American Rescue Plan (ARP) Act of 2021

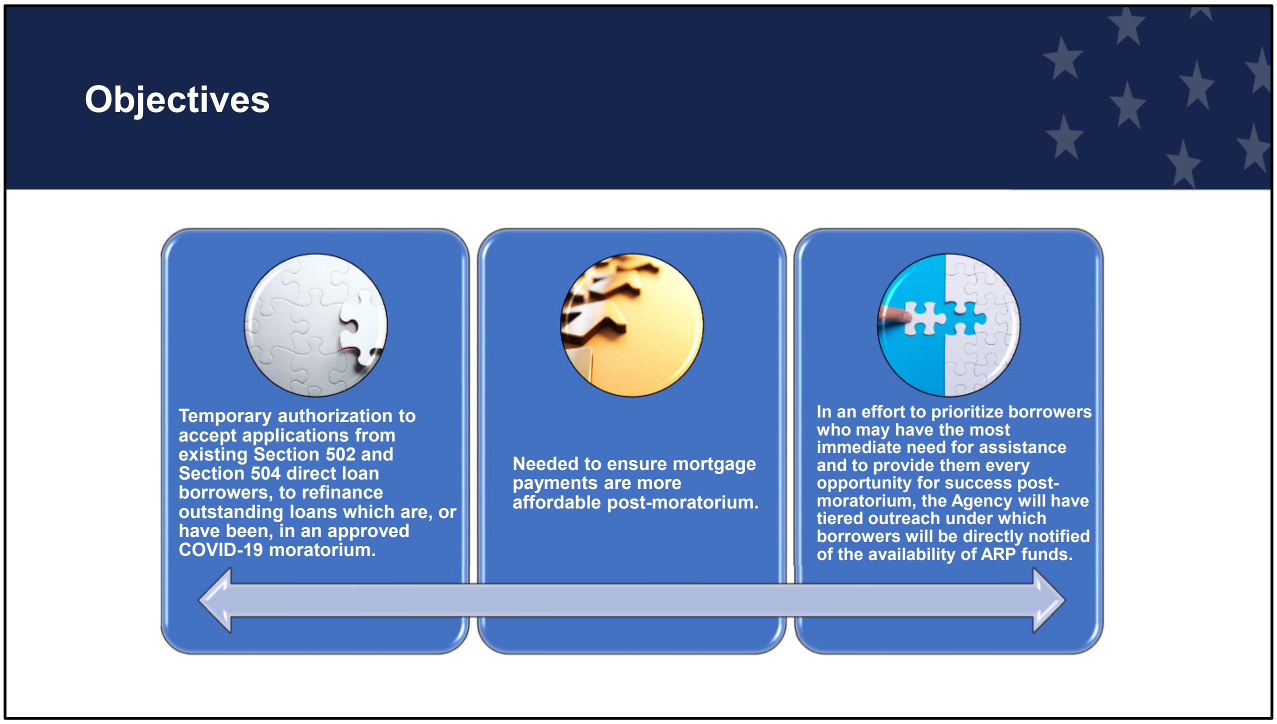
Presented by the
Single Family Housing Direct Loan Division

USDA Rural Development
U.S. DEPARTMENT OF AGRICULTURE

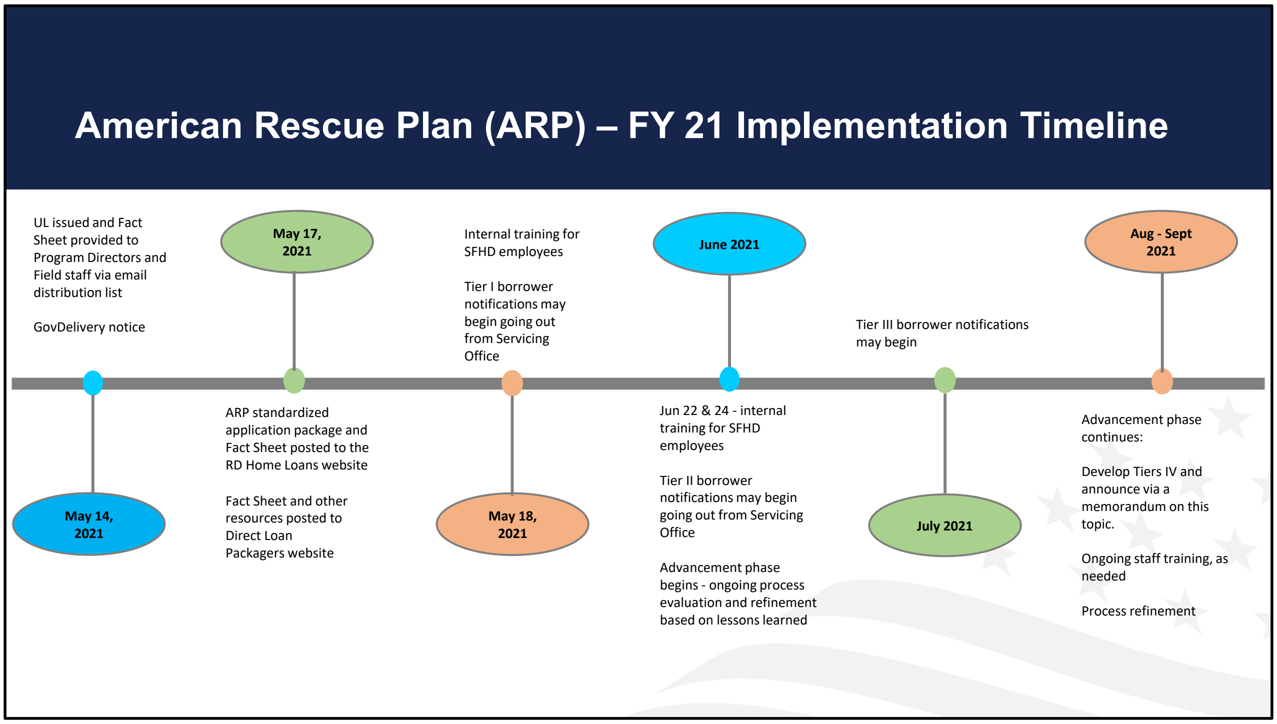
Revision Date: May 25, 2021

Welcome to the Section 502 Direct Loan and 504 Loan/Grant Programs webinar on the American Rescue Plan (ARP) Act of 2021. This session is conducted by the Single-Family Housing Direct Loan Division, with a revision date of May 25, 2021.

The purpose of this presentation is to give viewers a basic overview of ARP, and the corresponding May 12, 2021 Unnumbered Letter which provides temporary authorization for processing ARP applications.



The Agency's initial focus under ARP will be to refinance existing Section 502 and Section 504 borrowers who have received a payment moratorium related to COVID-19. The May 12, 2021 UL provides temporary authorization to accept applications from these existing borrowers, to refinance outstanding loans which are, or have been, in an approved COVID-19 moratorium. This is a relief measure, needed to ensure mortgage payments are more affordable once they come off the moratorium. To prioritize borrowers who may have the most immediate need for assistance and to provide them every opportunity for success post-moratorium, the Agency will have tiered outreach under which borrowers will be directly notified of the availability of ARP funds.

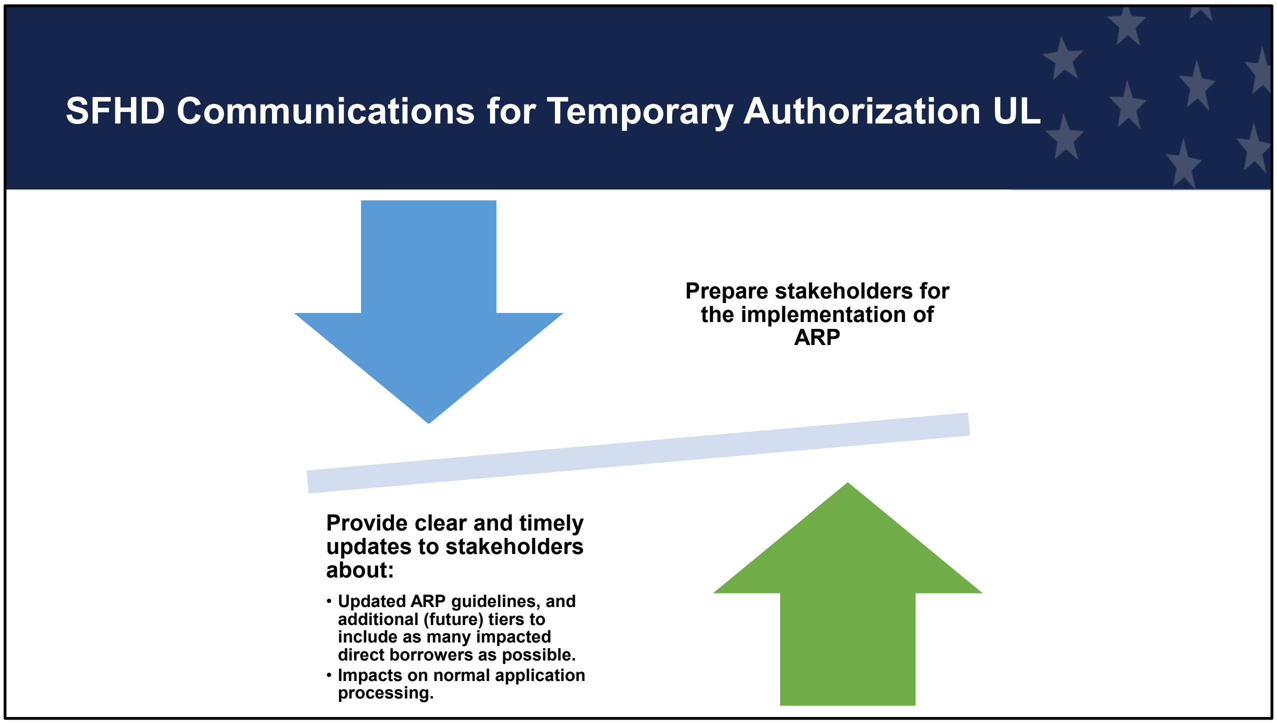


This slide provides an overview of the implementation timeline.

Funds remain available until September 30, 2023 and carryover from year to year, so we should not experience any lapse in ARP funding at the beginning of the new Fiscal Year.

Communication Overview

In the next few slides we'll look at our communication strategy for ARP.



Given the nature and scope of ARP, it will be important for the Agency to have clear, simple, and timely communication objectives. Our communication objectives are to prepare stakeholders, including direct borrowers, Field Offices, Servicing Office, and partners, for the implementation of ARP, while also communicating the expected and actual impacts for other applicants (significant processing delays). We also want to provide clear and timely updates to stakeholders about:

- Updated ARP guidelines, based on lessons learned; and additional (future) tiers to include as many impacted direct borrowers as possible.
- Impacts on normal application processing.

SFHD Communications to Key Stakeholders

Communications will be timely, targeted, and tailored to key stakeholder groups outlined below.

Borrowers

Administration Officials

Public

RD Servicing Office / RD Field Offices

Affordable Housing Partners

Communications will be timely and directed to key stakeholder groups outlined on the slide. Borrowers will be the primary focus of our communications, with other communication directed toward administration officials, Servicing Office and Field Offices, affordable housing partners such as intermediaries, T&MA contractors, Self-Help grantees, as well as the public.

It will be very important that we have consistent message delivery to the primary target which is the Borrowers, so outlined below are the core messages that will drive the overall communications strategy for implementation of ARP. This includes direct notifications to the borrowers via Servicing Office, following the Tiers outlined in the UL.

Borrowers will be directed to contact the states to process their refinance application, but the Servicing Office customer service representatives will have basic scripts to use when responding to general inquiries from borrowers. Servicing Office may need to work with the borrowers first to pre-ream the accounts following moratorium, but Servicing Office will <u>not</u> advise applicants regarding their eligibility for refinance.

Lastly, the majority of ARP related information for borrowers, such as the ARP Fact Sheet and standardized ARP application package, is posted to the Servicing Office's RD Home Loans website, rather than the Direct website. This is an effort to minimize confusion by the general public who may see the information on the main Direct website and assume any homeowner may apply to refinance their loan with a direct loan; therefore, we will have only very basic information on the Direct website.

SFHD Communications Sample Borrower Notification

Dear Borrower:

Rural Development (RD) is accepting applications from existing Section 502 and Section 504 direct loan borrowers, to refinance outstanding loans previously on an approved COVID-19 moratorium. Funding has been appropriated under the American Rescue Plan (ARP) Act of 2021 (H.R. 1319, Section 3207). The ARP refinance may help make your payment more affordable.

Section 502 and Section 504 direct loan borrowers applying for refinancing will not be subject to: credit analysis (other than delinquent federal debt), standard repayment ratio requirements, asset limit, or program standards related to the condition of the property. Available terms for Section 502 loans are 10, 25, 30, or 33 years. In limited circumstances, a 38-year term may be available. The available term for Section 504 loans is 20 years. Closing costs can be included in the loan.

To be eligible, your adjusted household income must be at or below the applicable moderate-income limit for the area where your property is located if you have a Section 502 direct loan. If you have a Section 504 home repair loan, to be eligible your adjusted household income must be at or below the applicable very-low income limit. Income limits are available at:

https://www.rd.usda.gov/sites/default/files/RD-DirectLimitMap.pdf

An application package and additional information can be found on the RD Home Loans website at https://pubmai.sc.egov.usda.gov/. You may contact your local RD office to request an application package be emailed or mailed to you. Your local RD office is:

(Contact information for the local servicing office to be completed by Servicing Office chart.)

You may elect to work with a loan application packager. Packagers may charge a fee for their services, which must be disclosed to you and is due only if the loan closes. This fee can be included in the loan. A packager ensures applications are complete and provides all supporting documentation needed for the Agency's decision. The packager can provide insight into the Agency's application process and regulations. For assistance in locating a loan application packager in your area, visit:

https://www.rd.usda.gov/sites/default/files/RD-SFH-IntermediaryMap.pdf

You are not required to work with a loan application packager to receive assistance and may work directly with the Agency.

For information on your existing loan, contact the Servicing Office at 1-800-414-1226. If your loan is delinquent, you may still be eligible for refinancing. Existing delinquent loans will be subject to re-amortization prior to applying for a refinance. You must first contact the Servicing

- This slide shows a sample of the initial borrower notification letter sent from the Servicing Office to Tier I borrowers, beginning on or after May 18.
- You will notice that borrowers are informed of the income limit requirements (502 – moderate; 504 – VL); however please note the May 12, 2021 UL permits 502 funds to be used to refinance 504 borrowers who exceed the VL income limit.
- The letter contains a section explain the option to work with a loan application packager.

May 12, 2021 Unnumbered Letter

Borrower Outreach by Tiers

- Borrowers will be notified by Servicing Office in Tiers about the availability of this option and how to apply; however, any borrower who is or has been on a COVID-19 moratorium may apply at any time. The tiered outreach is to reach borrowers who may have the most immediate need for assistance and to provide them every opportunity for success post-moratorium.
  - Tier I – borrowers who are no longer under a COVID-19 moratorium and are at risk of foreclosure (i.e., delinquent status > 90 days); will likely need ream (or pre-ream) before refinance.
  - Tier II – borrowers who are no longer under COVID-19 moratorium, and less than 90 days delinquent.
  - Tier III - borrowers whose COVID-19 moratorium is scheduled to expire soon.
  - Tier IV – to be determined by a future memorandum on this topic.

Borrowers will be notified by Servicing Office in Tiers about the availability of this option and how to apply; however, any borrower who is or has been on a COVID-19 moratorium may apply at any time. The tiered outreach is to reach borrowers who may have the most immediate need for assistance and to provide them every opportunity for success post-moratorium.

- Tier I – borrowers who are no longer under a COVID-19 moratorium and are at risk of foreclosure (i.e., delinquent status).
  - Keep in mind, most of the Tier I and many of the Tier II borrowers will need to be reamortized (or pre-ream) by Servicing Office, if they haven't been already, when they apply for a refinance loan in order to reset their delinquency status to current.
- Tier II – borrowers who are no longer under COVID-19 moratorium, and less than 90 days delinquent.
- Tier III - borrowers whose COVID-19 moratorium is scheduled to expire in the near future.
- Tier IV – to be determined by a future memorandum on this topic.

Tier I letters began going out the week of May 17th.

Tiers – by State

	Tier I	Tier II	Tier III	*State Total*
AK	2	42	98	*142*
AL	7	146	356	*509*
AR	6	118	273	*397*
AS			1	*1*
AZ	3	169	255	*427*
CA	12	451	596	*1059*
CO	2	68	150	*220*
CT		26	67	*93*
DE	1	54	114	*169*
FL	18	367	567	*952*
FM			5	*5*
GA	5	209	484	*698*
GU	1	3	86	*90*
HI	1	83	114	*198*
IA	7	79	151	*237*
ID	2	44	107	*153*
IL	7	133	264	*404*
IN	3	159	294	*456*

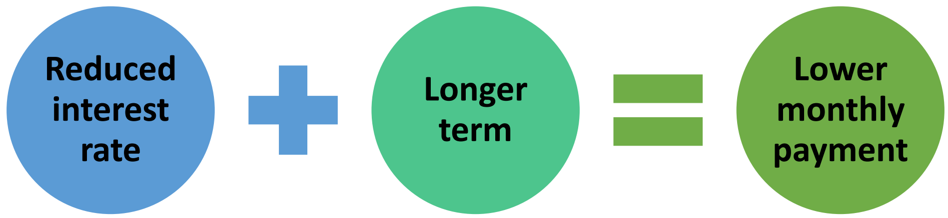
	Tier I	Tier II	Tier III	*State Total*
KS	3	61	98	*162*
KY	8	169	327	*504*
LA	7	193	422	*622*
MA	3	65	90	*158*
MD	1	54	127	*182*
ME	6	160	261	*427*
MH			87	*87*
MI	12	228	425	*665*
MN	1	94	155	*250*
MO	4	121	221	*346*
MP			4	*4*
MS	20	315	626	*961*
MT	2	37	82	*121*
NC	13	463	852	*1328*
ND		21	33	*54*
NE		32	79	*111*
NH	1	72	125	*198*
NJ	4	72	112	*188*

	Tier I	Tier II	Tier III	*State Total*
NM	3	89	171	*263*
NV	1	27	37	*65*
NY	7	165	231	*403*
OH	5	188	305	*498*
OK	4	90	161	*255*
OR	8	81	180	*269*
PA	6	194	333	*533*
PR	15	365	528	*908*
PW		2	7	*9*
RI	4	15	28	*47*
SC	11	231	552	*794*
SD	4	35	80	*119*
TN	1	186	357	*544*
TX	23	631	982	*1636*
UT	7	94	120	*221*
VA	2	130	297	*429*
VI		18	55	*73*
VT	1	78	106	*185*

	Tier I	Tier II	Tier III	*State Total*
WA	5	139	275	*419*
WI	3	96	161	*260*
WV	3	75	147	*225*
WY		21	45	*66*
Total	275	7258	13266	*20799*

This chart provide the volume by tier in each state.

Net Tangible Benefit (NTB)



A new principle (for Direct) that is discussed in the UL is Net Tangible Benefit (NTB), so we would like to spend a few minutes discussing what this means.

For ARP refinance loans, the Agency must determine that there is a net tangible benefit to the borrower as the result of the refinance. A net tangible benefit includes, but is not limited to, a reduced note rate or a change in term that results in a financial benefit to the borrower (e.g., lower monthly principal and interest payment). This must be documented in the ARP Worksheet, which we will discuss later in this presentation.

While it's important that the NTB be demonstrated as a baseline for refinancing the Agency's own debt (and when considering which term to use for the refinance), it will also be a factor when considering whether to refinance junior liens for secondary financing (which we will discuss as an eligible loan purpose a little later),

ARP Eligible Use of Funds

The loan may exceed the market value of the property and/or the area loan limit only as necessary to cover the following:

- ✓ Refinance of borrower's outstanding Agency direct loan indebtedness, including subsidy recapture.
- ✓ Closing costs associated with the new loan, and allowable excess costs over the market value and area loan limit (including the tax service fee and initial deposit to fund the escrow account).
- ✓ Permissible packaging fees:
  - ✓ 502 - not to exceed $500 for certified packaging bodies with an intermediary (split per agreement with intermediary), $400 for certified packaging body without an intermediary (packaged by an intermediary, opt-out, or when a state isn't served by an intermediary), or $200 for an approved non-certified packager.
  - ✓ 504 - $200 for eligible 504 loan packaging types.
- ✓ 502 only - outstanding debt to prior lien holders (as identified on Form RD 1927-8, Agreement with Prior Lienholder).
- ✓ In limited circumstances, amounts needed to correct major deficiencies, such as structural or issues impacting the health and safety of the occupants or members of the community.

The loan may exceed the market value of the property and/or the area loan limit only as necessary to cover the following:

❑Refinance of borrower's outstanding Agency direct loan indebtedness, including subsidy recapture. Subsidy recapture will be addressed in more detail on a following slide.

❑Closing costs associated with the new loan, and allowable excess costs over the market value and area loan limit (including the tax service fee and initial deposit to fund the escrow account).

❑Permissible packaging fees:
- ❑502 - not to exceed $500 for certified packaging bodies with an intermediary (split per agreement with intermediary), $400 for certified packaging body without an intermediary (packaged by an intermediary, opt-out, or when a state isn't served by an intermediary), or $200 for an approved non-certified packager.
- ❑504 - $200 for eligible 504 loan packaging types

❑ 502 only - outstanding debt to prior lien holders (as identified on Form RD 1927-8, Agreement with Prior Lienholder) may be included in the refinance if rates and/or terms are less favorable than the Agency's new loan. However, even if the Agency offers a more favorable rate or term, lower payment, etc., the borrower may still choose to continue with the loan to the prior lienholder if they determine it is in their best interest to do so (e.g. – if the Agency rate is lower, but borrower only has a few years remaining on the term, they may prefer to continue as-is to pay off the debt in fewer years.).

❑ In limited circumstances, amounts needed to correct major deficiencies, such as structural or issues impacting the health and safety of the occupants or members of the community.

Note: Please note the eligible use of funds outlined on this & other slides in this presentation are based on the May 12, 2021 UL. Notably there are several eligible use of funds under ARP which may exceed the market value of the property, such as permissible packaging fees, repairs for major deficiencies, etc., which is different from the guidance on allowable excess costs in HB-1-3550. The UL is applicable only to ARP refinances, HB-1-3550 must continue to be followed for non-ARP loans.

ARP Eligible Use of Funds (Closer Look – Subsidy Recapture)

	Refi Monthly Payment Lower than Current Payment?	Recapture – is amount of interest paid on discounted subsidy < 25% discount savings?	Summary
10 Year Term	No	YES	Higher monthly payment negates recapture savings
25 Year Term	YES = NTB	No	Likely the best (most affordable) option

Subsidy Recapture (SR) Analysis		
Full SR	$	16,000.00
25% Discount:	$	4,000.00
Net SR	$	12,000.00

	Term - months		Mthly Note Pymt	Annual Note Pymt	Mthly PA	Mthly Pymt (after PA)	...Loan ...est	Life of the Loan Interest Paid on NET Subsidy Recapture (if including in Refi)
10 Year	120		$ 989.83	$ 11,878.01	NA	$ 989.83	...80.08	$ 1,574.87
25 Year	300		$ 471.05	$ 5,652.57	$ 75.33	$ 395.72	...14.27	$ 4,150.20
Property is a Manufactured home:		No						
30 Year	Not Available							
33 Year	396		$ 389.66	$ 4,675.90	$ 78.25	$ 311.41	...04.83	$ 5,634.84
38 Year Term Available Option:								
38 Year	Not Available							

The Monthly Payment (after Payment Assistance) is compare to the REAM PITI payment. A red cell indicated no net tangible benefit. A green cell indicated there is a net tangible benefit to the borrower at that term.

INCOME CALCULATIONS-Eligibility | 502 Loan | 504 Loan | TRID Instruction-Secured Loans | TRID LE Comparisons Tool | TRID Tolerar ...

Let's take a closer look at the issue of subsidy recapture, since we know including this in a refinance will be unfamiliar. Any payment assistance which borrowers may have received over the life of their loan is required to be repaid, in part or in full, when a borrower moves or sells the property. If a borrower pays off the principal and interest, either through the normal course of repayment or through a refinance (as in the case of ARP), and they continue to occupy the property, repayment of the subsidy recapture amount can be deferred until they move or sell the property.

However, as an incentive to encourage borrowers *not* to defer recapture and pay it off early, a 25% discount may be offered if the recapture is paid rather than deferred. This does not mean that it will be in every borrower's best interest to refinance the discounted recapture amount though, and additional analysis will be necessary.

We've developed some fields in the ARP Worksheet to help with this analysis, and while we're going to cover the ARP Worksheet in more detail a little later, I would like to give you a brief preview of the subsidy recapture fields that will help you with the subsidy recapture analysis. A simple method of analysis is to look at what the borrower will pay in interest, using different terms, if they finance the discounted recapture amount into their new loan and compare that to the potential discount the borrower may receive if they choose to refinance the discounted (or Net SR).

In short, if the borrower would pay more in interest on the recapture amount they include in the refinance, than they save by getting the discount, its probably not in their best interest to refinance the net subsidy. The better option may be to defer the full recapture amount, which is not due until they move out or sell and doesn't accrue interest.

In this situation, the borrower would save $4,000 through the discount, and would then finance $12,000 into the new loan. If they refinance at 10 years, they would be paying $1,574 in interest on that $12,000 of recapture that they refinanced. So the interest they'd pay is less than the discount they received, which on its own is a net benefit. But if they refinance at 25 years, they will pay $4,150 in interest on that $12,000 of recapture they're refinancing; so, the $4,150 of interest paid is greater than the $4,000 they saved through the discount – so this is *not* a benefit to the borrower.

The worksheet calculates the payments at 10, 25, and 33 years (and 38-year if applicable), and the note for the Monthly Payment column explains, the Monthly Payment field will turn green if the new payment would be less than the current payment – this is a NTB because the borrower would be saving on their monthly payment. The cell will turn red if the new payment is *higher* than the current payment though, to alert staff that the new monthly payment is even less affordable than the current payment.

In this example, the loan amount used to calculate the monthly payment includes the $12,000 net subsidy recapture. As summarized in the orange table, the 10-year term is not a good option for the borrower based on the increased monthly payment; even though they would have some benefit on the recapture alone. The 25-year or 33-year term is a much more affordable payment for the borrower; and since they'd be paying more interest on the recapture amount than they'd save through the discount, it may be better to just defer the full recapture amount instead, which would further reduce their new monthly payment by no longer including the recapture amount in the new loan.

ARP Eligible Use of Funds (continued)

Other eligible use of funds, *if there is adequate security value*:

- ✓ 502 only - junior liens for property related secondary financing (e.g., down payment assistance loans, home equity loans).

Involuntary liens (e.g., child support liens, judgment liens from unsecured creditors, etc.) are *not* eligible for Agency refinance.

As a recap, we previously listed eligible use of loan funds which can exceed the market value/area loan limit. However, an additional eligible use of funds - *if there is adequate security value* – is the refinance of junior liens for property related secondary financing (e.g., down payment assistance loans, home equity loans). This may be done when rates and/or terms are less favorable than the Agency's new loan (i.e., there is a NTB to the borrower such as lower total payment when refinanced), and doing so improves the Agency's security position. However, if there isn't adequate security value, the junior lien must be subordinated to the new loan. If security value is not adequate to include the amount(s) in the refinance, or a subordination cannot be obtained, the loan cannot be closed.

Important: involuntary liens (e.g., child support liens, judgment liens from unsecured creditors, etc.) are *not* eligible for Agency refinance.

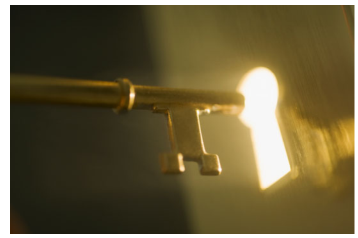
ARP Eligible Use of Funds (Closer Look – Other Lien Holders)

	Eligible	Exceed Market Value/Area Loan Limit	NTB
Outstanding debt to prior lien holders (Form RD 1927-8, Agreement with Prior Lienholder)	Yes	Yes	Yes
Junior liens for property-related secondary financing (e.g., down payment assistance loans, home equity loans)	Yes	No* **If there isn't adequate security value, the junior lien must be subordinated to the new loan*	Yes
Involuntary liens (e.g., child support liens, judgment liens from unsecured creditors, etc.)	No	N/A	N/A

This slide summarizes the eligible use of funds for other lienholders.

Key Differences

- For 502 loans, the adjusted income must not exceed the applicable moderate-income limit at the time of loan approval and closing
- Section 502 and Section 504 direct loan borrowers **<u>will not be subject to</u>**:
  - Credit analysis (other than delinquent federal debt requirements/DNP check)
  - Standard repayment ratio requirements
  - Asset limit (for down payment requirements or repayment income calculations)
  - Program standards related to the condition of the property (e.g., no whole house inspection)



Let's review a summary of the key differences you will notice throughout the UL, regarding eligibility.

- Adjusted household income must be calculated to determine if the applicant is income-eligible to receive a new program loan. For 502 loans, the adjusted income must not exceed the applicable moderate-income limit at the time of loan approval and closing. This is a departure from normal processing, under which 502 borrowers must not exceed the applicable low-income limit at time of loan approval and can not exceed the applicable moderate-income level at the time of loan closing.

- There are several items which borrowers will <u>not</u> be subject to:
  a. First, the borrower's credit history will not be evaluated using a tri-merge credit report (TMCR) or infile; therefore, no credit report fee is to be collected and these reports must not be ordered, nor are nontraditional/alternative credit sources to be required. However, the Agency must check the Department of Treasury's Do Not Pay (DNP) portal. If a borrower is in Chapter 7 or 13 bankruptcy at the time of application to refinance, the borrower's attorney must be notified of the proposed terms of the refinance. The Agency must receive written concurrence from the attorney or court (e.g., order granting the motion) before approving the loan.

  b. Second, evaluation of borrower repayment income is not required, and borrowers are not subject to standard repayment ratio requirements. However, adjusted household income must be calculated to determine if the applicant is income-eligible to receive a new program loan.

  c. Third, borrower and/or net family assets will not be evaluated for down payment requirements or repayment income calculations, as applicable. However, net family assets must still be evaluated for annual and adjusted income calculations.

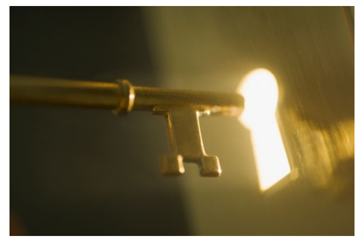
  d. Lastly, whole house inspections are not required, and eligibility of the subject property does not need to be re-verified. (Note: loans may be approved even if an area's designation has changed from rural to non-rural, in accordance with HB-1-3550, Paragraph 5.3 C. 6.)

Key Differences (continued)

➢ 3rd priority for processing (Tier I borrowers will receive initial priority within this category).

➢ Terms:

- ➢ 502 – loans < $24,000 with a remaining term of < 10 years - Loan Estimate (LE) issued using a new 10-year term; however, if a longer term is necessary to demonstrate a NTB, or if the applicant prefers, a 25-year or 33-year term may be used. The applicant must indicate their preference on the 'Tailored ARP Cover Letter to TRID'.
- ➢ 502 - loans > $24,000, the LE will be issued using a 33-year term (30-year for manufactured homes); however, if the applicant prefers a shorter term (and a NTB is still demonstrated) they may select a 25-year term. The applicant must indicate their preference on the 'Tailored ARP Cover Letter to TRID'.
- ➢ 504 – 20 years.



To continue a recap of key eligibility differences:

- Regarding processing priority - ARP refinance applications will receive third priority for processing (due to hardship). Within this category, Tier I borrowers will receive initial priority within this category. (e.g. – if a Tier I and Tier III app are received at the same time, priority should be given to the Tier I app first)
- Terms:

  ➢502 – loans < $24,000 with a remaining term of < 10 years - Loan Estimate (LE) issued using a new 10-year term; however, if a longer term is necessary to demonstrate a NTB, or if the applicant prefers, a 25-year or 33-year term may be used. If the borrower wants a longer term than 10 years, they must indicate their preference on the 'Tailored ARP Cover Letter to TRID'.

  ➢502 - If the estimated loan amount is > $24,000, the LE will be issued using a 33-year term (30-year for manufactured homes); however, if the applicant prefers a shorter term (and a NTB is still demonstrated) they may select a 25-year term. This is the minimum term available that allows borrowers to still receive payment assistance. The applicant must indicate their preference on the 'Tailored ARP Cover Letter to TRID'.

  ➢504 – 20 years.

Key Differences (Closer Look – Terms / Tailored ARP Cover Letter to TRID

502 Loans < $24,000

- ***The Loan Estimate Disclosure***. This document is provided to show the maximum costs associated with the loan product; the final costs may be lower. If there is a change in circumstances, such as a change in the loan amount (or when the subsidy recapture is calculated as noted above), a revised Loan Estimate will be issued. The payment amount does not reflect any possible payment assistance nor does the issuance of a Loan Estimate constitute an approval of a loan. Please note:
  - **[Insert if estimated loan amount is less than $24,000, existing term is less than ten years. Complete the entire table for all term options using information from ARP worksheet – 10-year term should reflect 'X']** Based on your low balance and remaining term, the Loan Estimate is based on a new repayment term of ten years. However, if you would prefer a longer term (which may increase your total cost over the life of the loan), please see below for other options.

Reflected on the Loan Estimate	Term	Interest rate	Estimated Monthly Principal & Interest	Estimated Monthly Payment (including subsidy)	Borrower Initials
x	10-year				
	25-year				
	30-year *(manufactured home only)*				
	33-year				

502 Loans > $24,000

- **[Insert if estimated loan amount is over $24,000. Complete the entire table for all term options using information from ARP worksheet – 33-year term should reflect 'X']** The Loan Estimate is based on the standard 33-year repayment term. However, if you would prefer a shorter term, (which would reduce your total cost over the life of the loan) please see below for another option.

Reflected on the Loan Estimate	Term	Interest rate	Estimated Monthly Principal & Interest	Estimated Monthly Payment (including subsidy)	Borrower Initials
	30-year *(manufactured home only)*				
x	33-year				
	25-year				

As mentioned on the previous slide, the terms available under ARP differ from a standard 502 direct loan so we've developed a tailored ARP Cover Letter for TRID to be sent with the Loan Estimate. As a reminder, the initial Loan Estimate that will be sent within 3 days of application receipt will not include the subsidy recapture amount, and the tailored letter includes language explaining the subsidy recapture process to the borrower.

This slide shows some key excerpts from the Tailored ARP Cover Letter. The bold, highlighted explanatory language will be deleted by staff before the letter is sent to the borrower. If the loan is less than $24,000, and existing term is less than 10 years, the initial Loan Estimate will be issued at a 10-year term, but the borrower will be provided with basic information about a 25- and 33-yr options from the ARP Worksheet (30-yr if manuf. home).

If the loan is more than $24,000, the Loan Estimate will be issued at 33 years, but the borrower receives basic information about the 25-year option from the ARP Worksheet.

In short, if the borrower wants a different term than what the LE is issued at, they must indicate their preference on the 'Tailored ARP Cover Letter to TRID' and return to the field office within 10 business days.

As a packager, you will communicate to the borrower, at application, to watch for these key letters. You should explain to them the requirement to respond when an alternative term is desired.

Next, we'll go over the various ARP processing tools.

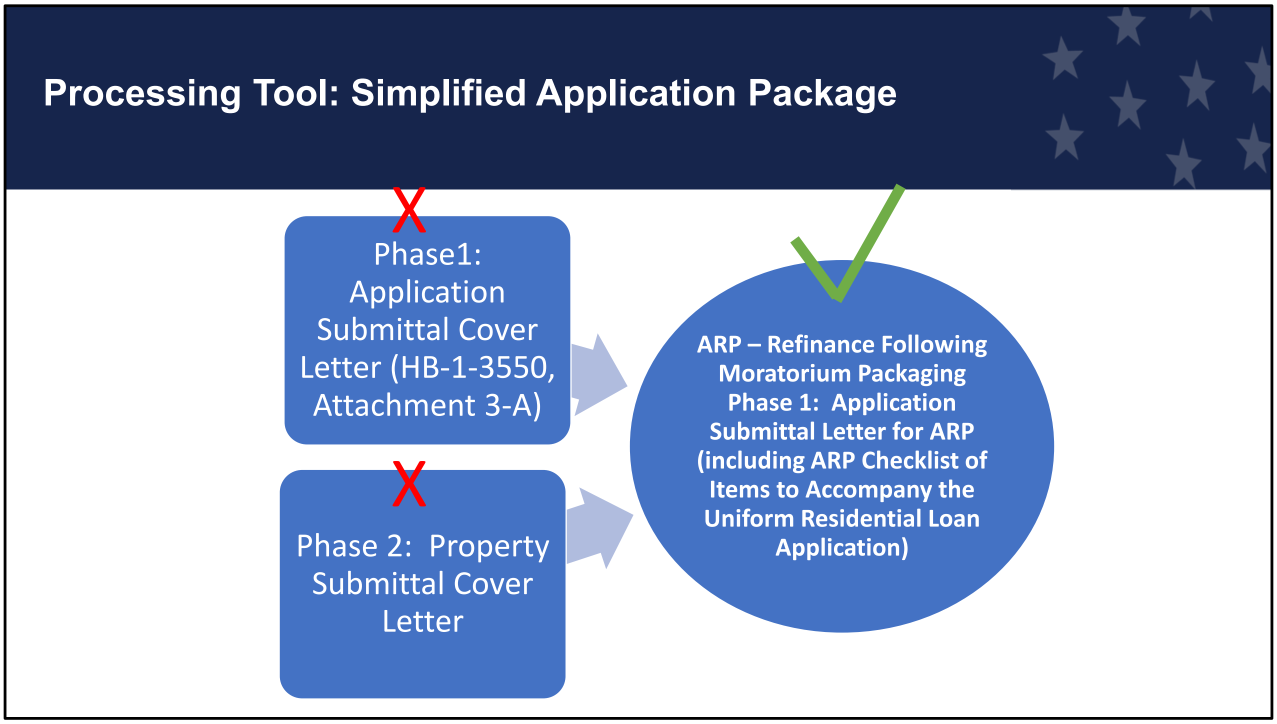
Processing Tools

- ARP Refinance Standardized Application Package (including ARP specific Checklist of Items to Accompany URLA, in lieu of Att 3-J & 12-E)
- ARP Worksheet (excel spreadsheet for eligibility, in lieu of Att 4-A/504 Worksheet)
- ARP Packaging Required Disclosure Letter (in lieu of version in Att 3-A)
- ARP Packaging Phase 1: Application Submittal Cover Letter for ARP (in lieu of version in Att 3-A)
- ARP Stacking Order Checklist
- Tailored ARP Cover Letter to TRID
- ARP Application Processing Checklist (in lieu of Att 3-G or 12-C)
- ARP Eligibility Letter (in lieu of Certificate of Eligibility) – *attach Subsidy Recapture Fact Sheet*
- ARP Standardized Adverse Decision Letter (in lieu of HB Letter 15)
- ARP Subsidy Recapture Borrower Notification (used to notify borrowers of recapture amount, so they can decide if they want to include in the refinance loan)

Processing tools for packagers include:

- ARP specific Checklist of Items to Accompany URLA, in lieu of Att 3-J & 12-E
- ARP Worksheet - (excel spreadsheet for eligibility, in lieu of Att 4-A/504 Worksheet); we will cover this in more detail a little later in this presentation
- ARP Packaging Required Disclosure Letter.
- ARP Packaging Phase 1: Application Submittal Cover Letter for ARP.
- ARP Stacking Order Checklist

Other tools listed here are used by staff during ARP loan processing.



Now that we've summarized the key differences in borrower eligibility and provided an overview of the various ARP specific tools, let's take a closer look at how those key eligibility (and other) differences impact what is needed in the application package itself.

Packagers must use ARP Packaging Phase 1: Application Submittal Cover Letter and ARP Packaging Required Disclosure Letter in lieu of the Phase 1: Application Cover Letter and Disclosure Letter in HB-1-3550, Attachment 3-A. These items are modified to align with the simplified application packet and May 12, 2021 UL, namely, to reference the UL for the applicable fee to be included in the disclosure letter.

Key points include:
- The ARP Phase 1 requires the use of the "ARP Checklist of Items to Accompany the Uniform Residential Loan Application", instead of HB-1-3550, Attachment 3-J or 12-E, which is discussed in more detail on the next slide.
- Any items related to the property are submitted during Phase 1 (e.g. cost estimates for completing health and safety repairs). There is no Phase 2 submission for ARP refinance.

Intermediaries are to use the ARP Agency-approved stacking order when submitting ARP loan application packages to the Agency. While the May 12, 2021, UL and Handbook-1-3550 guidance should be followed regarding which items to submit for an application, based on that applicant's unique situation, the stacking order checklist identifies how those documents should be organized for submittal to the Agency within eForms.

Processing Tool: ARP Checklist of Items to Accompany the Uniform Residential Loan Application

Not required:

- × Credit report fee
- × Written explanation of credit blemishes
- × Information about property of interest
- × Purchase agreement
- × Statement about homeowner education training
- × Property information (12-E)

Required:

- ✓ Form 410-4
- ✓ Form 3550-1
- ✓ Verification of identity
- ✓ Form 3550-4
- ✓ Income documentation
- ✓ Two most recent brokerage/bank statements
- ✓ School transcripts, if applicable
- ✓ Childcare expenses, if applicable
- ✓ Unreimbursed medical expenses, if applicable
- ✓ Personal email addresses, if preferred

New for ARP:

- ✓ Capital Improvements Form
- ✓ Description of major deficiencies

As we discussed on the previous slide, the ARP Checklist of Items to Accompany the URLA (which is included in the ARP standardized application package) must be used in lieu of Attachment 3-J or 12-E, and this slide provides an overview of differences from the 3-G/12-E as far as what's not required, what is required, and what's new for ARP purposes.

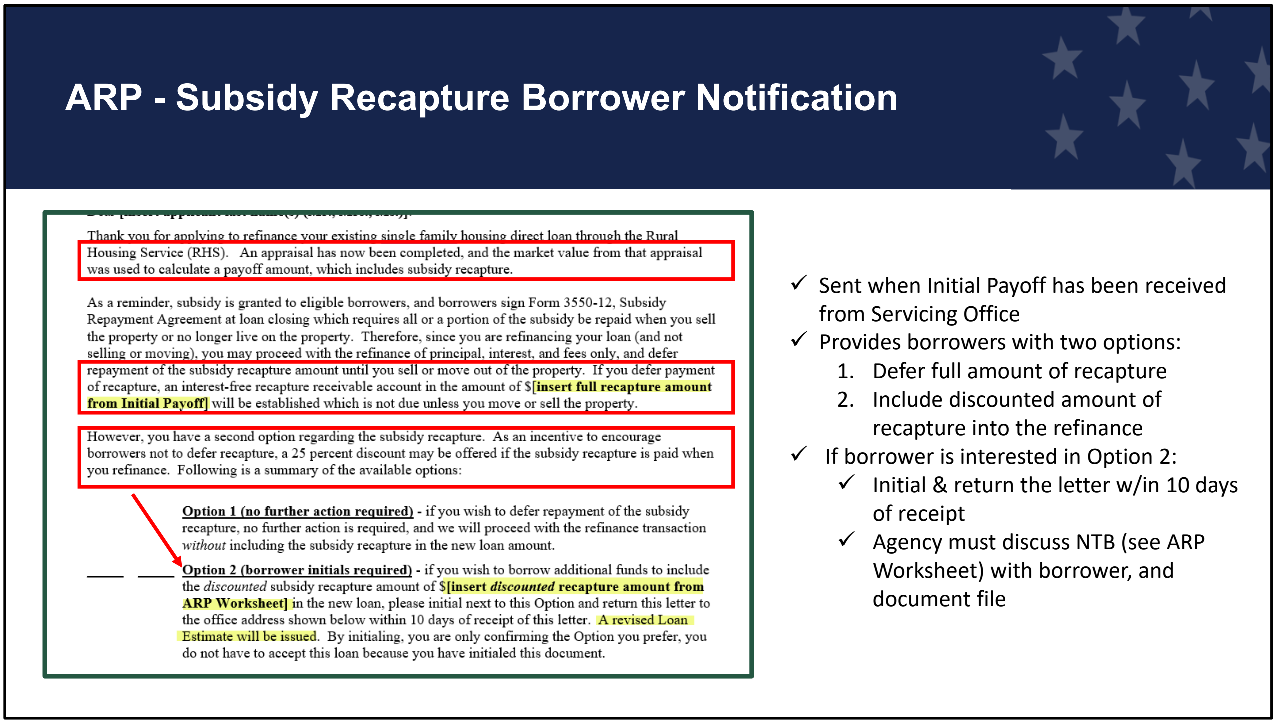
The items that are *not required* are primarily related to credit and property information. Because the borrower's credit history will not be evaluated using a TMCR or infile, there is no need to collect a credit report fee or written explanation of credit blemishes; and since this is an existing Agency-financed property, the property information listed on the slide is not applicable either.

Required items are largely related to documentation needed for calculating the household's income, to determine if the applicant/borrower is eligible to receive a new program loan.

The items that are *new* for ARP include a Capital Improvements Form, and a line for describing major deficiencies requiring repair:

- The Capital Improvement Form is necessary for the subsidy recapture calculation, which is part of the final payoff statement, that will be completed by Servicing Office later in application processing. The form is included in the ARP standardized application package and is used to collect information from the borrower about improvements to the property. 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 and updating, such as painting, floor coverings, new roof or siding, etc., do not qualify as a capital improvement. The borrower can obtain credit for the "value" that the capital improvement added to their home, and that value in turn impacts the subsidy recapture calculation. Please note that the borrower must complete the Capital Improvement form that is in the ARP refinance application package, even if there are no capital improvements (there is a 'decline capital improvements' box that must been checked)

- The Major Deficiencies requiring repair section on the ARP Checklist is to gather information early in the process for consideration. As a reminder, additional loan funds should only be used for major deficiencies/health & safety issues, and not for general improvements or modernization.

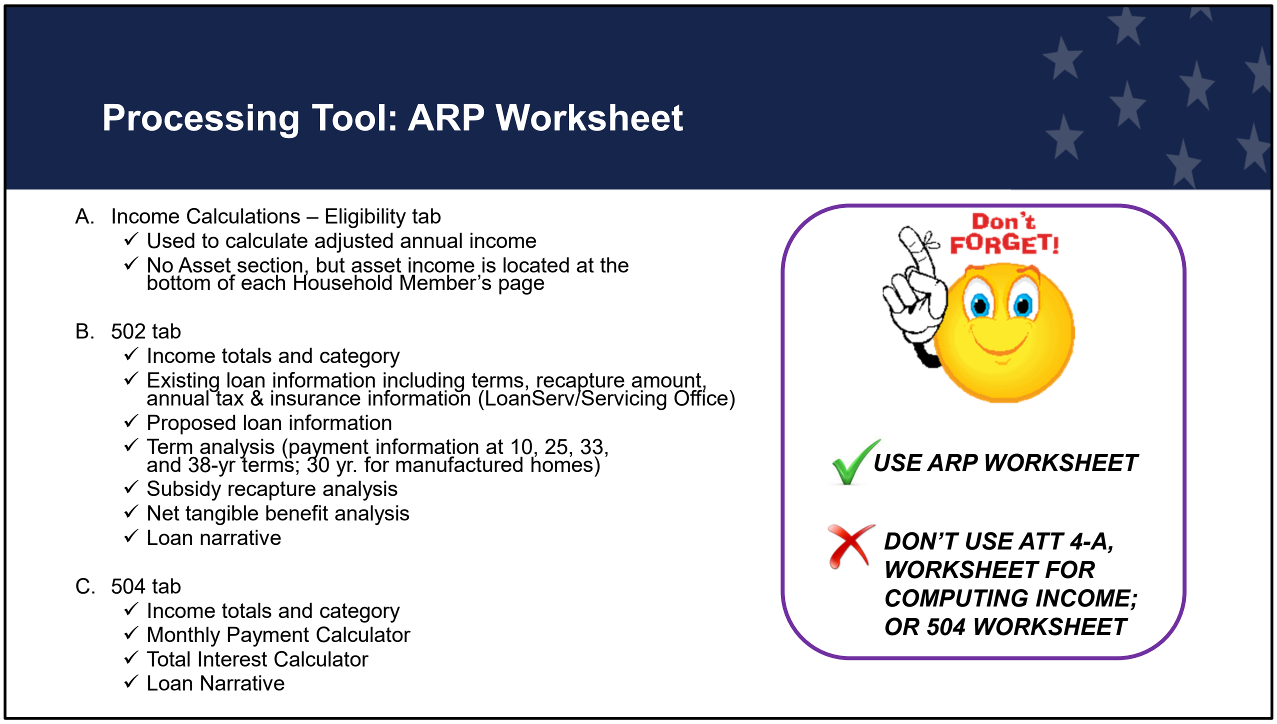


As explained in the UL, the initial Loan Estimate (LE) that is sent within 3 days of application receipt will not include any subsidy recapture amount, since the Servicing Office is unable to generate a payoff statement to include the recapture amount, without having the appraisal done. The ARP Letter 3 – the Tailored ARP Cover Letter to TRID that covered earlier in this presentation, is sent with the LE. The Tailored ARP Cover Letter to the TRID informs the borrower that once an appraisal is completed and the final amount of subsidy recapture owed has been calculated, the borrower will be notified of their options, which include either defer repayment of that recapture amount until they move or sell the property; or they can choose to include the discounted amount in the refinance of their loan.

Those two options are given to the borrower in the ARP Letter 6 - Subsidy Recapture Borrower Notification, which is reflected on this slide. As mentioned on the previous slide, Field staff should send this letter ASAP after receiving Initial Payoff from the S/O.

The Subsidy Recapture Borrower Notification letter informs the borrower that an appraisal has been completed and the market value from that appraisal has been used to calculate the payoff amount, including the subsidy recapture.

The Subsidy Recapture letter will include the full amount of recapture owed as identified on the Initial Payoff statement from Servicing Office. If the borrower wants to defer that amount, no further action is required. However, the second option is to include the discounted recapture amount from the ARP Worksheet. If the borrower opts to include the discounted recapture, they must return this letter within 10 days of its receipt (with their initials), and RD will need to re-issue the LE based on the revised loan amount including the discounted recapture. We do not expect a large number of borrowers that will choose this second option, but if the borrower chooses to include the recapture it will be important to discuss if there is a NTB of refinancing the discounted recapture with the borrower & document this carefully in the file.



The ARP Worksheet is a tool used to document the household income and borrower's net tangible benefit from refinancing. The ARP Worksheet looks and functions like the Worksheet for Computing Income, but it's very important staff and loan application packagers use the ARP Worksheet because of some specific features.

The worksheet has notes to assist throughout the tool (displayed by hovering over a red triangles).

The first tab we'll discuss is the **Income Calculations tab**. The main differences here are:

1. The Asset section has been removed, as ARP applications are not subject to asset limitations for repayment income calculations or down payment requirements. Asset income must still be included in annual income, however, and a section for asset income is located at the bottom of each household members page.

   All applicable calculations methods should still be used for ARP, unless the income sources only lend itself to one method; for example, income received from social security benefits. (Please see HB-1-3550, Chapter 4, Paragraph 4.3 E. 2 for guidance on the four calculation methods.) It is important to show your work in the ARP Worksheet for all suitable calculation methods. White fields are fillable and orange fields are drop-down menus for selection of the method used in Annual Income.

2. Also, as mentioned on the Key Eligibility Differences slide, calculation of borrower repayment income is not required, and borrowers are not subject to standard repayment ratio requirements. Therefore, the ARP Worksheet does not include repayment income calculations.

Next, let's review the **502 tab**. The 502 tab will be used to compare the options for terms and to document a net tangible benefit. Features include:

1. Existing loan terms, obtaining this information is discussed on the next slide.
2. Annual taxes and insurance.
3. Proposed loan information, which will be used in the term analysis and net tangible benefit calculations.
4. Income Totals, including income category, are transferred from the Income Calculations tab. For ARP 502 Refi funds, the borrower must be at or below moderate income. If the household income exceeds moderate, a warning is displayed stating the borrower is not eligible for ARP refi.
5. Original Terms of Existing Leverage Loan (if not being refinanced), which is used in payment assistance calculations if appliable.

6. Term analysis to compare the Borrower PI payment at various terms, and the Worksheet will use a red cell to indicate no net tangible benefit. A green cell is displayed if there is a net tangible benefit to the borrower at that term. The Worksheet can be used to identify at which term does the borrower have a NTB (e.g. –lower monthly payment).
7. Subsidy Recapture Analysis. We discussed this on a previous slide, but to quickly recap the subsidy recapture analysis can be used to discuss whether it makes sense to include subsidy recapture in the loan.
8. Net Tangible Benefit documented at the term selected including any prior and junior liens being refinanced.
9. Loan Narrative to be used for entering comments by packagers, Loan Originators, and Loan Approval Officials regarding eligibility for ARP refinance.

The **504 tab** includes:

1. Income totals and category. For ARP 504 Refi funds, the borrower must be at or below very low income. If the household income exceeds very low, a warning is displayed stating the borrower is not eligible for 504 ARP refi. At which point, you can check for a NTB to a 502 ARP refi.
2. Payment calculator
3. Total principal and interest paid over the life of the loan
4. Loan Narrative to be used for entering comments by packagers, Loan Originators, and Loan Approval Officials regarding eligibility for ARP refinance.

Obtaining Loan Balance(s)

- Interactive Voice Response (IVR) System's
  - Call 1-800-414-1226
  - Provide an estimated payoff included the estimated subsidy recapture to be paid (based on the borrower provided value of the property and estimated closing cost)
  - Payment and Loan Information including principal balance, interest rate, borrower payment, and escrow payment.
- Monthly Billing Statement
  - Borrower will receive a monthly billing statement at the end of the moratorium

In order to complete the 502 or 504 tab, you will need to obtain the loan balance on the existing account.

Using the Interactive Voice Response (IVR) System's, the borrower and/or packager can obtain Payment and Loan Information and Payoff Information. To use the system, you will need the borrower's account number and the last four digits of their social security number.

- Call 1-800-414-1226
- Main Menu Options include
  - Option 1 Make a Payment
  - Option 2 Payment and Loan Information
  - Option 3 Payoff Information

- Using Options 2 and 3, packagers can obtain the information needed to complete the 502 or 504 tab.

- Monthly Billing Statement
  - Borrower will receive a monthly billing statement at the end of the moratorium

If the account is delinquent past 90 days, the IVR System may direct you to a customer service representative.

We are researching more on this topic with the Servicing Office and will advise of any updates once they become available.

ARP Worksheet Demo

Conclusion

- Signup for **GovDelivery**
  - https://public.govdelivery.com/accounts/USDARD/subscriber/new?qsp=USDARD_25

- ARP Resources
  - May 12, 2021 Unnumbered Letter - https://www.rd.usda.gov/resources/directives/unnumbered-letters, under Housing Programs
  - RD Home Loans website (borrowers) - https://pubmai.sc.egov.usda.gov/
  - SFH Direct Home Loans and Housing Repair Loans & Grants websites (public) - https://www.rd.usda.gov/programs-services/all-programs/single-family-housing-programs
  - Direct Loan Application Packagers - https://www.rd.usda.gov/programs-services/services/direct-loan-application-packagers

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