Single Family Housing Guaranteed Loan Program (SFHGLP)

Origination FAQs

Q1. We are unable to complete the 10-day verbal verification of employment, are there any alternative options?

A1. GovDelivery Notification dated 3-27-2020

Lenders must document and verify the borrower's annual and repayment income in accordance with Agency regulations. Lenders should use due diligence in obtaining the most recent income documentation to reverify the borrower's repayment ability prior to closing. When the lender is unable to obtain a Verbal Verification of Employment (VVOE) within 10 business days of loan closing due to a temporary closure of the borrower's employment, alternatives should be explored. For example, email correspondence with the borrower's employer is an acceptable alternative to a VVOE. If the lender is unable to obtain a VVOE or acceptable alternative, the requirement will be waived when the borrower has a minimum of 2 months cash reserves.

In the case of a reduction of income, the borrower's reduced income must be sufficient to support the new loan payment and other non-housing obligations. Borrowers with no income at the time of closing are not eligible for SFHGLP loans regardless of available cash reserves.

Q2. An applicant's income has been reduced due to COVID-19 and their adjusted income now falls below the income limitation for eligibility. Can we utilize the decreased income for calculating annual income?

A2. HB-1-3555, 9.3(B)

Annual and adjusted annual income are calculated for the ensuing 12-month period and the COVID-19 situation is only temporary in nature, so the calculation cannot reasonably presume continuance at those income levels. Historical data will continue to be utilized for calculating and projecting annual and adjusted annual income to determine eligibility.

> ***Reference: HB-1-3555, Chapter 9, Page 9-2***
>
> **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.

Q3. What if the applicant's place of employment is closed due to COVID-19?

A3. HB-1-3555, 9.8 and Attachment 9-A

Repayment income must be stable and dependable. Applicants with no income or whose sole source of income is unemployment at the time of closing are not eligible for SFHGLP loans regardless of available cash reserves.

> ***Reference: HB-1-3555, Attachment 9-A, Pages 2 & 23***
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> **Base Wages (Hourly or Salary)**: **Required History**; One-year; **Repayment**; Income must be received at the time of loan application.
>
> **Unemployment Income**: **Required History**; One-year; **Repayment**; Applicants with a sole source of unemployment income are ineligible for a guaranteed loan.

Q4. The applicant's employer has cut back hours of operation. How will this affect repayment income calculations for qualifying purposes?

A4. HB-1-3555, 9.8

Repayment income must be stable and dependable. Applicants will be required to qualify utilizing their current income for the repayment income calculation.

> ***Reference: HB-1-3555, Chapter 9, Page 9-11***
>
> 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.
>
> **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.

Q5. An applicant's overtime has been increased due to COVID-19 (i.e. a medical professional getting extra hours to deal with the pandemic). Can this income be used in repayment income calculations for qualifying purposes?

A5. HB-1-3555, 9.8 and Attachment 9-A

Repayment income must be stable and dependable. For overtime income to be considered stable and dependable, there must be a one-year history and a documented expectation of continuance. Concurrently, as this type of income would be considered temporary, nonrecurring, and/or sporadic, it would also not require consideration for annual income calculations either.

> ***Reference: HB-1-3555, Attachment 9-A, Page 13***
>
> **Overtime**: **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.

Q6. A new applicant has temporary income or unemployment and now wants to purchase a home. Would they be eligible for the SFHGLP?

A6. HB-1-3555, 9.8 and Attachment 9-A

Repayment income must be stable and dependable. Applicants with no income or whose sole source of income is unemployment at the time of closing are not eligible for SFHGLP loans regardless of available cash reserves. Applicants with temporary income circumstances must qualify based on the current reduced income.

> ***Reference: HB-1-3555, Attachment 9-A, Pages 2 & 23***
>
> **Base Wages (Hourly or Salary)**: **Required History**; One-year; **Repayment**; Income must be received at the time of loan application.

Unemployment Income: **Required History**; One-year; **Repayment**; Applicants with a sole source of unemployment income are ineligible for a guaranteed loan.

Q7. Can income provided from government assistance programs related to COVID-19 be used in repayment income calculations for qualifying purposes?

A7. HB-1-3555, 9.8 and Attachment 9-A

Repayment income must be stable and dependable. Government benefits or public assistance must be confirmed to continue for a minimum of three years for possible consideration.

Reference: HB-1-3555, Attachment 9-A, Page 10

Government Benefits: **Continuance**; Income must be confirmed to continue a minimum of three years into the mortgage.

NOTE: Please keep in mind that questions 3-7 would not affect an applicant for the Streamline Assist Refinance as ratios are not calculated for that product's eligibility.

Q8. What if we have difficulty obtaining tax transcripts from the IRS?

A8. HB-1-3555, 9.3(E)(4)

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.

Reference: HB-1-3555, Chapter 9, Page 9-8

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 when legally required to do so is not an eligible explanation. The asset statements must be reviewed to ensure no errant deposits are identified that may be attributed to additional income sources. 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 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.

Q9. Regarding the use of a Power of Attorney, the guidelines do not allow for interested parties to the transaction to act in that capacity. During the COVID-19 restrictions, can an exception be granted to allow for real estate agents or title agency representatives to act in that capacity?

A9. HB-1-3555, 16.2

This rule continues to be of great importance to protect and prevent fraudulent activity and is not being considered for waiver.

Reference: HB-1-3555, Chapter 16, Page 16-2

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.

Q10. What if the title company or recording office is closed?

A10. HB-1-3555, 16.12

The lender must ensure acceptable ownership interest in the property, clean and marketable title, and first lien position.

Reference: HB-1-3555, Chapter 16, Page 16-15

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.

Q11. We are unable to obtain a full appraisal due to seller and/or appraiser concerns with exposure to COVID-19 infection. Are there any alternative options?

A11. GovDelivery Notification dated 3-27-2020

For purchase transactions, when an appraiser is unable to complete an interior inspection of an existing dwelling due to health risks as a result of the Coronavirus outbreak, an "Exterior-Only Inspection Residential Appraisal Report", (FHLMC 2055/FNMA 2055/FN1075 for Condo) will be accepted. In such cases, appraisers are not required to certify that the property meets HUD HB 4000.1 standards. The appraisal must be completed in accordance with the Uniform Standards of Professional Practice (USPAP) and the Uniform Appraisal Dataset (UAD). Photographs provided by the seller may be used to supplement the Exterior Only appraisal but Desktop Appraisals are not acceptable.

*****This exception is not applicable to purchase of new construction, construction to permanent loans, or the pilot program for existing manufactured homes.***

Q12. We are unable to obtain water purity test/wastewater tests in accordance with Chapter 12 of HB-1-3555, is there a waiver for these inspections?

A12. Minimum property standards outlined in HUD HB 4000.1 have been waived as a result of the COVID-19 pandemic. This exception includes water and wastewater inspections.

Q13. If required repairs cannot be verified due to COVID-19 restrictions that limit access, are there any alternative options?

A13. GovDelivery Notification dated 3-27-2020

Loans for which a completion certification is not available due to issues related to COVID-19, a letter signed by the borrower confirming that the work was completed is permitted. Lenders must also provide further evidence of completion, which may include photographs of the completed work, paid invoices indicating completion, occupancy permits, or other substantially similar documentation. All completion documentation must be retained in the loan file.

This exception is not applicable to rehabilitation and repair loans noted in section 12.28 of HB-1-3555

Q14. Can the 12-month loan period for refinance transactions be waived?

A14. There are no exceptions to this requirement at this time.

Q15. For temporary exceptions announced in GovDelivery Notice dated March 27, 2020, what is the trigger date lenders can use to allow for the exceptions?

A15. The temporary exceptions are in effect for 60 days from the GovDelivery announcement. Understanding that there may be files in progress during that time period, we are allowing a 15-day grace period from the end of the exception period (currently 60 days but may be extended). By the close of business on the 15^{th} day of the grace period, any loan expecting to utilize any exceptions under the announcement must have a complete file submitted through GUS. Incomplete files will not be able to qualify under the temporary exceptions.

Servicing FAQs

Q1. What options are available to support borrowers impacted by COVID-19?

A1. All option located in our 3555 Handbook Chapter 18 are available. This includes options for Assistance in Natural Disasters located in Section 4 of Chapter 18 and all Loss Mitigation options located in the Loss Mitigation Guide which is Attachment 18-A.

Q2. How long is the forbearance period allowed?

A2. For borrowers impacted by COVID-19 an initial 6-month forbearance is available. At the borrowers request this forbearance can be extended an additional 6 months for a maximum of 12 months. For borrowers impacted by COVID-19 there are no delinquency restrictions for the forbearance.

Q3. Can the lender offer a forbearance based on a verbal conversation with the borrower?

A3. Yes, based on the CARES Act that was signed into law by the President on March 27, the borrower need only request assistance and affirm that they have experienced a hardship due to COVID-19. Lenders are delegated to make all decisions for this and any other loss mitigation determinations.

Single Family Housing Guaranteed Loan Program (SFHGLP)

FAQs supplementing those from April 24, 2020

1Q. The borrower was furloughed due to COVID19 but has recently returned to work with the same employer. Can we close the loan before he/she receives their first paystub after returning to work?

1A. HB-1-3555, 9.3(E)
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.

Neither the streamline nor the full documentation verification option allow for approval of an application without earnings statements.

2Q. The borrower was furloughed due to COVID19 but has recently returned to work with the same employer. Do we have to calculate that time off in our income average for the last 12 months?

2A. HB-1-3555, 9.8
The lender will determine if income is stable and dependable. The agency does not require that averaging is utilized as the calculation for determining repayment income. Any of the acceptable methods of income calculation can be utilized (i.e. salary /12, hourly rate x hours, etc.), and this is determined by the lender.

3Q. The borrower had their auto loan, student loan, etc. in forbearance due to COVID19 and the payments are currently deferred. Can we exclude these payments from debt-to-income ratios?

3A. HB-1-3555, 11.2 (B)
The regular monthly payment should be considered in the debt-to-income calculation even if the loans is in deferment or forbearance. Deferments are treated as temporary in nature and require that the regular monthly payment is considered in the debt-to-ratio calculation.

4Q. The borrower is self-employed and received a deferred SBA Payment Protection Program (PPP) loan. Since the loan will probably be forgiven, can the debt be excluded from DTI?

4A. HB-1-3555, 11.2 (B)
Currently the policy remains that a loan which has not been satisfied and does not have a documented release of liability would still require consideration for repayment in calculating debt ratio for qualification. If the monthly payment amount is not known, the guidance under balloon/deferred loans applies.

5Q. If the borrower is receiving payroll income due to the SBA PPP program, can they still qualify for a guarantee loan using that reduced income?

5A. HB-1-3555. Chapter 9
If the borrower is still receiving earnings from their employer, that is all which is considered. Lenders must still follow guidelines in HB 9.3 regarding documentation of current and historical

income and if there is a decline in income, they must utilize the current lower income to determine repayment ability.

6Q. If a self-employed borrower is receiving payroll income from a loan received through the SBA PPP program, can they still qualify for a guarantee loan using that income?

6A. HB-1-3555, 9.3(E) and Attachment 9E
Self-employed borrowers must still have the two most recent filed tax returns and a year-to-date Profit & Loss statement. The income received under the PPP program may be used in consideration of repayment ability. However, if the SBA PPP income is less than the borrower's historical income, the lower income should be used. Lenders must verify that the borrower is still open for business and actively employed.

7Q. The borrower's loan has closed. We are in the process of submitting the closing package requesting the Loan Note Guarantee but we discovered the borrower has since requested forbearance on their new mortgage loan. Will the LNG be issued?

7A. HB-1-3555. 11.2, Form RD 3555-17E
If the lender exercised all due diligence prior to closing the loan, and all the terms of the Conditional Commitment were fulfilled at the time of loan closing, then the Agency will issue a Loan Note Guarantee even if, after closing, a forbearance was approved under the CARES Act.

8Q. The borrower is in forbearance but has been making their payments on time. Do they qualify for a refinance or purchase loan?

8A. Yes. A borrower who is current on their loan payments qualifies for a purchase or refinance loan, assuming other standard requirements are met.

<u>Existing language from the original FAQ needs revision:</u>

Q15. For temporary exceptions announced in GovDelivery Notice dated March 27, 2020, what is the trigger date lenders can use to allow for the exceptions?

A15. The temporary exceptions are in effect for 60 days from the GovDelivery announcement. Understanding that there may be files in progress during that time period, we are allowing a 15-day grace period from the end of the exception period (currently 60 days but may be extended). By the close of business on the 15th day of the grace period, any loan expecting to utilize any exceptions under the announcement must have a complete file submitted through GUS. Incomplete files will not be able to qualify under the temporary exceptions.

<u>Revise to:</u>

Q15. For temporary exceptions announced in GovDelivery Notice dated March 27, 2020, what is the trigger date lenders can use to allow for the exceptions?

A15. The temporary exceptions are in effect for applications received by the lender through August 31, 2020.