



## USDA Refinance Programs

The USDA Single Family Housing Guaranteed Loan Program is embodied in 7 CFR Part 3555. References throughout these guidelines are for the corresponding handbook HB-1-3555, the Handbook. Highlights of RD Instruction 3555 changes and the Handbook can be found at <https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do>

For Single Family Home Guaranteed Loan Program loans obligated (conditional commitments issued) on or after October 1, 2016, both purchase and refinance transactions will be subject to (1) an upfront guarantee fee equal to 1.00% of the loan amount (decrease from 2.75%), and (2) an annual fee of 0.35 percent (decrease from 0.5%) of the unpaid principal balance.

This matrix is intended as an aid to help determine whether a property/loan qualifies for certain financing. It is not intended as a replacement for USDA guidelines. Users are expected to know and comply with USDA requirements.

NOTE: This matrix includes overlays, which may be **more restrictive** than USDA requirements. A thorough reading of this matrix is recommended.

### Program Qualifications

- LSM's USDA Refinance Programs are designed for the refinance of owner occupied single family residences that have an existing USDA Guaranteed Rural Home loan. Refinance of a USDA Direct Loan is not eligible with this program.

### Eligibility Matrix Loan Amount & LTV Limitations

#### USDA - Primary Residence – Rate Term

| Units | Total LTV*<br>(including<br>financed<br>guarantee fee) | CLTV       | Minimum Credit Score |
|-------|--|------------|----------------------|
| 1     | 101.01%<br>105% Streamline                             | Ineligible | 620                  |

The LTV is calculated as the loan amount divided by the appraised value. LTV may exceed 100% of the appraised value only to the extent that the excess represents the financed guarantee fee. See *Guarantee Fee*.

### Maximum Loan Amount

- \$453,100

### Product Description

- Fixed Rate 30 year term; fully amortized

### Product Codes

| Years    | Product Code | Description   |
|----------|--------------|---|
| 30 Years | 501          | Non-streamlined refinance   |
| 30 Years | 501SL        | Streamlined Assist refinance<br>(The Streamlined Assist refinance has replaced the Rural Refinance Pilot refinance program) |

### Eligibility Requirements

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| <b>Appraisal Requirements</b> | <p>Loan amount must be supported by the appraisal's fair market value (Ch. 12).</p> <p>Appraisals must be ordered through an LSM approved AMC (appraisal management company)</p> <p>One full appraisal (FNMA 1004/FHLMC 70)</p> <p><u>Intended User (USDA Message 5-14-15)</u><br/>USDA and/or Rural Housing Service or similar identifiers are not required to be listed by the appraiser as an "intended user". While the Agency may guarantee these loans, they are the lender's loan, and the intended user is the lender.</p> <p><u>Age of Appraisal</u><br/>The appraisal must have been completed within 120 days of loan closing. Borrower will be paid for appraisal fee cost.</p> <p>All appraisal reports must include a Market Condition Addendum (Form FNMA 1004MC) and meet the Uniform Appraisal Dataset (UAD) requirements set forth by Fannie Mae and Freddie Mac.</p> |
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Residential appraisals will be completed using the sales comparison approach. The cost approach is not required for the Guaranteed Loan Program. (USDA Message 5-14-15)

### Appraisal update.

Lenders may extend the validity period of an appraisal with an appraisal update report that will be no greater than 240 days from the effective date of the initial appraisal report at loan closing (120 days for the original appraisal plus 120 days for the Appraisal Update Report). Appraisals with no update will be no greater than 150 days from the effective date of the appraisal report at loan closing (120 days validity period plus a 30 day extension period). The 30 day extension period cannot be used when the original appraisal report is updated. An original appraisal report can be updated one time with an Appraisal Update Report.

Note: 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.

Note: The ECOA Valuations Rule requires copies of appraisals and other written valuations be delivered to borrower promptly upon completion, or three (3) business days before consummation, whichever is earlier.

The use of the property must comply with zoning and use restrictions. If the existing property does not comply with current zoning regulations, but is accepted by the zoning authority, it is considered a legal nonconforming property. The property is not eligible for a USDA guarantee when the use is not legal. The appraisal must reflect any adverse effect of the legal nonconforming use on the value and marketability of the property. (Chapter 12)

### Economic Life

The economic life of a property must meet or exceed the term of the proposed loan. The appraiser may reject the property if the future economic life of the property is shortened by obvious and compelling pressure to a higher use, making a long-term mortgage impractical.

### Existing Dwelling

An existing dwelling has been completed for more than 12 months or has been completed less than 12 months but has been previously occupied.

An existing dwelling may be attached, detached or semi-detached dwelling and must be inspected to determine that the dwelling meets the current requirements of:

- HUD Handbook 4150.2, *Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four-Unit Dwellings* (Appraisal Handbook), and
- HUD Handbook 4905.1, *Requirements for Existing Housing One- to Four-Family Living Units*.

The appraiser may certify the requirements of HUD Handbooks 4901.1 and 4150.2 (also known as "HUD Handbooks") have been met on page three of the appraisal form in the "comment" section. Alternately, the appraiser may make their certification in an addendum to the appraisal.

**Note:** The Department of Housing and Urban Development (HUD) will soon replace two of its handbooks for property standards, HUD Handbooks 4105.2 and 4905.1. The successor replacing the two handbooks will be HUD Handbook 4000.1. Chapter 12 of HB-1-3555 refers to the two handbooks (see above) which will be replaced. When HUD Handbook 4000.1 becomes effective, it will also become effective for purposes of HB-1-3555 and related certifications. (USDA Message 5-14-15)

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. Applicants are encouraged to obtain a detailed home inspection of the property independent of any other inspections.

As stated in HUD Handbook 4150.2, the responsibility for enforcing code rests with the local municipalities. 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.

Termite/pest inspections are not required unless the underwriter, 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.

USDA may approve dwellings with in-ground swimming pools.

New construction (See Handbook Chapter 12)

Property repairs may be required by the appraiser or LSM. Properties requiring repairs must have the work completed prior to closing. Repairs may not be financed into the loan amount. If required repairs cannot be completed prior to closing the loan will not be approved.



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|                                      | <p>Appraisal transfers are not allowed.</p> <p><b><u>Non-streamlined refinances</u></b><br/>A new appraisal is required</p> <p><b><u>Streamlined-Assist refinances</u></b><br/>A new appraisal is <u>not</u> required</p> <p><b><u>Inspections – all refinance types</u></b><br/>No additional inspections or repairs are required by USDA.<br/>However, underwriter may require inspections or repairs based on information in appraisal. Expenses related to inspections or repairs may <u>not</u> be financed.</p>   |
| <p><b>Appraiser Requirements</b></p> | <p>Appraisers must be on FHA's approved list on the FHA Connection with State Certification designation of Certified General or Certified Residential</p> <p>The assigned appraiser must perform the physical inspection of the property and may not sign the appraisal performed by another appraiser.</p> <p>Only appraisers who are properly licensed or certified, as appropriate, to make residential real estate appraisals in accordance with the criteria set forth by the Appraiser Qualification Board of the Appraisal Foundation regardless of the amount of the loan.</p> <p>LSM will verify that an appraiser is licensed or certified by checking the Appraisal Subcommittee website found at <a href="https://www.asc.gov/Home.aspx">https://www.asc.gov/Home.aspx</a></p>  |
| <p><b>Assets</b></p>                 | <p>Assets are not required on USDA loans but can be used as a compensating factor.<br/>Any assets input into GUS must be verified.</p> <p>Cash on hand is ineligible. Funds must be validated in an account<br/>All funds required for closing must be fully documented</p> <p>Reserves</p> <ul style="list-style-type: none"> <li>• None required</li> </ul> <p><u>Cash Reserves</u><br/>Although cash reserves after closing are not required, cash reserves are considered in the risk assessment provided by GUS. Lenders must determine if the asset is liquid or readily converted to cash and can be done so absent retirement or job termination.</p> <p>Assets such as 401(k)s, IRS, 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.</p> <p>Funds from gifts from any source will not be included in the cash reserves calculation in GUS.</p> <p>The most recent 2 month average of liquid accounts such as checking or savings accounts may be considered as cash reserves. Assets should never be overvalued as it affects the risk assessment provided by GUS and misrepresents the file. A 2 month average of liquid assets most accurately represents the true value of the account since accounts, such as checking accounts often fluctuate significantly during the month from deposit to average balance. The true calculated value will be input on the "Assets and Liabilities" page of GUS.</p> |
| <p><b>Assumptions</b></p>            | <p>Ineligible</p>   |
| <p><b>Borrower Eligibility</b></p>   | <p>Applicant must be a qualified alien or U.S. citizen (Ch. 8).</p> <p>US Citizens<br/>Permanent Resident Aliens</p> <ul style="list-style-type: none"> <li>• Verify Alien Registration Card, I-551</li> <li>• Must provide valid Social Security number</li> </ul> <p><b>Ineligible</b></p> <ul style="list-style-type: none"> <li>• Borrowers whose adjusted household income exceeds the Rural Development income limit for the applicable area</li> <li>• Foreign Nationals</li> </ul>  |



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|                                       | <ul style="list-style-type: none"> <li>• Full time students</li> <li>• Borrowers closing in a trust</li> <li>• Inter Vivos Trust</li> <li>• Land Trusts</li> <li>• Non-Permanent Resident Aliens</li> </ul> <p>Adding or deleting borrowers for any reason is permissible on non-streamlined and streamlined transactions. At least one of the original borrowers must be retained in order to qualify as a refinance transaction.</p> <p><b>Streamlined-Assist refinances</b><br/>Borrowers may be added <u>but not removed</u> (unless deceased) from the current loan.</p>  |
| <p><b>Co-borrowers/Co-signers</b></p> | <ul style="list-style-type: none"> <li>• Co-borrower must occupy the property</li> <li>• Co-borrower must take title to the property AND sign the Note and the Security Instrument</li> <li>• Co-signors are ineligible</li> <li>• The co-borrower cannot be an interested party to the transaction (e.g., seller, builder, real estate agent, etc.)</li> <li>• Non-occupant co-borrowers are ineligible</li> </ul>  |
| <p><b>Credit</b></p>                  | <p>Minimum Credit Score Requirements</p> <ul style="list-style-type: none"> <li>• <b>Minimum 620 credit score</b></li> <li>• Non-Traditional Credit is ineligible</li> </ul> <p>Important: If the credit report reflects the mortgage loan creditor as "USDA", then the existing loan is a USDA Direct Loan and is <u>not</u> able to be refinanced under any USDA refinance program by LSM. (LSM overlay)</p> <p>Applicant must have a credit history that demonstrates their ability and willingness to repay the loan (Ch. 10).</p> <p><u>Age of Credit Reports</u><br/>Credit reports pulled through GUS are valid for 120 days for unless the credit provider's expiration is more restrictive. Any credit report must not be more than 120 days old when the loan is closed.</p> <p>At least one applicant whose income or assets are used for qualification must have at least three (3) trade line payment references that have existed for at least 12 months to establish a credit reputation and validate the credit score. A trade line in a documented dispute with 12 months of history is considered an eligible trade line. The inability to validate credit scores used by GUS will require an "Accept" recommendation to be <b>downgraded to a "Refer"</b>. Since non-traditional credit is not allowed (LSM overlay), the loan would be denied.</p> <p>Housing Payment History</p> <ul style="list-style-type: none"> <li>• Mortgage/Rental History:             <ul style="list-style-type: none"> <li>• GUS Accept/Eligible: Mortgage/Rental history has been evaluated by GUS. These loans are not subject to additional rental or mortgage payment history documentation</li> </ul> </li> </ul> <p><u>Disputed Accounts (10.11)</u><br/>Disputed accounts on the credit report are not considered in the credit score. For manually underwritten loans, all disputed accounts must have a letter of explanation and documentation supporting the basis of the dispute.</p> <p>Loans underwritten with GUS that receive a recommendation of "Accept" must be <b>downgraded to a manual "Refer"</b> unless the following conditions are met on the credit report:</p> <ul style="list-style-type: none"> <li>• The disputed trade line has a zero dollar balance</li> <li>• The disputed trade line is marked "paid in full" or "resolved"</li> <li>• The disputed trade line has a balance owed of less than \$500 <b>and</b> is more than 24 months old</li> </ul> <p>Loans downgraded for failure to meet any of these conditions are subject to a manual review and require the submission of the complete underwriting case file to USDA.</p> <p><u>Authorized User Trade Lines (10.12)</u><br/>For loans underwritten with GUS that receive a recommendation of "Accept" and are supported by credit reports that designate the applicant an authorized user of trade line(s), underwriter must obtain evidence of one of the following:</p> <ul style="list-style-type: none"> <li>• The trade line(s) in question is owned by another applicant on the mortgage loan application</li> <li>• The owner of the trade line is the spouse of an applicant</li> <li>• The applicant has made payments on the account for the previous 12 months prior to the application</li> </ul> <p>In the event one of the above conditions cannot be met, the recommendation of "Accept" must be <b>downgraded to a manual "Refer"</b>.</p> <p><u>Recent or undisclosed debts/inquiries/information (Att 10-B)</u><br/>If the underwriter is aware of any contradictory or derogatory information that is not submitted to GUS, or erroneous information in the data submitted to GUS, or there is a Federal judgment, a recommendation of "Accept" must be</p> |



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|             | <p><b><u>downgraded to a manual “Refer”.</u></b></p> <p><b><u>Non-streamlined refinances</u></b></p> <p>Credit of a non-borrowing spouse is not considered a reason to deny a loan application. The non-borrowing spouse will not sign the note, but will sign the security instrument. Community/marital property states ( Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin):</p> <ul style="list-style-type: none"> <li>• Except for obligations specifically excluded by state law, the debts of the non-borrowing spouse must be included in the applicant’s qualifying ratios</li> <li>• A credit report must be obtained for the non-borrowing spouse in order to accurately determine the debts that must be counted in the total debt ratio<br/>Note: GUS will only retrieve credit reports for applicants. Therefore, lenders must obtain an acceptable credit report outside of GUS for applications in community property states. The debt obligations must be entered in the appropriate liability section.</li> <li>• Any non-borrowing spouse debts in judgment status must be paid prior to closing.</li> </ul> <p>Must receive a clear CAIVRS (Credit Alert Interactive Voice Response System)</p> <p>Bankruptcy/Foreclosure/Deed-In-Lieu</p> <ul style="list-style-type: none"> <li>• Bankruptcy must have been discharged for more than 36 months</li> <li>• Foreclosure must have been dismissed for more than 36 months</li> </ul> <p>Above is measured by discharge or dismissal date until date of application</p> <p><b><u>Streamlined-Assist Refinance Guidelines</u></b></p> <p>A credit report with scores for each borrower must be submitted with the file (LSM overlay)</p> <p>Mortgage History</p> <ul style="list-style-type: none"> <li>• Borrower must have made timely mortgage payments for the 12-month period prior to the refinance.</li> </ul> <p>Underwriter must secure evidence to document the borrower(s) has paid the loan on time for the previous 12 months. If the mortgage account is currently delinquent or has been reported delinquent in the previous 12 months, the borrower is not eligible.</p> <p>The underwriter may utilize a Verification of Mortgage obtained from or provided directly by the loan servicer that lists the payment history for each of the previous 12 months. As an alternative, underwriter may submit a credit report which reflects a satisfactory mortgage payment history over the past 12 months. If underwriter submits a credit report to Rural Development as proof of payment history, only the payment history of the current mortgage will be considered. Credit waivers or explanations for adverse credit that may be present on the report are not required.</p> |
| <b>Debt</b> | <p>Total Debt includes monthly housing expense PITI plus any other monthly credit obligations incurred by the applicant. Obligations for child care, voluntary contributions to retirements such as a 401K, and open accounts with zero balance, are not considered a debt.</p> <p><b><u>Monthly debt obligations include but are not limited to:</u></b></p> <p><b><u>Long-term obligations</u></b> with more than ten months repayment remaining, including all installment loans, revolving charge accounts, alimony, child support or separate maintenance payments, student loans and other continuing obligations; and</p> <p><b><u>Revolving accounts</u></b> – The minimum monthly payment is required for all revolving credit card debts, even if the account appears likely to be paid off within 10 months or less.</p> <ul style="list-style-type: none"> <li>• If the credit report shows an outstanding balance, but no specific minimum monthly payment, the payment will be calculated as the greater of 5 percent of the balance, or \$10. If the underwriter obtains a copy of the current statement reflecting the actual monthly payment, that amount can be used for qualifying purposes.</li> <li>• Revolving accounts with no outstanding balance do not require an estimated payment to be included in DTI.</li> </ul> <p><b><u>Child support, alimony, garnishments</u></b> - Applicants obligated to pay child support, alimony, garnishments, or other court ordered debts must have payment included in the total debt ratio. IF the applicant has a release of liability from the court/creditor, and acceptable evidence is obtained, the debt can be excluded. Lenders will utilize select pages from the applicable agreement/court order to document the required monthly payment due and the duration of the debt.</p> <p><b><u>Child care expenses</u></b> - Child care expenses are not required to be considered as a recurring liability when calculation the total debt ratio.</p> <p><b><u>Student Loans</u></b> - Lenders must include the greater of one percent of the outstanding loan balance or the verified</p>  |

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fixed payment as reflected on the credit report.

- Exception: Monthly payment amounts listed on the credit report, which are less than one percent of the outstanding balance may be used when evidence from the loan servicer is obtained indicating:
  - The applicant is on a fixed repayment plan not subject to change under the terms of the current agreement and
  - The monthly payment amount due
- Fixed payment plans have a monthly amount that is not subject to change through the fixed repayment time frame. Income Based Repayment (IBR) plans, graduated plans, adjustable rates, interest only and deferred plans are examples of repayment plans that are subject to change and **do not qualify for the exception.**
- No additional documentation is required if a credit report is obtained and the underwriter can confirm the payment represented is a fixed payment as noted above.

### **Co-signed non-mortgage debt/obligations**

Debts which have been co-signed by the applicant for another party will be considered in the total debt ratio unless the applicant provides evidence another party has made the payment in the previous 12 months prior to loan application. Acceptable evidence includes canceled checks, money order receipts and/or bank statements of the co-obligor or other third party. Late payments reported in the previous 12 months prior to application will require the monthly liability to be included in the long-term repayment ratio of the applicant.

Lenders must confirm the applicant is an actual co-signor as opposed to a joint obligor to the debt in question. When jointly obligated, the debt will be included in the total debt ratio. Debts identified as "individual" will always be considered in the debt ratio regardless of what party is making the monthly payment (e.g., parents making car payments on behalf of applicant; loan in applicant's name). The legal obligation resides with the applicant when identified as "individual."

### **Business debts**

Business debts (e.g. car or truck loan) reported on the applicant's personal credit report may be excluded from the debt ratio if the debt is paid through a business account. An example of acceptable evidence the debt is paid through a business account includes canceled business checks or bank statements from 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 are not considered in the total debt ratio.

### **Debts of a non-purchasing spouse (NPS)**

For applicants who reside or are purchasing in a community property state, the debts of the NPS must be included in the applicant's total debt ratio unless specifically excluded by state law.

### **Collection accounts (10.9)**

Collection accounts will be included in the total debt ratio per Handbook 3555 Section 10.9.

In an effort to minimize future risk of open collections left unpaid, the underwriter must consider the following regardless of the method used to underwrite the loan (GUS or manual):

- Determine if the total outstanding balance of all collections for all applicants is equal to or greater than \$2,000. Unless excluded by state law, collection accounts of a non-purchasing spouse in a community property state are included in the cumulative balance of all collections.
- Remove all medical collections and charge off accounts from the total balance. Medical collections and charge-off accounts must be clearly identifiable on the credit report.
- If the remaining outstanding balance of collection accounts is equal to or greater than \$2,000, **any** of the following actions will apply:
  - Payment in full of all collection accounts at or prior to closing
  - Payment arrangements are made with each creditor for each collection account remaining outstanding. A letter from the creditor or evidence on the credit report is required to validate the payment arrangements. The agreed upon monthly payment for each outstanding collection account will be included in the borrower's debt-to-income ratio.
  - In the absence of a payment arrangement, the underwriter will utilize in the debt-to-income ratio a calculated monthly payment. For each collection utilize 5% of the outstanding balance to represent the monthly payment.

### **Judgments (10.10)**

Usually judgments are paid in full prior to loan eligibility.

An exception to payment in full of outstanding judgments can be made when the applicant(s) have a payment arrangement with the creditor and have made regular and timely payments for the three months prior to loan application.

Prepaying scheduled payments as a means of meeting minimum requirements is unacceptable. Lenders will obtain a copy of the payment agreement and validate payments have been made in accordance with the payment agreement. The payment agreement will be included in the debt-to-income ratio.



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|                               | <p>Unless precluded by state law, judgments of a non-purchasing spouse in a community property state will be paid in full or meet the exception guidance above.</p> <p><b><u>Self-employed</u></b><br/>Negative income (loss) for a business will be deducted from repayment income prior to calculating the total debt ratio.</p> <p><b><u>Automobile Allowances and Expense Account Payments</u></b><br/>The amount of actual expenditures exceeding the amount of automobile allowance or expense account payments will be treated as recurring debt. Lenders will utilize IRS Form 2106, <i>Employee Business Expenses</i>, for the previous two years and employer verification that the payments will continue as documentation to support the calculation. The applicant's monthly car payment will be treated as recurring debt and will not be offset by any car allowance. If an applicant utilizes the standard per-mile rate as opposed to the actual cost method on IRS Form 2106, the portion that the IRS considers depreciation may be added back to income for repayment purposes.</p> <p><b><u>Rental Loss</u></b><br/>Negative net rental income will be treated as a recurring liability and included in the total debt ratio.</p> <p><b><u>Short-term obligations</u></b> that are considered to have a significant impact on repayment, such as large medical bills and car or other credit payments must be included in the total debt ratio.</p> <p><b><u>Payments that will come due in the next 24 months</u></b>, including personal loans with deferred installments and balloon payments. (See separate guidance above for student loans.) If the interest rate on a deferred loan is unknown, the underwriter should estimate the monthly payments using an interest rate that is reasonable and customary for the type of loan.</p> <p><b><u>Debt Ratio Waivers</u></b><br/>GUS underwritten loans receiving an "Accept" will not be required to document the need for a repayment ratio waiver.</p>                     |
| <p><b>Discount Points</b></p> | <p>Loan Discount points cannot be financed as part of the loan, except:</p> <ul style="list-style-type: none"> <li>• <u>Low-income applicants</u> may finance discount points if they are reasonable and customary for the area and cannot be more than those charged other applicants for comparable transactions.</li> <li>• Discount points cannot exceed two points of loan amount</li> <li>• Discount points and origination fees must be itemized separately on the settlement statement</li> </ul>   |
| <p><b>Documentation</b></p>   | <p>Underwriters who utilize GUS to obtain their underwriting recommendation do not need to prepare a Uniform Underwriting Transmittal Summary (FNMA Form 1008/Freddie Mac Form 1077), or equivalent, to document the underwriting analysis and decision if the underwriting recommendation is an "Accept".</p> <p><b><u>CAIVRS – Credit Alert Verification Reporting system (CAIVRS)</u></b><br/>Underwriters must verify the applicant has no delinquent Federal debt through CAIVRS. CAIVRS is a Federal government-wide repository of information on those individuals with delinquent or defaulted Federal debt, and those for whom a payment of an insurance claim or guarantee loss claim has occurred. An applicant with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court, is <b>not</b> eligible for a guarantee unless otherwise stated in Chapter 10.</p> <p>When a underwriter uses the USDA automated underwriting system (GUS), the CAIVRS confirmation is automatically retrieved once the application is entered.</p> <p><b><u>Government Services Administration's (GSA) System for Award Management (SAM) (Ch. 15)</u></b><br/>Underwriter must screen the applicant and parties to the transaction on the U.S. GSA's SAM.gov website as part of the eligibility determination for the applicant. Underwriter must document their permanent file with the date and screen print of the results of that check. Form RD 3555-21 will document the underwriter performed the check. The check should occur prior to the request for commitment and be no greater than 30 days prior to loan closing, otherwise updated documentation of a more current check of SAM will be required.</p> <p><b><u>Electronic Signatures</u></b><br/>Allowed per USDA Handbook (HB-1-3555) <u>except</u> for closing documents.<br/>LSM does not allow electronic signatures on any closing documents. All documents provided at closing for signature must have original signatures.</p> |
| <p><b>Escrow Holdback</b></p> | <p>Ineligible</p>   |
| <p><b>Escrow Waivers</b></p>  | <p>Ineligible</p> <p>Care must be taken that an accurate estimate for the property tax/insurance component of an applicant's monthly mortgage payment is used for computing the monthly mortgage amount. The escrowed amount for real estate taxes is based on the assessed value of improved land (i.e., value of both the property and the completed dwelling) for new construction and the actual taxes assessed for existing properties. The underwriter 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.</p>   |



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|                               | <p><u>Tolerance</u><br/>It is not necessary for the underwriter to perform an updated underwriting analysis for a loan file that has received a Conditional Commitment for Loan Note Guarantee when monthly tax and insurance estimates do not increase the PITI and TD (total debt) ratios by more than 2% at closing. This tolerance threshold applies only to situations where tax and insurance data provided on the loan application, at time of Conditional Commitment, differs from the amount recorded at loan closing.</p>  |
| <p><b>Financing Types</b></p> | <p>Non-streamlined refinance<br/>Streamlined refinance<br/><b>Streamlined-Assist refinance</b></p> <p><u>Non-streamlined refinance</u></p> <ul style="list-style-type: none"> <li>• Appraisal is required</li> <li>• Loan amount may include:             <ul style="list-style-type: none"> <li>○ Principal and interest of the existing loan,</li> <li>○ Closing costs, lender fees, including funds to establish a new tax and insurance escrow account</li> <li>○ Guarantee fee amount to the extent sufficient equity in the property exists, as determined by an appraisal. The appraised value <u>may be exceeded</u> only to the amount financing represents the guarantee fee.</li> </ul> </li> </ul> <p><b>NOTE: Existing USDA loans remain eligible for refinance even when the rural area is no longer eligible.</b></p> <p><u>The following requirements apply to Non-streamlined</u></p> <ul style="list-style-type: none"> <li>• Guaranteed Underwriting System (GUS) – loans may be originated with assistance from GUS</li> <li>• Term must be 30 years</li> <li>• Interest rate must be a fixed rate. Interest rate <b>must not exceed the original rate of the loan being refinanced</b></li> <li>• Funded buy-down accounts are not permitted</li> <li>• Property must be the same as the original loan. It must be owned and occupied by the applicants as their principal residence</li> <li>• Total adjusted income for the household cannot exceed the moderate level for the area</li> <li>• An approved SFHGLP underwriter must make the loan</li> <li>• Subordinate financing such as home equity seconds and down payment assistance “silent” seconds cannot be included in the new loan amount.</li> <li>• Applicants may not receive “cash out” from the refinance transaction. However, applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinance transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of “cash out” to the applicants may occasionally result due to final escrow and interest calculations.</li> <li>• Unpaid fees, such as late fees due the servicer, are not eligible to be included in the new loan amount</li> <li>• SFHGLP refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made</li> <li>• Additional borrowers may be added to the new SFHGLP loan. Existing borrowers may be deleted from the current loan. All applicants that will be a party to the promissory note must meet all eligibility requirements. At least one of the original borrowers must be retained to qualify as a refinance transaction</li> <li>• To be eligible for refinance, the original loan must have closed at least 12 months prior to the USDA’s receipt of a conditional commitment request for the new refinance</li> <li>• To be eligible for refinance, the existing loan must have been current for the 180-day period prior to the USDA’s receipt of a conditional commitment request to refinance</li> <li>• Any late mortgage payments within the past 36 months on the existing USDA loan must be analyzed and addressed by the underwriter to determine if any late payments were a disregard for financial obligations, an inability to manage debt, or factors beyond the control of the borrower when considering the underwriting decision.</li> <li>• There is no limit placed on the number of refinance loans made to an existing SFHGLP borrower, however the loan to be refinanced must have closed at least twelve months prior to the USDA’s receipt of a conditional commitment request for refinance.</li> </ul> |



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|   | <p><b><u>Property inspections are not necessary.</u></b><br/>Although Rural Development does not require repairs to be completed for refinance transactions, the underwriter may require completion of repairs as a condition of loan approval. Expenses related to property inspections and repairs may not be financed into the new loan amount.</p> <p><b><u>Discount Points</u></b><br/>Discount points are not eligible to be financed, except for low-income applicants. In such cases, discount points financed will not exceed two percentage points of the loan amount and must represent a reduction to the interest rate.</p> <p><b><u>The following information pertains to the Streamlined-Assist refinance program:</u></b></p> <ul style="list-style-type: none"> <li>• <b><u>Streamlined-Assist refinance</u></b> loans must be manually underwritten. They cannot be processed through the Guaranteed Underwriting System (GUS).</li> <li>• A credit report with scores for each borrower must be submitted with the file. (LSM overlay)</li> <li>• <b>Mortgage History</b><br/>Borrower must have made timely mortgage payments for the 12-month period prior to the refinance.</li> <li>• Underwriter must secure evidence to document the borrower(s) has paid the loan on time for the previous 12 months. If the mortgage account is currently delinquent or has been reported delinquent in the previous 12 months, the borrower is not eligible.</li> <li>• The Underwriter may utilize a Verification of Mortgage obtained from or provided directly by the loan servicer that lists the payment history for each of the previous 12 months. As an alternative, the underwriter may submit a credit report which reflects a satisfactory mortgage payment history over the past 12 months. If the underwriter submits a credit report to Rural Development as proof of payment history, only the payment history of the current mortgage will be considered. Credit waivers or explanations for adverse credit that may be present on the report are not required.</li> <li>• Existing USDA Guaranteed Loans that have <u>less than a 12 months payment history at time of application</u> are <b><u>ineligible</u></b> for the <b><u>Streamlined-Assist refinance program</u></b>.</li> <li>• <b><u>The new interest rate must be a fixed rate, and must not exceed the interest rate of the original loan being refinanced.</u></b></li> <li>• The loan amount may include the principal balance of the existing loan, plus the applicable upfront guarantee fee, accrued interest and eligible loan closing costs. No cash out is permitted to the borrower.</li> <li>• Customary and reasonable closing costs and other fees may be collected from the borrower by the lender. Such charges may not exceed the cost paid by the lender or charged to the lender by the service provider.</li> <li>• Unpaid fees, home equity lines of credit, down payment assistance funds used for the original purchase of the property or other second liens on the property are not eligible to be included in the new loan amount.</li> <li>• <b><u>NOTE: An origination fee not to exceed the lesser of two (2) percent of the total loan amount or \$3,000, whichever is less, is allowed for "borrower paid" or "lender paid" compensation. "Borrower paid" compensation is an eligible loan closing cost and may be included in the loan amount.</u></b></li> <li>• <b><u>Bona Fide discount points may be financed into the loan amount for low income borrowers only, as defined by USDA.</u></b></li> <li>• The origination fee does not include charges for credit reports, title examination, verification requests, appraisals, settlement costs or other eligible costs associated with processing and closing the loan.</li> <li>• <b><u>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 payment on the new guaranteed loan when compared to the existing principal, interest, and annual fee payment.</u></b></li> </ul> |
| <p><b>Flood Hazard/<br/>Flood Insurance</b></p> | <p>Existing dwellings are eligible under the SFHBLP only 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 LSM, is purchased by the borrower.</p> <p>Underwriters are required to accept private flood insurance policies that meet the requirements of 42 USC 4012a(b)(1)(A)</p> <p>Insurance must be obtained as a condition of closing and maintained for the life of the loan for <b><u>existing</u></b> residential structures when any portion of the structure is determined to be located in a SFHA, including decks and carports, etc.</p>   |



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|  | <p>Flood insurance must cover the <u>lesser</u> 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 required by state or federal law, the maximum deductible clause for a flood insurance policy should not exceed the greater of \$1,000 or 1 percent of the face amount of the policy. Deductible guidance published by FEMA that may exceed this guidance is eligible.</p>  |
| <p><b>Geographic Locations/ Restrictions</b></p> | <p>Eligible states are as follows:</p> <ul style="list-style-type: none"> <li>• AZ, CA, CO, DC, FL, GA, IL, IN, KY, LA, MD, MA, MT, MI, MN, NV, NM, NJ, NC, OK, OR, SC, UT, WA and WI</li> </ul> <p><u>Additional restrictions as follows:</u><br/>Texas Cash-out 50(a)(6) is ineligible</p> <p>State specific regulatory requirements supersede all underwriting guidelines set forth by LSM.</p> <p>Existing RD loans may be refinanced even if the property is no longer in a designated rural area.</p>   |
| <p><b>Guarantee Fee</b></p>                      | <p>USDA must issue a conditional commitment prior to funding the loan</p> <p><b><u>OLD FEE CALCULATIONS</u></b></p> <p><b><u>Up Front Guarantee Fee (Conditional Commitments issued prior to October 1, 2016)</u></b><br/>The amount of the fee is determined by multiplying the percentage by the total loan amount as follows:</p> <ul style="list-style-type: none"> <li>• New Section 502 Guaranteed Loan – 2.75% of the <b>total</b> loan amount</li> <li>• See below for calculations when Guarantee Fee is paid in cash or financed</li> </ul> <p><b><u>When the Guarantee Fee is paid in cash:</u></b></p> <ul style="list-style-type: none"> <li>• Multiply the base loan amount by 2.75% to arrive at the <u>guarantee fee to be paid in cash</u></li> <li>• Total Loan Amount = Base Loan Amount</li> </ul> <p><b><u>When the Guarantee Fee is financed into the loan:</u></b></p> <ul style="list-style-type: none"> <li>• Divide the base loan amount by .9725 (1.00 - .0275) to arrive at the Total Loan Amount including Guarantee Fee</li> <li>• Subtract the base loan amount from the total loan amount</li> <li>• This will result in a Guarantee Fee of approximately 2.8278%</li> </ul> <p><b><u>Annual Fee (for Conditional Commitments issued prior to October 1, 2016)</u></b></p> <ul style="list-style-type: none"> <li>• 0.50% of the outstanding principal balance</li> <li>• The annual fee is calculated based on the guaranteed loan amount and on the average annual scheduled unpaid principal balance for the life of the loan.</li> </ul> <p><b><u>NEW FEE CALCULATIONS</u></b></p> <p><b><u>Up Front Guarantee Fee (Conditional Commitments issued on or after October 1, 2016)</u></b><br/>The amount of the fee is determined by multiplying the percentage by the total loan amount as follows:</p> <ul style="list-style-type: none"> <li>• New Section 502 Guaranteed Loan – 1.00% of the <b>total</b> loan amount</li> <li>• See below for calculations when Guarantee Fee is paid in cash or financed</li> </ul> <p><b><u>When the Guarantee Fee is paid in cash:</u></b></p> <ul style="list-style-type: none"> <li>• Multiply the base loan amount by 1.00% to arrive at the <u>guarantee fee to be paid in cash</u></li> <li>• Total Loan Amount = Base Loan Amount</li> </ul> <p><b><u>When the Guarantee Fee is financed into the loan:</u></b></p> <ul style="list-style-type: none"> <li>• Divide the base loan amount by .99 (1.00 - .01) to arrive at the Total Loan Amount including Guarantee Fee</li> <li>• Subtract the base loan amount from the total loan amount</li> <li>• This will result in a Guarantee Fee of approximately 1.0101%</li> </ul> <p><b><u>Annual Fee (for Conditional Commitments issued on or after October 1, 2016)</u></b></p> <ul style="list-style-type: none"> <li>• 0.35% of the outstanding principal balance</li> <li>• The annual fee is calculated based on the guaranteed loan amount and on the average annual scheduled unpaid principal balance for the life of the loan.</li> </ul> <p>Guarantee Fee and Annual Fee Calculators are available on the USDA LINC Training And Resource Library at: <a href="https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do">https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do</a> . The calculators are in the Loan Origination section under Documentation and Resources.</p> |
| <p><b>Income</b></p>                             | <p><b>See USDA Ch. 9 – Income Analysis for complete requirements</b></p> <p><b>Repayment Income</b> – represents the stable and dependable income of parties to the note used to repay the loan (Ch. 9).</p>  |



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|                              | <p>Household Income</p> <ul style="list-style-type: none"> <li>Income from all working adult members (age 18 or older) residing in the home must be included in the household income. The total of that income cannot exceed the moderate-income limits established for the area in which they are purchasing the home.</li> </ul> <p>Household income used to determine program eligibility is defined as <u>Annual Income</u> and <u>Adjusted Annual Income</u>.</p> <p><b>Annual Income</b> – represents the entire household’s combined income, regardless of whether the household members are loan applicants or not. The income of all adult household members.</p> <p>IRS Form 4506-T must be completed for each adult member of the household for the previous two years at the time of loan application regardless if the adult household member is a party to the loan transaction. Validation from IRS must be received prior to request for Conditional Commitment. The information received from the IRS is not intended to document income, but to validate the income documentation and disclosures provided by the applicant(s) and adult members of the household.</p> <p><b>Adjusted Annual Income</b> – represents the combined household income minus qualified household deductions. Adjusted Annual Income may not exceed the program’s income limits. Limits may be checked online at <a href="http://eligibility.sc.egov.usda.gov/eligibility/">http://eligibility.sc.egov.usda.gov/eligibility/</a> (Income Limits/Guaranteed) or by using GUS, the agency’s automated underwriting system.</p> <p>Stable and dependable income shall be verified and documented in accordance with Chapter 9 of the Handbook.</p> <p><b>Ability to Repay Income:</b><br/>Repayment Income</p> <ul style="list-style-type: none"> <li>Only the income from the borrower(s) on the loan application may be used in calculating the ratios</li> <li>Refer to Chapter 9 of the Handbook for additional clarification of eligible <u>Annual Income</u>, <u>Adjusted Annual Income</u>, <u>Qualifying Income</u>, and <u>Repayment Income</u>.</li> </ul> <p><u>Employment Gaps – Income Continuity (Ch. 9)</u><br/>The applicant should not have any gaps in employment of more than a month within the two year period prior to making the loan application. All gaps in employment of greater than one month over the last two years must be documented and analyzed.</p> <p>Form 4506-T</p> <ul style="list-style-type: none"> <li>4506T must be signed and processed prior to closing.</li> <li>A new 4506-T is required to be signed with closing docs package as well as at application even when the form has been processed</li> </ul> <p><b>Mortgage Credit Certificates (MCC) are not allowed.</b></p> <ul style="list-style-type: none"> <li>Income of a non-purchasing spouse must be verified and included in the household income calculation to determine if household is “income eligible.” However, the non-purchasing spouse’s income will not be counted toward repayment/qualifying income.</li> <li>Social Security income is included, but it is not “grossed up” for purposes of the income limits</li> <li>Full income verification/documentation is required for all adult household members regardless of refinance program (includes non-streamlined refinance, streamlined refinance, and rural refinance pilot)</li> </ul> <p><b><u>Streamlined-Assist refinance program</u></b><br/>LSM requires all borrowers on the loan to be employed at the time of closing on the refinance transaction or have alternate sources of income such as: retirement income, social security income, disability income, alimony or child support. (Exception: When husband and wife are on the loan, income from only one spouse is acceptable)</p> <p><b><u>The applicants must meet the income eligibility requirements of Handbook 3555.151(a) and must not have had any defaults during the 12-month period prior to the refinance loan application.</u></b></p> <p>While there are no <u>required</u> DTI ratios, if borrower’s employment/income situation has materially changed within the last 6 months, LSM reserves the right to disallow the loan.</p> |
| <p><b>Interest Rate</b></p>  | <p>Maximum interest rate per Handbook Ch. 7 does not apply<br/>Interest rate <b><u>must not exceed the rate of the existing loan to be refinanced.</u></b> (Ch. 6)</p> <p><b><u>Streamlined-Assist refinance program</u></b><br/><b><u>The interest rate of the new loan must be fixed, and must not exceed the interest rate of the original loan being refinanced.</u></b></p>  |
| <p><b>Internet Links</b></p> | <p>USDA LINC Training and Resource Library: <a href="https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do">https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do</a></p>   |



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|   | <p>USDA Rural Development Administrative Notices: <a href="http://www.rurdev.usda.gov/rd-an_list.html">http://www.rurdev.usda.gov/rd-an_list.html</a><br/>           Note: Effective Administrative Notices that supplement the Handbook HB-1-3555 must reflect "3555"</p> <p>USDA Eligibility Page (Property and Income): <a href="http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do">http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do</a></p> <p>USDA Income Limits: <a href="http://www.rurdev.usda.gov/HSF-Guar_Income_Limits.html">http://www.rurdev.usda.gov/HSF-Guar_Income_Limits.html</a><br/>           Rural Development State Websites (format) - <a href="http://www.rurdev.usda.gov/">www.rurdev.usda.gov/</a> (state abbreviation)<br/>           Example: For Washington, add WA, e.g., <a href="http://www.rurdev.usda.gov/wa">www.rurdev.usda.gov/wa</a></p> <p>USDA Rural Development Administrative Notices: <a href="http://www.rurdev.usda.gov/rd-an_list.html">http://www.rurdev.usda.gov/rd-an_list.html</a></p> <p>Underwriting and Loan Closing Documentation Matrix:<br/> <a href="https://usdalinc.sc.egov.usda.gov/docs/rd/sfh/loanorigination/UW_Loan_Closing_Matrix_Document.pdf">https://usdalinc.sc.egov.usda.gov/docs/rd/sfh/loanorigination/UW_Loan_Closing_Matrix_Document.pdf</a></p> |   |
| <b>Lender/Broker Fees</b>                     | <p>Lender/Broker Fees combined with closing costs may not exceed three (3) percent of the total loan amount, unless further flexibility is provided through guidance published by the Consumer Financial Protection Bureau (CFPB)'s Ability to Repay and Qualified Mortgage (ATR/QM) rule.</p> <p>The SFHGLP up-front guarantee and annual fee is not included in the three percent lender fees calculation.</p> <p><b>NOTE:</b> <b>Streamlined-Assist refinance program</b> has its own origination fee limitation. (see <i>Financing Types</i>)</p>   |   |
| <b>Limitations on Other Real Estate Owned</b> | <p>Borrower may not own any other real property. (LSM overlay)<br/>           A manufactured home that is personal property is allowed.</p>   |   |
| <b>Loan Amount</b>                            | <p>\$75,000 minimum loan amount</p>   |   |
| <b>Manufactured Home Criteria</b>             | <p><b>Important:</b> See <i>Handbook Ch. 13, Sec. 2: Manufactured Homes</i> for USDA manufactured home criteria.</p> <p>The following table contains overlays, clarifications, and additions to existing guidelines regarding manufactured homes.</p>   |   |
|   | Appraisal   | <p>When an appraisal is required the following is applicable:</p> <p>Full interior and exterior appraisal must be completed (Form 1004C)<br/>           All comparables should be sales of manufactured homes on permanent foundation similar to subject (e.g., similar configuration and quality)<br/>           Distance of the comparable sales must be reasonable<br/>           The following are ineligible:</p> <ul style="list-style-type: none"> <li>• If the site or manufactured home is substantially non-conforming with the neighborhood it is ineligible</li> <li>• Creating comparable sales by combining vacant land sales with the contract purchase price of the home is prohibited</li> </ul>   |
|   | Closing Requirements  | <p><u>Real Estate Tax Requirement</u><br/>           When the loan closes, the unit and site must be taxed as real estate by the jurisdiction in which it is located, if such taxation is permitted under applicable law. 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 undewriter must indicate its lien on the certificate.</p> <p><u>Title and Lien Requirements</u><br/>           Both the unit and the land must be evidenced by a recorded mortgage or deed of trust. A combination of a chattel and real estate mortgage is not acceptable. The manufactured home must be legally classified as real property under applicable state law and if state law permits, any certificate of title to the manufactured home must be surrendered to the government authority. If state law does not permit, the certificate of title must reference the lender's lien.</p> <p>A standard real property title insurance policy and any other manufactured home endorsement requirements in the applicable jurisdiction are required.</p> |
|   | Documentation   | <p>Evidence of surrender of certificate of title or that no certificate was issued, refer to individual state requirements.</p> <ul style="list-style-type: none"> <li>• Confirm property is legally classified and taxed as real property, on a permanent foundation, and owner owns both land and MFH</li> <li>• ALTA Endorsement 7, 7.1, or 7.2 or any other endorsement required for manufactured</li> </ul>  |



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|  |                                  | <p>homes to be treated as real property</p> <ul style="list-style-type: none"> <li>• Deed of Trust (or other security instrument) must include a comprehensive description of the manufactured home and the land in the property description section or on a separate attached rider. The description must include the serial or VIN number for each unit/section; make, model, size, and any other information required by applicable law to definitively identify the manufactured home.</li> <li>• Affidavit of Affixture/Affixation – Borrower and Lender must sign and notarize acknowledging their mutual intent that the manufactured home be a permanent part of the real property securing the mortgage.</li> <li>• Limited Power of Attorney pertaining to title issues and foreclosure must be signed with closing documents</li> </ul>   |
|  | <p>MFH Property Requirements</p> | <p>Minimum 400 square feet of gross living area<br/> Multi-width only, no single wide<br/> The land where the manufactured home rests must be fee simple<br/> The MFH must be a one-unit dwelling legally classified as real property<br/> The towing hitch, wheels, and axles must be removed<br/> The MFH must assume the same characteristics of a site-built housing<br/> The MFH must have sufficient square footage and room dimensions to be acceptable to purchasers in the subject market area<br/> The MFH must be located on an all-weather accessible road</p> <p>The MFH must have been built in compliance with Federal Manufactured Home Construction and Safety Standards (FMHCSS) that were established June 15, 1976 as amended and in force at the time the home is manufactured, and additional requirements that appear in HUD regulations at 24 C.F.R. Part 3280 as evidenced by:</p> <ul style="list-style-type: none"> <li>• HUD Data Plate/Compliance Certificate – A paper document located on the interior of the subject property that contains, among other things, the manufacturer’s name and trade/model number. In addition the data plate includes pertinent information about the unit including a list of factory-installed equipment; and</li> <li>• HUD Certification Label (sometimes referred to as a HUD “seal” or “tag”) – A metal plate located on the exterior of each section of the home</li> </ul> <p>The appraisal form 1004C must indicate evidence of both the HUD Data Place/Compliance Certificate and the HUD Certification Label<br/> The MFH must be attached to a permanent foundation system<br/> The MFH must be permanently connected to the septic or sewage system<br/> The MFH must be permanently connected to all necessary utilities (water, electricity, gas service, etc.)<br/> The MFH must not have been installed or occupied previously at any other location or site (re-siting)</p> <p>HUD requirements<br/> The FMHCSS and HUD requirements may be found at <a href="http://www.access.gpo.gov/nara/cfr/waisidx_04/24cfr3280_04.html">www.access.gpo.gov/nara/cfr/waisidx_04/24cfr3280_04.html</a></p> <p><u>Title and Lien requirements</u><br/> The following conditions must be met and documented in the lender’s file:</p> <ul style="list-style-type: none"> <li>• MFH must be secured by a perfected lien on real property consisting of the manufactured home and the land;</li> <li>• The MFH must be taxed as real estate as applicable under State law, including relevant statutes, regulations, and judicial decisions;</li> <li>• The security instrument must be recorded in the land records and must identify the encumbered property as including both the home and the land;</li> <li>• If applicable state law so permits, any certificate of title to the MFH must be surrendered to the appropriate state government authority. If the certificate of title cannot be surrendered, the underwriter must indicate its lien on the certificate;</li> <li>• The mortgage must be covered by a standard real property title insurance policy and any other endorsement required in the applicable jurisdiction for MFH ensuring the manufactured home is part of the real property that secures the loan; and</li> <li>• The borrower must acknowledge the unit is a fixture and part of the real estate securing the mortgage.</li> </ul> |
|  | <p>Restrictions</p>              | <ul style="list-style-type: none"> <li>• The following are ineligible: <ul style="list-style-type: none"> <li>○ Non-traditional credit</li> <li>○ ARMs</li> <li>○ High Balance loans</li> </ul> </li> </ul>  |



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|                             |  | <ul style="list-style-type: none"> <li>○ Re-siting of manufactured home</li> <li>○ Single Width manufactured home</li> <li>○ Manufactured home in condominium project</li> <li>○ Manufactured home on leasehold</li> <li>○ MFH properties within SFHA (Special Flood Hazard Area) or any property that requires flood insurance</li> </ul> |
| <b>Mortgage Insurance</b>   | Not required   |  |
| <b>Occupancy</b>            | Primary Residence Only   |  |
| <b>Prepayment Penalty</b>   | Ineligible   |  |
| <b>Processing</b>           | Standard and Streamline  |  |
| <b>Program Restrictions</b> | <p>The following program flexibilities are not allowed:</p> <ul style="list-style-type: none"> <li>● Rural Energy Plus loans</li> <li>● Combination Construction Permanent Loans</li> <li>● Elevation Certificate for Flood Insurance determination</li> </ul>   |  |
| <b>Property Types</b>       | <p>Eligible</p> <ul style="list-style-type: none"> <li>● 1 unit attached or detached <ul style="list-style-type: none"> <li>● SFR's</li> <li>● PUDs</li> <li>● Townhouse</li> <li>● Condominiums – <ul style="list-style-type: none"> <li>○ FNMA full review using Condo Project Manager (CPM) <ul style="list-style-type: none"> <li>▪ <u>Existing projects only</u>, as defined by FNMA</li> <li>▪ Limited Review is <u>not</u> allowed</li> </ul> </li> <li>○ FHA approved condominiums</li> </ul> </li> </ul> </li> <li>● Modular Pre-Cut/Panelized Housing <ul style="list-style-type: none"> <li>○ Note: <u>Permanent on-frame homes</u> do not meet the definition of modular homes. These homes are <u>not</u> allowed.</li> </ul> </li> <li>● <b>Manufactured Housing – Existing USDA Guaranteed Loan Only</b> <ul style="list-style-type: none"> <li>○ Important – A USDA Refinance Loan is only allowed for the refinance of an existing USDA Guaranteed loan with the same borrower at the same location. USDA Direct Loans are not eligible for refinance (LSM overlay). See <i>Manufactured Home Criteria</i> for additional restrictions.</li> </ul> </li> </ul> <p>Ineligible</p> <ul style="list-style-type: none"> <li>● Properties within Special Flood Hazard Area (no exceptions)</li> <li>● 2 – 4 Units</li> <li>● Condo Hotels</li> <li>● Co-ops</li> <li>● Income producing farms</li> <li>● Leasehold</li> <li>● Properties located within designated Coastal Barrier Resource system (CBRS) areas.</li> <li>● Properties with resale/deed restrictions</li> <li>● Rehabilitation loans</li> <li>● Farm related property, vacant land, or properties used primarily for agricultural, farming, farm operation or commercial enterprise are ineligible</li> </ul> <p><u>Site size.</u> The site size must be typical for the area.</p> <p><u>Income-Producing Buildings.</u> <b>The property must not include buildings designed and to be used principally for income-producing purposes</b> (e.g., barns, silos, greenhouses, or livestock facilities used primarily for income producing agricultural, farming or commercial enterprise are ineligible). However, barns used for storage and outbuildings such as storage sheds are permitted if they are not used primarily for 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 features are not restricted. A qualified property must be predominantly residential in use, character and appearance. (Deduction for outbuildings has been removed from new 3555 Handbook.)</p> <p><u>Income-Producing Land.</u> <b>The site must not have income-producing land that will be used principally for income producing purposes.</b> Vacant land or properties used primarily for agricultural, farming or commercial enterprise are ineligible. Sites that have income-producing characteristics (e.g., large tracts of arable land ready for planting) are considered income-producing property. However maintaining a garden for personal use is not in</p> |  |



## USDA Refinance Programs

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|                            | <p>violation of this requirement. A minimal income-producing activity, such as a garden that could generate a small amount of additional income does not violate this requirement. <b>A qualified property must be predominantly residential in use, character and appearance.</b></p> <p><u>Site Specifications.</u> 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.</p> <p><u>Utilities.</u> The site must be supported by adequate utilities and water and wastewater disposal systems.</p> <p><u>Condominiums</u><br/>Units in a condominium project are eligible for a guarantee if the condominium has been approved or accepted by HUD/FHA or Fannie Mae.</p> <p><u>LSM Requirement:</u><br/><b>LSM will only accept Fannie Mae Condo Project Manager (CPM) approval (existing projects only) or documentation that condominium project is on the FHA Approved Condominium List at time of closing.</b></p> <p>Lenders must retain evidence they have reviewed condominium documentation that supports the project's approval or acceptance and must provide such documentation to Agency staff when requested.</p> <p>Applicants remain responsible to obtain individual homeowners insurance or flood insurance as applicable. The underwriter 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.</p> <p>A Condominium Rider must supplement the Mortgage or Deed of Trust.</p> <p><u>Ineligible Condominiums</u><br/>Certain types of condominium projects are not eligible under HUD, Fannie Mae, Freddie Mac, or VA guidelines. They are:</p> <ul style="list-style-type: none"> <li>• Condominium hotels,</li> <li>• Timeshares,</li> <li>• Houseboat projects,</li> <li>• Multi-dwelling unit condominiums that permit an owner to hold title to more than one dwelling by a single deed and mortgage,</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• A project with non-incident business operations owned or operated by the owner's association such as, but not limited to, a restaurant, spa, health club, etc.</li> </ul> <p><u>Site Condominium Eligibility</u><br/>Project approval may not be required for site condominiums if they meet the following criteria:</p> <ul style="list-style-type: none"> <li>• Single Family totally detached dwelling encumbered by a declaration of condominium covenant or condominium form of ownership.</li> <li>• The unit has not shared garage or any other attached buildings (i.e., archways, breezeways, common walls, etc)</li> <li>• The condominium unit consists of the entire structure, site and air space and is not considered to be common areas or limited common areas.</li> </ul> <p>Appraisal data is collected on URAR FNMA Form 1004/FHLMC Form 70. 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 for site condominium eligibility must follow the criteria in <u>Condominiums</u> above.</p> <p><u>Planned Unit Development</u><br/>A planned unit development (PUD) is a project or subdivision that includes common property that is owned and maintained by a home owner's association (HOA) for the benefit of use by the individual PUD unit owners. Loans may be guaranteed for PUD single family dwellings the same as for single family dwellings not in a PUD.</p> |
| <b>Qualifying Rate and</b> | Ratios are calculated using repayment income from applicants that will be a party to the Promissory Note. (Ch. 9)   |



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| <b>Ratios</b>                             | <p>Qualify at note rate</p> <p><u>Ratios</u></p> <ul style="list-style-type: none"> <li>• GUS Accept/Eligible – GUS determines acceptable ratios, a waiver is not required</li> <li>• Manual Underwrite – 29/41 – A debt ratio waiver request with suitable compensating factors must be submitted to USDA when ratios exceed 29/41.</li> </ul> <p><u>Manually underwritten loans – refinance transactions(Ch. 11)</u><br/> For manually underwritten refinance loans, the underwriter must thoroughly document the compensating factors that justify an exception. The presence of compensating factors does not strengthen a ratio exception when multiple layers of risk, such as marginal credit history, are present in an application.</p> <p>The following are examples of compensating factors:</p> <ul style="list-style-type: none"> <li>• Credit score of 680 or higher. Credit scores of 680 and higher can be documented as a standalone compensating factor for a debt ratio waiver request, if no additional risk layers are present (e.g., adverse credit, or payment shock, etc.)</li> <li>• The borrower(s) has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new mortgage over the past 12 months</li> <li>• The borrower(s) has demonstrated a conservative attitude toward the use of credit</li> <li>• The borrower(s) has demonstrated an ability to accumulate savings comparable to the difference between current housing costs and projected costs</li> <li>• Cash reserves post-closing. The use of retirement accounts as compensating factors and as cash reserves is limited to 60% of the vested amount of the retirement asset to offset potential withdrawals by the applicant(s). Retirement accounts that restrict withdrawals to circumstances involving the borrower's employment separations, retirement or death should not be considered as a compensating factor or as cash reserves.</li> <li>• Continuous employment with the current primary employer.</li> </ul> <p>Debt ratio waivers must be requested and documented by the approved underwriter. (see Chapter 11)</p> <p><u>Streamlined-Assist refinance program</u><br/> No calculation of debt-to-income ratios, as long as the borrower is of low or moderate income, and has been current on their first mortgage for the previous twelve months.</p> |
| <b>Secondary Financing</b>                | Ineligible  |
| <b>Special Requirements/ Restrictions</b> | <p>The Request for Single Family Housing Loan Guarantee must be completed and executed by all borrowers who will be a party to the note. Multiple forms may be utilized.</p> <p>Form 4506-T must be processed prior to underwriting.</p> <ul style="list-style-type: none"> <li>• A new IRS Form 4506 T is required to be signed with the closing package as well as at application even when the form has been processed.</li> </ul> <p><u>Documenting Eligibility of the Applicants/Parties Participating in Rural Development Loan Guarantees</u><br/> Lenders must document that the applicant(s) are not on the:</p> <ul style="list-style-type: none"> <li>• U.S. General Services Administration (GSA) System for Award Management (SAM) and</li> <li>• HUD's Credit Alert Verification Reporting System (CAIVRS)</li> </ul> <p>An applicant is ineligible if he/she is presently delinquent on any Federal debt or is suspended or debarred, or otherwise excluded from participating in Rural Development programs.<br/> The GSA list may be found at: <a href="https://www.sam.gov/portal/public/SAM/">https://www.sam.gov/portal/public/SAM/</a></p> <p>Lenders must certify on Form RD3555-21 the applicant(s) and all parties to the mortgage transaction are not on the GSA list. Appendix 7 of the Handbook contains additional information concerning CAIVRS.</p> <p><b>Non-Purchasing (Non-Borrowing)Spouse in a Community Property State</b><br/> Community Property States are as follows.</p> <ul style="list-style-type: none"> <li>• Arizona</li> <li>• California</li> <li>• Idaho</li> <li>• Louisiana</li> <li>• Nevada</li> <li>• New Mexico</li> <li>• Texas</li> <li>• Washington</li> <li>• Wisconsin</li> </ul>   |

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Note: Alaska is an opt-in community property state. Property is separate unless both parties agree to make it community property through a community property agreement or a community property trust.

**If property is located in a community property state, or the borrower resides in a community property state, the following requirements apply**

A credit report for the non-purchasing spouse is required to determine any joint or individual debts. The spouse's authorization to pull a credit report must be obtained. If the spouse refuses to provide authorization for the credit report, the loan must be rejected

- Even if the non-purchasing spouse does not have a social security number, the credit reporting company should verify that the non-purchasing spouse has no credit history and no public records recorded against him/her.
- Credit Company should be given non-purchasing spouse information: Name(s), address, birth date and any other significant information requested in order to do the records check.

The debts of the non-purchasing spouse must be considered in the qualifying ratios, except for those specifically excluded by state law.

The greater of the monthly payment amount or 5% of the outstanding balance if minimum payment is not reflected on credit report if the non-purchasing spouse must be included in the qualifying ratios

All defaulted federal debt, open judgments and liens, including those of the non-purchasing spouse, must be satisfied prior to or at closing.

Disputed debts of the non-purchasing spouse need not be counted provided the file contains documentation to support the dispute.

Credit history of the non-purchasing spouse should not be the basis for declining the loan.

Well/Water Supply

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.

Well/Water Supply – Individual Privately Owned

Individual water supply systems may be acceptable when the cost to connect to a public or community water system is not reasonable as defined by the underwriter. Underwriter is responsible for determining if connection is feasible. Water quality tests are required as follows:

- 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 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.
- The water analysis report must be no greater than 120 days old at loan closing.
- The well location for individual water supply systems must be measured to establish the distance from the septic system. Distances must meet the most aggressive approach of the local and/or State Health Authority codes or HUD Handbook 4150.2.
- 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.
- Properties served by cisterns are not acceptable.

Well/Water Supply – Individual – Privately Owned - Shared

If the property is served by a shared well or off-site facility, the underwriter 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.
- 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:
  - Is binding upon all signatory parties and their successors in title.
  - Is recorded or will be recorded no later than the closing date.



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|                  | <ul style="list-style-type: none"> <li>○ 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.</li> </ul> <p><u>Well/Water Supply – Community Owned</u><br/>If the property is served by a community water system operated by a private corporation or nonprofit property owners association, the underwriter must ensure the following conditions are met:</p> <ul style="list-style-type: none"> <li>• The system and the water supply meet all applicable Federal, State and local requirements.</li> <li>• The system has the capacity to provide a sufficient water supply during periods of peak demand.</li> <li>• 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.</li> </ul> <p><u>Required Inspections and Documentation</u><br/>The underwriter must obtain documentation that the water quality meets state and local standards as discussed in this section. All documentation must remain in permanent loan file.</p> <p><u>Wastewater/Septic – Individual Privately Owned</u><br/>Individual sewage systems may be acceptable when the cost to connect to a public or community sewage system is not reasonable as defined by the underwriter. Underwriter is required to obtain a septic evaluation. An FHA roster appraiser who certifies the property meets required HUD Handbooks, a government health authority, a licensed septic system professional, or a qualified home inspector may perform the septic evaluation. The inspector may require additional inspections as a result of the inspection. The separation distances between a well and septic tank, and the property line should comply with HUD guidelines or state well codes. The septic system must be free of observable evidence of failure. Existing dwellings appraised by a HUD roster appraiser, who has indicated the dwelling meets the required HUD handbooks does not require further septic certification.</p> <p>If the property is served by an individual sewage disposal system, the underwriter must ensure the system:</p> <ul style="list-style-type: none"> <li>• Meets any applicable requirements of the estate or local health authority with jurisdiction.</li> <li>• Is located entirely on the subject property. If any part of the system is located on an adjacent property (e.g., leach lines), evidence such as a perpetual encroachment easement must be recorded to establish the rights of the property owner's permitted use.</li> <li>• 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.</li> </ul> <p><u>Wastewater/Septic – Community Owned</u><br/>If the property is served by a community wastewater system operated by a private corporation or nonprofit property owners association, the underwriter must ensure that the system:</p> <ul style="list-style-type: none"> <li>• Meets any applicable requirements of the state or local health authority with jurisdiction.</li> <li>• 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.</li> <li>• Is subject to a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service.</li> </ul> <p><u>Required Inspections and Documentation</u><br/>The underwriter must obtain documentation that the wastewater system meets state and local standards as discussed in this section. All documentation must remain in permanent loan file.</p> <p><u>Street Access</u><br/>The site must be contiguous to, and have direct access from, a public or private street, road, or driveway. If the driveway is shared, there must be a permanently recorded easement for ingress and egress. This agreement must be binding to successors and title. A copy of a title report may be used to evidence the easement. Private streets must have a permanently recorded easement, or be owned and maintained by a home owners association (HOA). All recorded easements must be reviewed and approved by the approved lender's underwriter and documented in the lender's permanent loan file.</p> <p><u>Street Maintenance</u><br/>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 an 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).</p> <p><u>Private Road Maintenance Agreements</u><br/>Properties located on private roads require evidence in the loan file of a permanent recorded easement (non-exclusive, non-revocable roadway/driveway easement without trespass from the property to a public street/road). Private road maintenance agreements are <u>not</u> required.</p> |
| <b>Temporary</b> | Not allowed  |



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| <b>Buydown</b>      |  |
| <b>Underwriting</b> | <p><b><u>Cash out refinance transactions are not permitted</u></b></p> <p>A copy of the divorce decree is required when the loan file indicates income or liability due to divorce and the program requires credit qualifying.</p> <p>The Guaranteed Underwriting System (GUS) was developed to automate the process of credit risk evaluation for the SFHGLP. 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.</p> <p>No borrower should be denied a SFHGLP guarantee solely on the basis of a risk assessment generated by GUS. Mitigating circumstances according to Agency standard guidelines may be considered.</p> <p><b><u>GUS Resubmission Policy (Ch. 5)</u></b></p> <p>If data changes during the loan application stage, after Conditional Commitment or prior to loan closing, the GUS underwriting recommendation could be compromised. Under the following conditions, lenders must resubmit the loan through GUS for an updated evaluation:</p> <ul style="list-style-type: none"><li>• Borrowers were either added or deleted from the loan application or critical information has changed.</li><li>• A <b>decrease</b> in the borrower's income and/or cash assets/reserves.</li><li>• An <b>increase</b> in loan amount or interest rate on the mortgage loan request.</li><li>• Any changes that would negatively affect the borrower's ability to repay the mortgage.</li><li>• Information regarding the property changes—such as a change in sales price or value.</li></ul> <p>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:</p> <ul style="list-style-type: none"><li>• A <b>decrease</b> in loan interest rate</li><li>• A <b>decrease</b> in loan amount</li><li>• A <b>decrease</b> of mortgage or personal liabilities</li><li>• An <b>increase</b> of assets</li></ul> <p>Escrow credits are not permitted. The borrower's existing escrow balance may not be credited to the payoff and/or credited anywhere on the HUD-1 Settlement Statement.</p> <p>Customary and reasonable closing costs and other fees may be collected from the borrower by the lender. Such charges may not exceed the cost paid by the lender or charged to the lender by the service provider. Excessive fees are not permitted.</p> <p>Only bona-fide discount points (paid to lender to lower the interest rate) can be charged to the borrower. <b>Discount points may only be <u>financed in connection with a non-streamline refinance transaction for a low-income borrower as defined by USDA.</u></b> In such cases, discount points must not exceed two percentage points.</p> <p>Fees and charges associated with originating/closing a USDA loan should NOT exceed fees charged for loans insured or guaranteed by the FHA or VA. Refer to Administrative Notice 4702.</p> <p>For non-streamline loans, closing costs may be financed up to the appraised value of the property.</p> <p><b><u>Streamlined-Assist refinance program</u></b></p> <p>Streamlined-Assist loans must be manually underwritten. They cannot be processed through the Guaranteed Underwriting System (GUS).</p> <p>See <i>Credit</i> for mortgage history requirement.</p> <p>Existing USDA Guaranteed Loans that have <u>less than a 12 months payment history at time of application</u> are <b>ineligible</b> for the <b><u>Streamlined-Assist refinance program.</u></b></p> <p>The new interest rate must be a fixed rate, and <b>not exceed the original loan's interest rate.</b> The loan amount may include the principal balance of the existing loan, plus the applicable upfront guarantee fee, accrued interest and eligible loan closing costs. No cash out is permitted to the borrower.</p> <p>Customary and reasonable closing costs and other fees may be collected from the borrower by the lender. Such charges may not exceed the cost paid by the lender or charged to the lender by the service provider.</p> <p>Unpaid fees, home equity lines of credit, down payment assistance funds used for the original purchase of the property or other second liens on the property are not eligible to be included in the new loan amount.</p> <p><b><u>NOTE: An origination fee not to exceed the lesser of two (2) percent of the total loan amount or \$3,000.</u></b></p> |



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|                | <p><b><u>whichever is less</u></b>, is allowed for “borrower paid” or “lender paid” compensation. “Borrower paid” compensation is an eligible loan closing cost and may be included in the loan amount.</p> <p><b>Bona Fide discount points may be financed into the loan amount for <u>low income borrowers only, as defined by USDA</u>.</b></p> <p>The origination fee does not include charges for credit reports, title examination, verification requests, appraisals, settlement costs or other eligible costs associated with processing and closing the loan.</p> |
| <b>Overlay</b> | <p><u>Amended Tax Returns:</u></p> <ul style="list-style-type: none"><li>• Will not be considered if within 60 days of the purchase contract or application date (whichever is earlier) and;</li><li>• Will not be considered if documentation cannot be provided to support the increase and;<ul style="list-style-type: none"><li>• Example(s): 1099 missed and increase is exact amount, schedule E missed and cancelled checks for rent provided.</li></ul></li><li>• Will not be considered until transcripts reflect amended income.</li></ul>                       |