliance@usda.gov                                                |
| Technical Issues: GUS                       | sfgld.compliance@usda.gov                                                |
| Technical Issues: e-Authentication          | E-Authentication E50s: [https://www.mwhd.usda.gov/e-auth/e50s](https://www.mwhd.usda.gov/e-auth/e50s)  
  Contact Us: [https://www.mwhd.usda.gov/e-auth/contact Us](https://www.mwhd.usda.gov/e-auth/contact Us) |
| Loss Claims                                 | guarantee.ws@usda.gov                                                   |
| Monthly & Quarterly Status Reporting        | guarantee.ws@usda.gov                                                   |
| GUS User Agreements                         | guarantee.ws@usda.gov                                                   |

### TOOLS & RESOURCES

- Regulation and Handbook: [https://www.ria.usda.gov/resources/directive](https://www.ria.usda.gov/resources/directive)
- Lender Webpage—Turn times, contact information, and helpful links: [https://www.usda.gov/programs/financed-housing](https://www.usda.gov/programs/financed-housing)
https://www.rd.usda.gov/page/sfh-guaranteed-lender

Lender Webpage

Monitor posted turn times daily

Don’t forget to sign up for GovDelivery updates

SFH Guaranteed Lender

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Forbearance Fact Sheet for Mortgages and Servicers

Loan Status
We are currently reviewing new loan applications and conditions received on or before 06/15/2020

Subscribe to Notifications
Critical program information such as policy updates, funding statuses, and automation changes are sent by email through GovDelivery Sign Up to Receive Critical Updates

Overview
On February 16, 2020 we integrated the Guaranteed Loan Program into a single integrated national team! For more information, please reference our Integration Information sheet.

USDA Rural Development’s Guaranteed Loan Program assists approved lenders in providing up to 100% financing for eligible borrowers (households that do not exceed 115% of the Median Household Income) purchasing homes in eligible rural areas. Automated underwriting assistance through GUS (Guaranteed Underwriting System) allows for expanded ratios and flexible credit.

We now have Single Close Construction-to-Permanent financial & single-close loan combines the features of a

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SFH Guaranteed Lender

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