



USDA Rural Housing

Note: *Items in italics represent areas where HSOA requirements differ from USDA.*

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1. Eligibility

This Product Summary applies to all loans, except that USDA loans approved by the USDA prior to October 1, 2011 may retain the 3.5% guarantor fee as allowed by USDA, and provided they are not required to be released back to the lender. If that occurs, the new Guarantee Fees apply.

Product Information

Product Description

The Guaranteed Rural Housing Loan Program is offered through the Rural Housing Service (RHS), an agency of the U.S. Department of Agriculture. The program offers assistance to low- and moderate-income rural residents whose household income is equal to or less than 115% of the area median income. Moderate income is defined as the greater of 115% of the U.S. median family income or 115% of the average of the state-wide and state non-metro median family incomes or 115/80ths of the area low-income limit.

This program allows 100% LTV, 30-year fixed-rate first mortgages in designated RHS service areas.

Borrowers may obtain a loan to purchase a new or existing home that is located in a designated rural area. A rural community generally has a population of 10,000 or less; however, a community with a population of 20,000 or less can be considered "rural" if it is located outside a metropolitan statistical area (MSA).

To be eligible for RHS assistance, borrowers must lack sufficient resources (for example, borrower is unable to secure the necessary down payment which is generally 20%, to obtain conventional financing without RHS guarantee assistance).

Business Channels accepted

Available through Retail and Wholesale Originations

Program Codes:

USDA30 – 30 year fixed rate

Minimum Loan Size

\$40,000

Loan size pricing adjustments are determined by the base loan amount.

Maximum LTV, Loan Amount, and Credit Score

Maximum LTV is 100% of the appraised value, regardless of sale price, and may include all of the recurring and non-recurring closing costs.

Note: The maximum LTV may exceed 100% of the appraised value only by the amount of the Guarantee Fee being financed in the loan amount. Purchase transactions are eligible up to a maximum 103.5% LTV (3.5% Guarantee Fee). Refinance transactions may exceed 100% only by the 1.00% Guarantee Fee.

The maximum loan amount allowed will be limited by the maximum allowed Household Income limitations, but cannot exceed \$417,000, including the guarantee fee.

Minimum Credit Score is 640.

Impound/Escrow Accounts

Impound/Escrow Accounts for property taxes and hazard insurance is required

Guarantee Fee

The final Guarantee Fee in DataTrac must match the Guarantee Fee in GUS and as shown by the USDA Conditional commitment, form RD 1980-21. The dollar amounts must match; differences in pennies are acceptable, and need not be corrected.

The upfront Guarantee Fee is 2% for purchases (1.5% for refinances approved by the USDA on and after December 7, 2011), with a 0.30% annualized monthly fee for the life of the loan. If the initial Guarantee Fees is financed, the Fee calculation is based on the final loan amount, which results in an amount slightly higher than 2% or 1.5%, respectively.

Use the USDA Guarantee Fee Calculator to confirm the Initial and monthly amounts. It is available on the HSOA web pages or at: <https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do>. **Users may also use the FHA-USDA upfront and monthly MIP/Guarantee fee calculator posted on HSOA's website.**

Initial Guarantee Fee – DataTrac Input

Entering 2.0% (purchase transactions) or 1.50% (refinance) and choosing 'financed' or 'cash' will automatically calculate the Guarantee Fee amount.

Subordinate Financing

Not allowed

Temporary Buydowns

Not allowed.

Property Eligibility

Property Types

Eligible

- Attached and Detached SFRs and PUDs
- *Condominiums with FHA project approval.*
- The property must be located in a rural area, as designated by the local RHS office.
- The value of the site cannot exceed 30% of the total value of the property. If the land value exceeds 30%, the appraiser must document that the site value is typical for the area and confirm that the land cannot be subdivided into two or more sites.
- Though no maximum acreage, no portion of the land is allowed to be tillable, rentable or otherwise capable of producing income.
- Properties must have minimal and small outbuildings. (A silo or large barn or shed could be rented out, making the property ineligible for USDA financing.
- The property must be contiguous to and have access to a paved or all-weather surface street, road or driveway.
- The property must have dependable water and waste disposal systems that are approved by local authorities.

Ineligible

- *Manufactured Homes*
- 1-unit properties with accessory units
- 2-4 unit properties
- Condotels
- *Properties with in-ground swimming pools*
- *Properties sold at auction by the builder, developer or construction lender*
- Condo/PUD Projects with pending litigation
- **Properties located in a flood or mudslide zone.**
- Properties located in an area not designated as rural by RHS.
- Timeshare Units
- Cooperatives
- Houseboats
- Working farms, ranches, orchards and/or commercial operations, or with outbuildings that could be rented out.
- Properties without a permanent heat source and, if typical for the area, cooling.
- Properties with deed restrictions that limit transferability of title.
- Refinances where current financing is NOT a USDA Guaranteed Loan to the applicants.
- Properties with problem drywall (a.k.a.Chinese drywall)
- *Leasehold Estates*
- *Unique Properties: Dome, geothermal, foundation on stilts, one of a kind luxury residences*

Mixed Use Properties

Not allowed. Property cannot have any income sources.

Geographic Restrictions

To be eligible, loans must pass both USDA and HSOA restrictions.

Note: USDA requires a termite report on all purchase transactions in Kansas; otherwise, not required unless a concern is raised by the appraiser, purchase contract or any inspections provided.

USDA Restrictions:

The property must be located in a designated rural area as designated by the RHS office. To determine whether the property is located in a designated rural area, go to the Rural Development Web site at <http://eligibility.sc.egov.usda.gov>. From the home page, click "Single Family Housing" under "Property Eligibility." Enter the property address to get an instant determination or to view a map.

See Section 2 -Documentation for properties with an 'undetermined' eligibility

HSOA Restrictions

Eligible in all communities nationwide, subject to the following limitations:

The following counties in Florida are ineligible for financing: Broward, Collier, Glades, Hendry, Lee, Miami-Dade, Monroe, and Palm Beach.

The following restrictions also apply for properties located in Florida:

- No condos
- Detached one-unit properties are limited to 90% LTV/CLTV/ HCLTV
- Attached properties (attached PUDs, townhomes, etc) are limited to 80% LTV/CLTV/HCLTV

Other restrictions

- Properties in Rhode Island and Michigan are not accepted on wholesale loans.
- Properties subject to right of redemption are not allowed
- Hawaii properties located in Lava zones 1 or 2 are not eligible.
- Loans from the following states are not eligible
 - Hawaii
 - New York
 - Mississippi

Borrower Eligibility

Occupancy

Owner Occupied only. *Maximum of 4 borrowers are accepted on any loan transaction.*

Borrowers and household members may not own any other properties. Properties may be current owned, as long as it is sold prior to or concurrently with the financing of the new loan.

All borrowers must be screened using CAIVRS (Credit Alert Interactive Voice Response System) to determine if an applicant is delinquent on a federal loan.

Borrower Eligibility

Borrower Type	Requirements
All borrowers, including U.S. Citizens.	Borrowers must have a social security number and which must be on all applicable income, asset, or credit documentation contained in the loan file.
Permanent Resident Aliens	Eligible under same conditions as a U.S. Citizen. Permanent Resident Alien Card (Green Card) required.
Non-Permanent Resident Aliens	Not Eligible

Non-Occupying Co-Borrowers

Not allowed

Title Vesting

Title must be held as individuals. *Trusts*, corporations, conservatorships, or LLCs are not allowed.

Transaction Requirements

Chain of Title

24 month chain of title is required, indicating buyers, sellers, and transfer date/instrument recording date. This may be provided within the title commitment/prelim or by Dataquick or other HSOA acceptable property searches.

The transfer sales price information is required for all transfers in the past 24 months if there were transfers within the first 12 months. This information can be obtained from any HSOA acceptable source, including but not limited to: public records, the subject property appraisal, or AVMs.

Extra due diligence is required whenever the seller is an LLC. Desk or field review by Landsafe is required if the LLC has owned the property less than one year.

Flipping Restrictions

The following restrictions apply to all transactions except properties being sold by the foreclosing institutional lender.

Date comparison will be from seller's acquisition date to the earliest of the purchase contract, application/origination date

If the recording date of seller's acquisition is delayed beyond normal recording office delays (generally more than 45 days), underwriters may require 90 days from recording date, or additional documentation to prove the actual date of deed transfer (ex: settlement statement and proof of funds being paid).

Owned <= 90 days:

- *Maximum 10% increase without documented improvements*
- *Maximum increase of 20% or \$100,000, whichever is less, with documented improvements.*
- *Transactions with sales price greater than or equal to a 20% increase over seller's acquisition cost are generally not allowed. On a case-by-case basis and subject to second-level review, allowing a larger increase may be considered, with the following items reviewed:*
 - *Cost and scope of documented improvements made*
 - *CitiCorelogic AVM determination*
 - *Stability of the neighborhood, particularly the frequency of foreclosures and short sales*
 - *Identify of seller*
 - *Details about all comp sales, especially information if the comparables uses were also recent re-sales, especially by LLCs*
 - *Overall risk of the transaction*
 - *Subject property's value relative to neighborhood value ranges*

Regardless of who the property seller is, if the resale occurs within 0 to 90 days, all transactions must be arms-length; no identity of interest between buyer, property seller or third parties.

Specific ways to ensure an arms-length transaction include:

- *Seller holds title to the property*
- *LLCs, corporations or trusts serving as property sellers must meet all applicable state and federal law.*
- *No pattern or previous flipping activity exists on the property (as evidenced by multiple title transfers within 12 months).*
- *The property was marketed openly and fairly (Any sales contracts with "assignment of contract of sale" is not allowed).*

Owned 91-180days

If the price increase is greater than 20%, the appraisers should provide a summary of the project improvements and costs, and pictures of the significant improvements made. Greater flexibility will be considered for those

transactions that are nearing the one year mark and/or with less significant increases. Underwriters should consider the amount of undocumented price increase as a factor in reviewing the overall transaction. Second level review required to assure appropriate flexibility is applied.

Extra due diligence is required whenever the seller is an LLC. The overall transaction risk must be prudently evaluated; if multiple risk layers are present, the transaction is ineligible.

Re-negotiated purchase agreement policy:

The Investor will not accept re-negotiated purchase agreements that increase the sales price after the appraisal has been completed if:

- *The appraised value is higher than the contracted sales price provided to the appraiser, and*
- *The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, and*
- *The only change to the purchase agreement is an increase in sales price.*

Non-Arm's Length/Interested Party and Familial transactions

A non-arms length transaction is defined as a direct relationship between any of the parties to the transaction including, buyer, seller, employer, lender, originator, appraiser, etc.

- *Non-arms length transactions may be acceptable provided there is adequate verification the borrower is making the required minimum down payment from their own funds, there is an executed sales contract, the appraisal supports the value, and the appraiser comments on whether the market value is affected by the relationship of the parties.*
- *A non arms length transaction may not be used to bail out a family member or any other owner with an established relationship to the borrower from a delinquent mortgage.*
- *The title commitment may not show any evidence of foreclosure proceedings or NOD.*
- *If the seller is a corporation, partnership or any other business entity, there must be proof that the borrower is not an owner of the business entity selling the subject property.*

Purchase Contract signatures

Purchase contract must be fully executed and signed by all parties in the transaction, including realtors, and if the contract pages indicate buyer and sellers initials on each page, each page must be initialed by all buyers and sellers.

For Sale by Owner and Non-Arms Length (FSBO and NAL) with short-sales and flips

- *FSBOs are prohibited on transactions involving short-sales or flips*
- *Reminder: NALs are prohibited on transactions involving short-sales or flips*
- *All other FSBO or NALs require QC pre-funding review and acceptance*

Seller/Interested Party Contributions

Maximum allowed, not to exceed the actual charges for non-recurring closing costs and standard pre-paid items, is 6% of the sales price.

Payment of future HOA dues is not an allowed Seller/Interested party contribution.

- *Seller paid closing costs and pre-paid items may be included in the contributions.*
- *HOA subsidies paid through interested party contributions are permitted to a maximum of 12 months. Note that the borrower must still qualify with the monthly HOA payment.*
- *The borrowers may not receive **any** cash back at closing, other than the documented amount for costs paid in advance by the borrower from their personal funds (earnest money deposit, appraisal, credit report). Pro-rated credits for real estate taxes are not paid by the borrower, but are paid by the seller.*
- *The borrower cannot be paid pro-rated real estate taxes. Pro-rated credits must either be*
 - *applied as a principal reduction to the guaranteed loan; or*
 - *reduce the amount of the loan by the amount of the pro-rated real estate tax credit.*
 - *The same guidance applies to any excess funds remaining from seller paid concessions.*

Discount Points

Permanent interest rate buydowns are allowable. However, they cannot be included in the loan amount, and can only be charged by HSOA (discount points charged by brokers is not allowed).

Cash Back to Borrower at Closing.

The borrower(s) may not receive any cash back at closing, other than the documented amount the borrower has paid in advance from their personal funds, such as earnest money deposit, fees for an appraisal or credit report fees. Gift funds with no terms of repayment are considered personal funds, if there is an executed donor letter and verification the funds were transferred to the borrower prior to or at closing. Often times, cash return occurs when calculating pro-rated real estate taxes. Pro-rated real estate taxes are paid by the seller and cannot be paid in the form of cash returned to the borrower at settlement. However, the borrower's closing costs may be reduced by the amount of contribution or the amount can be applied as a principal reduction (a modification to the note is not required). If known in advance of closing, the loan amount may be reduced by the amount of pro-rated taxes to avoid payment to the borrower. Cash back to the borrower at closing for the purchase of appliances is not an eligible loan closing cost.

Rate/Term Refinance

Reminder: Refinance transactions are currently not accepted until USDA funding authorization is restored.

Refinance transactions must comply with the following requirements:

- **Eligible Transaction**
 - The loan being paid off must be a USDA Guaranteed loan. Loans made under the Rural Housing Direct/Leveraged program may not be refinanced under the Guaranteed program. Choose "No Cash Out Other" as the refinance option; 'streamline' transactions are not allowed.
 - *During first year of ownership* (ownership date to earliest date of new application documents) *use the lesser of current value or acquisition cost to calculate LTV/CLTV.*
- **Interest Rate**
 - The interest rate on the proposed loan must be at least 1.00% lower than the interest rate of the existing loan. *HSOA NTB form is required, with the months to recoup closing costs not exceeding 84 months.*
- **Properties recently listed for sale**
 - Refinances on properties currently listed for sale are not permitted. If the listing was canceled prior to application and appraisal date, there are no restrictions.
- **Properties with in-ground pools**
 - Not permitted on refinances.
- **Guarantee Fee**
 - The fee amount is 1.50% of the total principal obligation of the new loan. The fee may be financed into the new loan amount. The LTV of the new loan may exceed 100% only by the amount of the guarantee fee.
 - With appraisal
 - Maximum loan amount cannot exceed the balance of the USDA loan being refinanced, plus the guarantee fee and reasonable and customary closing costs (including funds necessary to establish a new tax and insurance escrow account). The Lender may establish the charges and fees for the loan, provided they are the same as those charged other applicants for similar types of transactions.
 - All closing costs may be financed with the exception of discount points.
 - Originator compensation is limited to 4% of the loan amount.

Unpaid fees, such as late fees due the servicer, cannot be included in the new loan amount.
- **Seasoning and Prompt Pay history**
 - All payments made in the past 6 months must have been paid within the month due (no 30 day lates). Borrower must have made at least 6 payments on the existing loan to be eligible for refinancing.
- **Subordinate Financing**
 - Any existing secondary financing must be subordinate to the first lien.
- **Appraisal Requirements**
 - A full appraisal is required.
- **Inspection requirements/Repairs**

- No other property inspections or thermal certifications are necessary. However, any conditions noted on the appraisal that are related to the safety or livability of the subject property must be addressed and rectified prior to loan closing. Expenses related to property inspections and property repairs may not be financed into the new USDA refinance loan.
- Cash Out
 - Not allowed. The borrower may receive reimbursement from loan proceeds at settlement for personal funds that were advanced for eligible loan purposes relating to the refinance transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of cash out to the borrower may occasionally result due to final escrow and interest calculations. This amount, if any, must be applied to a principal reduction of the new loan.
- Non-Rural Areas
 - Refinance loans are allowed for properties in areas that have been determined to be non-rural since the existing loan was made.
- Additional Borrowers
 - At least one borrower must be the current borrower on the existing USDA Guaranteed loan. Additional borrowers may be added to the new loan or existing borrowers may be deleted from the current loan. All applicants that will be on the Note for the new loan must meet all eligibility requirements.

Texas Owner Occupied Refinances

See Texas Owner Occupied Refinance Overlay for additional details and requirements

Financed Properties

N/A - See Owner Occupancy

2. Documentation

Underwriting Decision

All loans must be run through GUS (Guaranteed Underwriting System), USDA's automated underwriting engine), with **Accept /Eligible** as the desired recommendation. All borrower findings must be Accept; however, property eligibility recommendations regarding property other than 'Eligible' will be accepted as follows:

If Property eligibility or GUS findings are "Undetermined" or "Ineligible", but the maps suggest that the property is eligible, contact the local USDA office for determination. If the property is eligible, provide proof from the local USDA office that indicates the property is in an eligible area. The HSOA underwriter will include this determination with the 'final submit' documents forwarded to the local USDA office. The USDA office will confirm the property's eligibility as evidenced by issuing the USDA Conditional Commitment (form RD 1980-18).

If creditor tradeline debts were not listed on the credit report but manually entered into GUS, an "Accept" recommendation must be downgraded to a "Refer" and manually underwritten. The file is eligible as a manual underwrite IF the debts were listed on the initial 1003 AND are one of the following debts:

- ⊖ **Alimony**
- ⊖ **Child support**
- **Paystub loans**
- **Credit union or small community bank loans**

If there are any other obligation not on the credit report, or if the borrower failed to disclose the above obligations on the initial 1003, the loan is ineligible for HSOA financing.

Manual downgrade is not required if any of the following obligations are added:

- **Alimony**
- **Child support**
- **Non-purchasing spousal debt (in a community property state)**

Notes:

- ~~Non-Purchasing spousal debts not included on the applicant's credit report in GUS do not require a manual downgrade. (Applies only if the borrower, spouse or property are in a community property state).~~
- ~~"Creditor tradeline debt" is meant to clarify that entering child support or alimony type obligations, which are not reported on credit reports, does not require a manual down grade.~~
- Manual underwriting is required when additional obligations are manually entered, as indicated above. Manual underwriting for other purposes, including Refer findings or non-traditional credit, is NOT allowed.

Property Eligibility

USDA Guidelines

All loans must meet USDA and HSOA guidelines. Loans that are underwritten using GUS must be documented according to USDA requirements.

Exceptions:

- A 4506-T must be executed before closing, with tax return findings acceptably validated. An additional 4506-T must also be signed at closing. **Tax return transcript validations are required**; W-2 validations are not accepted.
- Multiple Bankruptcy filings must meet HSOA limitations, regardless of GUS findings.
- Transactions determined to be Higher Priced Mortgage Loans are not eligible for any documentation relief. Files must have traditional income documentation covering two years, all assets verified and a full appraisal.
- YTD P&L and balance sheets for applicable year(s) are required on self-employed borrowers whenever the closing date is more than 90 days after the most recent tax returns.

Signed Tax Returns Defined

References to signed returns means copies of signed federal tax returns; tax returns that have been validated via a IRS 4506T are not an acceptable alternative.

Age of Documentation

120 days for the appraisal; 90 days for all other documents; both as of funding date. Appraisal cannot be more than 90 days old at underwriting; 60 days for all other documents.

A 1004D appraisal update is not accepted; a new appraisal is required.

Updated credit reports are required when the existing credit report is expiring, or when there are material changes to the reported information. HSOA will NOT accept an updated credit report solely because the credit score has improved.

Project Questionnaires

FHA Project Questionnaire for approved projects is required on all condominiums. Competitor forms are accepted, provided they contain all the required information.

3. Credit

Credit Report Vendors

All credit reports must be ordered from one of the following vendors. **Borrower(s) names must exactly match borrower names throughout the file.** A new credit report (and resubmission to GUS) is required if the borrower names used on the closing documents is different from the names under which the credit report was ordered. The accepted credit vendors are:

- Equifax
- Credco
- CreditPlus

Credit Scores

All borrowers must have a minimum representative credit score of at least 640.

Minimum trade lines and Decision Credit Score Determination

GUS will determine the applicable credit score for underwriting analysis. There are no minimum trade line requirements with GUS. A minimum of 2 credit scores are required for each borrower. The lender is responsible for ultimately approving the loan file and reviewing the credit history. A GUS "Accept" is not an approval. It is a tool for the underwriter to utilize in reviewing loan data in order to make a final loan approval decision.

Tradelines must be based on standard reporting creditors, and the credit score is not distorted by authorized user accounts, judgments, collections or charge-offs, non-traditional creditors, or student loans that were in deferment status during the required time frame.

Traditional Credit

Credit determination will be based on traditional credit history; except for rental histories, non-traditional credit trade lines are not accepted in lieu of or to bolster weak or lack of traditional credit.

Borrower Representative Score:

- If a total of 3 scores are obtained for a borrower, the designated score will be the middle score.
- If a total of 2 scores are obtained, the lower score will be the designated score.*
- If only one score is obtained, borrower is ineligible.

Loan Representative Score:

- If there are co-borrowers on the loan, the credit score applicable to the loan itself will be the lowest of the respective borrowers' scores.

*Credit report must indicate all 3 repositories were accessed and the score was not available.

Non-borrowing spouse credit concerns

If the non-borrowing spouse has a foreclosure, short sale, pre-foreclosure, short payoff, re-structured debt within the prescribed time limits, and:

- Property was acquired prior to the marriage and the borrower was never vested on title, and never occupied by borrower: not a credit concern.
- Property was acquired during the marriage or the borrower was added to title: reviewed case by case, but generally are treated the same as if the borrow was obligated.

Late payments

Late payments are considered accounted for in the credit score. However, the following items are subject to individual evaluation, no matter how high the credit score:

- Judgments, collections, charge-offs, tax liens.
- Bankruptcy
- Foreclosure including deed-in-lieu, and short sales, Notice of Default, 120-day lates. Foreclosure rules apply to any property owned or occupied by the borrower (except for renting from a landlord), or properties owned or occupied by other parties on title to the subject property.

Normally, late consumer payments are considered in the calculation of the applicant's FICO score; however, a pattern of late pays, judgments, liens, collections and charge-offs, etc. that would indicate a poor repayment history will result in a decline, regardless of the GUS underwriting recommendation.

Late Payments, Collections, Charge-offs, Tax Liens and Judgments

- *Collections (and charge-offs, if they show a balance outstanding): all must be paid by closing.*
- *Judgments and tax liens: none currently outstanding*
- *Revolving/Installment accounts*
 - *No more than one (1) 30 day late within the past 12 months and must be explained and supported.*
 - *Late/or slow payments caused by mitigating circumstances may be acceptable as long as the borrower provides a written explanation and documents the mitigating circumstances*
- *.Housing payments:*
 - *no 30-day lates in the past 12 months and no more than 1X30 in past 36 months, regardless of GUS findings.*

- Loans not meeting the bankruptcy, foreclosure, or short sale/pre-foreclosure dates as listed below are not eligible.

Credit Waivers

Though required for manual underwrites, Credit Waivers are not necessary for loans with accept/eligible findings.

Bankruptcy

For all bankruptcy types, the time period required to reestablish credit is measured from the bankruptcy discharge or dismissal date to the application date. The minimum time period to reestablish credit is three years.

Consumer Credit Counseling

Applicants participating in a Consumer Credit Counseling Program are not disqualified from obtaining a guaranteed loan. The lender must document that 12 months of the repayment period has elapsed under the plan with all payments made on time and the applicant has received written permission from the counseling Agency to enter into a mortgage transaction.

Multiple Bankruptcy Filings

For borrowers with multiple bankruptcy filings during the last seven years, a five-year seasoning from the most recent discharge or dismissal date is required to reestablish credit.

Foreclosure

Three years since foreclosure must have transpired from foreclosure completion to application date.

Short Sales, Short Pay-offs or Re-Structured Debt

For borrowers who sold *or refinanced* (or are selling *or refinancing*) a property for less than the amount owed on the mortgage (as agreed to by the lender, investor, and mortgage insurer), a three-year seasoning for reestablishing credit following the sale or refinance of the property is required.

Deed-in-Lieu of Foreclosures

Considered the same as foreclosure

Verification of Rent

While rental verifications are not required when credit scores ≥ 620 , GUS may accept higher ratios with a 12 month verification of rent.

Pay-off Demand Statements

Current pay off demand statements are required on all refinances, and must show that the loan:

- is not 30 days delinquent
- does not contain charges associated with default/forbearance
- does not indicate a curtailment of principal/interest (e.g. short pay)
- meets the program requirements for mortgage delinquencies
- Payoff demand expiration date requirements are as follows:

Borrower made the previous month's payment (disbursing in December, borrower has made the November payment):

- HSOA must obtain an updated payoff demand if the loan proceeds will be disbursed after the payoff demand expiration date.

Borrower made the current month's payment (disbursing in December, borrower has made the December payment):

- Payoffs that expire during the funding month; acceptable to add the per diem through the end of the month, without HSOA obtaining a payoff demand update.

In all cases:

- Closing agent must confirm the payoff demand amount with the existing lender; if any changes, notify HSOA prior to closing the loan and disbursing funds;

- Closer/Funder must compare payoff demand amount to the demand in file, return to underwriting for adjustments if the payoff amounts changed (unlikely to occur).

Reminder:

- **Be sure the payoff calculation includes the appropriate per diem charges through the closing agent's disbursement date.**
- **Payoff demand expiration dates and the number of days of per diem interest are to be based on the date when the closing agent disburses funds (not HSOA closing or funding date).**

Credit Inquiries

If the credit report indicates that a creditor has made an inquiry within the previous 90 days, a letter from the creditor or signed statement from the borrower is required to determine if additional credit was obtained. Any new debt must be included in qualifying the borrower.

Disputed Tradelines

If AUS findings reference a disputed account, the following requirements apply:

- Disputed accounts must be cleared by the creditor and the AUS findings must be reissued referencing a new credit report.
- A credit supplement is not acceptable; a new credit report is required.

4. Employment/Income

USDA requires three separate income calculations to determine eligibility:

1. **Annual Household Income** – Income from all household members, whether or not they will be Borrowers obligated to repay the loan
2. **Adjusted Household Income** – Annual Household Income minus USDA-allowed deductions
3. **Repayment income** – Income from Borrowers obligated to repay the loan

It is important to recognize that borrowers and other household members may have income that is required to be included in the Annual/Adjusted Income calculations, but which is not accepted for loan qualifying. Examples include income from non-borrowing spouses and income from a part-time job started a few months ago.

A Household member is defined as anyone who will occupy the home for all or part of the first 12 months after closing.

Annual Household Income/Adjusted Household Income

Source for online calculations

To determine annual household income eligibility, go to the Rural Development Web site at <http://eligibility.sc.egov.usda.gov>. From the home page, click "Income Eligibility." Enter the state, then county to calculate income and allowed deductions.

Documenting non-borrowing household members income

- Salaried: current YTD paystub showing at least 30 days income
- Self-employed: Last year's income tax return and current year YTD P&L (use the higher of two for qualifying)

Household income adjustments

Follow the online calculations, which include deductions for:

- Number of household members
- Child care expenses, if the child care allows a borrower to attend school or to work, but which care cannot be provided by another household member
- Medical expenses under certain circumstances

For assets after closing that exceed \$5,000, including retirement assets if the individual is eligible to withdraw them without penalty, use tax returns to show prior year dividend, interest or capital gains income, or if not reported – passbook or certificate interest rates.

Repayment Income/Verification of Employment (VOE)

Loan File Documents

Standard Fannie Mae / Freddie Mac conventional or FHA loan documents are allowed. Like FHA, GUS does not provide documentation relief.

All sources of income must be verified using FNMA Form 1005 - "Verification of Employment". Rural Development, as outlined in Rural Development Instruction §1980.351, will typically review the past 24 months to determine both Income Eligibility, as well as compliance with Monthly Housing (29%) and Total Debt (41%) Ratios. HSOA requires verified primary sources of income for a 24-month period to confirm loan approval.

Alternate documentation is permitted in place of FNMA Form 1005. Alternate documentation must include: two years W-2's, and 30 days paystubs with year-to-date information.

The following should serve as a guideline for handling income-related issues:

Full Time - For borrowers whose income is derived from full-time employment, two (2) years of full employment history must be verified on FNMA Form 1005 (Verification of Employment).

Borrowers are not required to have 24 months continuous employment with their current employer. Where there has been a change in employers in the last 24 months, the borrower must explain any gap in employment that extends beyond one (1) month. *If the gap exceeds 2 months, the length of time returned to work must be at least as long as the employment gap, or one year, which ever is shorter. The time returned to work is measured from the employment start date to application date. Exceptions may be considered based on detailed and documented circumstances.*

Two (2) years of tax returns are required for:

- Self-employed borrowers
- Commissioned borrowers
- Borrowers employed by a relative or closely-held family business.
- Borrowers who are not commissioned, but need to validate their expenses.

Part-Time - Part-time or second job income permitted if income has been received uninterrupted for the past 2 years and will continue. Seasonal employment may be counted if the applicant has worked the same type of job for the past 2 years.

Overtime and Bonus Income - Income should be received for 2 years from the same employer in order to be considered stable and dependable. Averages from periods of less than 2 years must be adequately justified and documented. The employer must indicate that the overtime and bonus income has a probability to continue. If income from these sources varies significantly from year to year, a period of more than 2 years should be used in calculating average income.

Commissions - Commission income should be averaged over the previous 2 years from the same employer. Non-reimbursed expenses, if any, should be subtracted from the gross income reported on tax returns. Commission earned less than 1 year should not be considered as repayment income without significant compensating factors. Exceptions may be made in situations where compensation was changed from a salary to commission with a similar position, with the same employer. If commission decreases from one year to the next, significant compensating factors must be documented to include this income.

Self-Employed Income

- Two (2) previous years 1040s are required. They must be signed and certified by the applicant.
- Year-to-date Profit & Loss Statement with Balance Sheet, prepared and signed, must be submitted.
- If the applicant has 25 percent or more ownership interest in any business entity, the applicant must also provide the most recent two (2) years' business tax returns (Corporate, Sub-S Corporate, or Partnership) along with a current Profit and Loss Statement with a Balance Sheet prepared and signed by an accountant.

Alimony, Child Support, and Separate Maintenance - HSOA requires documentation that child support, alimony, or separate maintenance will continue for three (3) years after the date of the mortgage application or it will not be considered as income. The borrower must also provide evidence that the funds have been received for the last 12 months. Acceptable evidence includes deposit slips, canceled checks, court records, or tax returns.

Retirement Income - Retirement income, i.e., pensions, annuities, 401K distribution, etc., may be verified by letters from the organizations providing the income, copies of the retirement award letters (with photocopies of canceled checks attached), tax returns, or IRS W-2 forms. This evidence must confirm a continuation of this income for a minimum of three (3) years.

Social Security Income - Acceptable verification includes a photocopy of the Social Security Administration's award letter or copies of the borrower's last 2 bank statements to confirm the regular deposit of the payments. Benefits that have defined expiration dates must have a remaining term of at least three (3) years to be considered as income.

Disability Income - Disability income will be considered acceptable income provided it can be documented by furnishing a recent copy of respective letter of benefits or allotment setting forth the terms of the income, or by using **RD form 1944-4**. The benefits must be on-going for a minimum of three (3) years.

Unemployment And Public Assistance Benefits - Unemployment And Public Assistance benefits will be considered as income if they are properly documented by letters or exhibits by the paying agency. The amount, frequency and duration of payments must be stated in the verifying documents. If an individual receives unemployment benefits as a regular part of his/her income, HSOA requires copies of tax returns for the past two (2) years to establish a history of receipt. This income must be documented as on-going for a minimum of three (3) years.

Dividends/Interest Income - Dividends and interest may be used as income provided the assets that are generating the dividend/interest income will not be used for the down payment or closing costs on the proposed loan. The applicant must provide tax returns for the previous two (2) years along with verification of current assets via bank statements, verification of deposits, etc. This income will be averaged over two (2) years or calculated at current market interest rates, whichever is less.

Automobile Allowance and Expense Account Payments - The amount by which an applicant's auto allowance or expense account payments exceed actual expenditures may be considered as repayment income. Income should be received for 2 years, along with verification from the employer that these payments will continue. The applicant's monthly car payment must be treated as a recurring debt and must not be offset by the car allowance.

Verbal Verification of Employment (VVOE)

HSOA will obtain a verbal confirmation of current employment or self-employment within 5 business days prior to funding the loan.

FNMA 1084 Self-employed Income Analysis form

Submission documents for self-employed borrowers are to include a completed 1084 form, which will show the calculations for determining a borrower's self-employed income.

5. Assets

Borrower Investment

The borrowers must have enough liquid assets to cover the down payment, closing costs, any prepaid items, and reserves as required.

Acceptable Sources

- Borrower's own funds, including checking, savings, certificate of deposit, or other depository accounts.
- Proceeds from loans secured by the borrower's own assets, such as a 401(k) loan.
- Gifts from acceptable sources.

- *Joint accounts with non-borrowing spouses are accepted. All other accounts held jointly with another party will be accepted if all the following are met:*
 - *Account holder address on bank statement is the same as the borrower's*
 - *Other account holder affirms borrower's rights to full access on the account*

Assets brought to closing must be from sources and amounts as have been verified. Transfers between verified assets to consolidate funds into one check must be documented. If the source of funds for down payment or closing costs is from the sale of stock, or the withdrawal or loan from a retirement account, the file documentation must evidence the receipt of funds and the sale, liquidation or withdrawal of the asset.

Verification of funds is not required unless the borrower's contribution is greater than 2% of the purchase price, or unless GUS reflects reserves after closing. List, but do not verify and make sure there are no reserves showing in GUS. Borrowing of unsecured funds allowed with 660 credit score.

Escrow/earnest money deposits do not need to be verified with copies of cancelled checks if the amount is < \$1,000 or 2% of the loan amount, and the EMD will be credited at closing towards down payment and closing costs.

- If the borrower is to be given the earnest money proceeds back at closing, borrower must provide proof of having paid the EMD and the source of those funds

The USDA has issued guidance on liquid asset types and documentation:

- Background: Liquid assets considered in the credit and risk evaluation can influence the underwriting recommendation due to remaining cash reserves post closing. Although cash reserves are not required, the presence of reserves can affect the strength of the loan.
- When liquid assets are entered into the underwriting the analysis, the asset must be verified and documented in the lender's permanent case file. The following chart provides examples of the liquid assets often utilized, and the expected documentation when these assets are present on the loan application:

Liquid Asset Type	Minimum Documentation Guidelines
Depository types: • Savings Accounts • Checking Accounts • Certificate of Deposit • Money Market Fund	<ul style="list-style-type: none"> • Verification of Deposit with average 2 month balance – and 1 months bank statement; or • 2 months bank statements dated within 45 days of the initial loan application date.
Earnest Money Deposit (Sales Contract)	<ul style="list-style-type: none"> • Earnest Money Deposit on sales contracts can be considered an asset, if the deposit is not already reflected in a depository account. • If the funds have cleared the borrowers' account, place the amount as "Other Credit" in Section VII of the application, where it is assumed to have been verified. • For GUS transactions, do not enter the earnest money in a depository account on the "Asset and Liabilities" page AND in the "Other Credit" section on the "Transaction Details" page.
Gift Funds	<p>Gift funds should be identified separately, as a gift, even if the funds have already been deposited in a liquid asset account by the borrower.</p> <ul style="list-style-type: none"> • Gift funds should not be reflected in the depository accounts verified. If gift funds are in the borrowers' bank account, the account balance should reflect the balance less the gift funds deposited. • Gift funds will not be considered as cash reserves in GUS transactions or as a compensating factor for manually underwritten loans. Gift funds may assist with available funds for closing costs, voluntary down payments or guarantee fees, but will not be considered as cash reserves for the purpose of compensating factors when waiving credit or requesting repayment ratio waivers. • Gift funds may be documented by obtaining a gift letter signed by the donor and borrower. <p>See below for more details on gifts</p>
Sale Proceeds from Currently Owned Property	<ul style="list-style-type: none"> • Final HUD-1 indicating cash sales proceeds actually received by the borrower • Proceeds from the sale of the property should be included in the borrower's liquid assets. • For GUS transactions, the "Net Equity" portion will be populated once the "Real Estate Owned Property" section is properly completed.

Individual Retirement Accounts, Thrift Savings Plans, 401Ks and Keough Accounts	Up to 60% of the vested amount may be considered in the underwriting analysis – to account for federal income tax and any withdrawal penalties. • Obtain the most recent statement.
Stocks and Bonds	The monthly or quarterly statement provided by stockbroker or financial institution managing the portfolio.
Cash On Hand (accumulated outside a depository account)	The borrower should be able to explain in writing how funds were accumulated and the amount of time taken to do so. • The lender must determine the reasonableness based on the borrower's income stream and the time frame in which they were saved. • Typically individuals that accumulate and keep cash savings on hand are less likely to save money through a savings or checking account as would an individual with a history of such accounts.
Disposition of Personal Assets	Proceeds from the sale of personal property may be used towards closing costs. Documentation for funds obtained should include a bill of sale, bank statement verifying deposit of funds, and when applicable, a transfer of title.
Borrowing of Funds on an Unsecured Basis	Borrowers that qualify may borrow funds on an unsecured basis to pay for their closing costs and prepaids. For example, a borrower could obtain an unsecured loan from a family member, bank or credit union, or even a credit card cash advance. In order to qualify for this option, a borrower's median credit score must be 660 or above. When utilizing this option, Lenders must remember to include the unsecured debt in the total debt calculations, and should indicate on the "Source of Down payment, Settlement Changes, and/or Subordinate Financing" Section of the FNMA 1003 (Uniform Residential Loan Application) the amount of the unsecured funds.

The above examples do not represent all types of possible assets, is not an all-inclusive list.

- Satisfactory explanation and documentation should be provided for large deposits or increases in liquid assets.
- The lender may exclude cash reserves from liquid assets from the underwriting analysis if the borrower qualifies without it.
- The presence of income producing assets may influence the annual income calculation.

Bank statements:

- All pages of all bank statements must be provided.
- Large Deposits:
 - o Large deposits must be adequately explained and documented. This applies to any non-payroll deposit \geq ~~\$400~~ \$500 individually or cumulatively on each statement.

Business funds

Bank Account Holder's names	Eligibility
Personal	Accepted without restriction
<i>Personal and a business name, or business name</i>	Business assets may be used for down payment and closing costs as follows: <ul style="list-style-type: none"> • The borrower must be the sole proprietor or 100% owner of the business or provide verification from the other owners that the borrower has access to the funds. • The accountant must comment on what impact the withdrawal of the funds will have on the business. If the accountant states that there will be a negative impact, the use of the funds will not be permitted. • Business funds are not an eligible source of funds for cash reserves.

Determining the value of the asset when used for reserves

- **Stocks, bonds, and mutual funds:** 70% of the value may be used as reserves (reduced from 100%).
- **Retirement accounts:** 60% of the vested value may be used as reserves (reduced from 70%).

- **Stock options and non-vested restricted stock** are not eligible for use as reserves.

Unacceptable Sources

- Cash-on-hand
- Sweat Equity

Verification of Deposit (VOD)

Acceptable if accompanied by two months of current account statements.

Earnest money deposits

In addition to the requirements for providing recent bank statements to document available assets needed for closing, the source of any earnest money deposits (EMDs) must be verified using the following documentation if the EMD amount \geq \$1,000 or 2% of the sales price, or if the borrower is to get the EMD back at closing:

- For EMD funds that have cleared the bank: A copy of the borrower's cancelled check and two month's bank statements (the bank statement prior to the EMD being cleared, and the statement showing the check being cleared) to evidence a sufficient average balance to support the amount of the earnest money deposit (Note: Any large deposit to the account must be addressed).
- DataTrac entries: Enter the cash deposit into Details of Transaction and labeled as 'cash deposit on sales contract. The EMD must be evidenced as having cleared before closing. Closers: EMD funds have been removed from account balances; the amount needed for closing reflects EMD having been cleared.

Seller Pro-ration Credits

Not allowed

Reserves

Not required. However, if GUS reflects any reserves, the accounts making up the reserves balance must be verified,

Gift funds **MUST NOT** be included in the reserves in GUS. If gift funds are included in the transaction and exceed the amount of funds required for the borrower to bring to closing (meaning the borrower will have gift funds left over after closing):

- List and identify the gift funds as a separate asset on the 1003 **and in GUS**
- **In GUS, confirm that GUS excluded gift funds from the reserves calculation, which should be automatically excluded if the gifts are properly labeled.**

Gifts and Grants

Gifts may not contribute to cash reserves in GUS transactions or be considered a compensating factor.

- 100% of the borrower's cash to close may come from a gift.
- A borrower can use funds obtained as a gift (or grant) to satisfy part of the cash requirement for closing only if the donor is a relative, or friend, or charitable organization, municipality, or nonprofit organization.
- Donor must be disinterested third party to the transaction.
- A signed gift letter by both the borrower and the donor must include the donor's name, address and telephone number, the relationship to the borrower, state the dollar amount of the gift, the date the funds were transferred, and must include the statement that no repayment is expected or required.
- If the gift funds are not already in the borrowers account, transfer of the gift funds to the borrowers account or to escrow (or the closing agent) must be documented. The donor may give the closing agent a certified check for the amount of the gift. A copy of that check or a settlement statement showing receipt of that check will be sufficient documentation.
- If the gift (or grant) is coming from a charitable organization, municipality, or nonprofit organization, a copy of either the letter awarding the gift or grant to the borrower, or a copy of the legal agreement that specifies the terms, and conditions of the gift or grant is required. The documentation must indicate that no repayment of the gift or grant is expected and provide an indication of how the funds will be transferred (to the borrower, lender, or closing agent). Evidence of the transfer of funds, such as copy of donor's cancelled check or settlement statement showing receipt of the check is required.

6. Ratios

Qualifying Ratios

For GUS recommendations not manually downgraded: 29/41%, or as accepted by GUS.

For manual downgrades, 29/41 ratios may be exceeded with compensating factors, provided the maximum DTI does not exceed 45.0%. **A ratio waiver is required for any manually underwritten loan that exceeds the published ratios of 29/41.**

DEBT RATIO WAIVERS:

Requested by the lender, approved by Rural Development

In the guaranteed loan program an applicant meets agency requirements for repayment ability if their Principal, Interest, Real Estate Taxes, and Homeowners Insurance (PITI) debt ratio is 29% or less, and the Total Debt Ratio (TD) (the PITI plus any additional monthly debt obligations combined) is 41% or less.

Requests to exceed the standard ratio thresholds must be submitted in writing to Rural Development, including the documentation of appropriate compensating factors for support of sound underwriting judgment.

Applicants with credit scores of 680 and higher do not require additional compensating factors to be identified for debt ratio waiver requests. If co-applicants included on the application have a credit score of 659 or below, additional compensating factors should be documented to further support the ratio waiver request. There is no minimum credit score required to be eligible for a debt ratio waiver request. It is possible that a credit score is not indicative of an applicant's true credit risk.

Underwriters are encouraged to evaluate credit, capacity, and collateral when considering any applicant for a debt ratio waiver.

To request a ratio waiver,

- **Underwriters are to add to the 1008 in underwriter comments: Request for Ratio Waiver: and then list the applicable compensating factors. The local USDA office must approve the ratio waiver request when issuing the Conditional Commitment.**
- **Contact the local USDA office to determine**
 - **which credit file documents are to be delivered with the final submit**
 - **Where and how they will communicate their approval of the ratio waiver request**

Accepted Compensating Factors for Ratio Waivers

The National Office supports and encourages granting ratio waiver requests for applicants with legitimate compensating factors such as those listed below and in 1980.345(c)(5) which include but are not limited to:

- FICO score of 680 or higher for any applicants.
- No or low payment shock: minimal increase in housing expenses, or current rent is comparable to proposed PITI (100% increase in payment or less).
- Conservative attitude toward the use of credit and ability to accumulate savings
- Previous credit history verifies that applicant has the ability to devote a greater portion of income to housing expense. Many low income or high cost area applicants already pay a substantial amount for rent or housing and are successful.
- Employment history: Two or more years in current position is excellent, however underwriters should consider applicants who change positions frequently to better their financial position. Underwriters should give more credence to a history of continuous employment, (no gaps due to multiple terminations, etc.).
- Additional compensation/income: Public benefits, food stamps, potential commissions, bonus payouts, and additional part time employment that lacks a stable history may not be reflected in the repayment income, yet this additional income will have a direct effect on the ability to successfully repay the mortgage. obligation.
- Cash reserves available post closing.

- Potential for increased earnings and career advancement, as indicated by job training or education in the applicant's profession.
- Trailing spouse income: Home is being purchased as the result of relocation of the primary wage-earner. The secondary wage earner has an established history of employment and is currently seeking or expects to return to work and there are reasonable prospects for securing employment in a similar occupation within the new area.
- Low Total Debt: A low Total Debt by itself does not compensate for a high PITI ratio, however when other strong compensating factors are present a low TD ratio should be viewed as a positive mitigating factor.

Liabilities

- See Documentation, section 2, regarding manually entering liabilities into GUS that are not on the credit report.
- Deferred student loan payments not listed on the credit report, creditors to provide actual scheduled payment amount for inclusion in the qualifying ratios.
- Installment loans with more than 6 payments remaining, all lease payments, and any installment loan – even with 6 or few payments – for which the payment is significant relative to borrower's income and DTI calculation.
- Revolving accounts where the credit report does not include a payment, or the payment is less than 1% of the balance, use the greater of \$10 or 5% of the balance unless a monthly billing statement is provided.
- Co-signed obligations are to be included in the DTI calculation unless the most recent 12 months of cancelled checks from the primary obligor are provided, and the credit report confirms a prompt payment history (OX30). Liabilities solely in the borrower's name must always be included in the ratios, regardless of who is making the payments.
- Sale of properties via assumption:
 - with release of liability; provide evidence of borrower being released of liability
 - without release of liability: requires 12 months proof of assumer making prompt payments; otherwise the mortgage payment must be included in borrower's ratios.
 - In all situations, provide evidence of property sale – deed transfer and assumption documents
- Court-ordered assignment of debt, including divorces; in addition to the court document, provide evidence borrower was released of liability (court order/divorce decree, and Quit claim deed are not sufficient; if no release of liability is granted, the debt must be in borrower's ratios).
- "Authorized User" account (AUA)
 - If the DU approval is based on authorized user account trade lines, underwriter must confirm these accounts accurately reflect the borrower's credit history. Multiple AUAs (especially relative to the overall number of trade lines) may skew the credit score and risk analysis, thereby making the DU findings inaccurate. Consideration for review includes the following, compared to borrower's non-AUA accounts: number of AUA accounts, late payment history patterns, and credit limits. If the differences are considered significant, the borrower must provide
 - cancelled checks as evidence of paying the most recent 12 months payments on the AUAs.
 - Letter of explanation that identifies the relationship to the primary borrower, who must be a relative (spouse, parent, or related by blood, marriage, adoption, or legal guardianship).
 - In all other cases, payments on AUAs may be omitted from the borrower's ratios if the credit reporting agency confirms the borrower is not obligated to make the payments

Grossing up income

Section 8 income may be grossed up 25%; all other non-taxable income may be grossed up only by the borrower's tax bracket.

Qualifying Amount for Property Taxes

For qualifying purposes for the property tax payment, for California purchase transactions use 1.25% of the sales price. In all other cases, compare the following sources and use the highest of: appraisal; title commitment binder/prelim; tax bill, if provided; or for new construction properties, 1.25% of the sale price unless a higher percentage is typical and customary.

Paying off or paying down debt to qualify

<i>Action</i>	<i>Revolving Debt</i>	<i>Installment Debt</i>
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Paying off debt	<i>Not allowed</i>	<i>Allowed, no further consideration required</i>
Paying down debt or amortizing payments have reduced number of payments to less than 6	<i>Not allowed on Revolving debt; generally, not allowed on installment debt when large payments are involved. See Liabilities, above.</i>	

7. Appraisers and Appraisals

Appraisers

Appraisers must be FHA Roster appraisers, and must not be on Freddie Mac Exclusionary list. Effective with new applications or appraisals ordered on and after April 1, 2011, all appraisals must be in compliance AIR (Appraisal Independence Requirements). Accordingly, all HSOA appraisals must be ordered through Streetlinks; transferred-in appraisals will be accepted according to AIR appraisal transfer requirements.

Appraisals

The information in the report must be accurate, internally consistent, written in clearly understandable language, fully supported, and sufficiently documented to FHA standards.

Properties appraised in “Fair Condition” are not acceptable. The property must be brought up to at least “Average Condition” prior to closing. A final inspection showing the work has been completed must be included in the file. Escrow holdbacks may be permitted.

Uniform Appraisal Dataset (UAD)

Appraisals completed on and after January 1, 2012 must comply with Uniform appraisal Dataset (UAD) requirements. This applies to appraisal forms 1004 and 1073.

General Appraisal requirements

The most recent and similar comparable sales available as part of the sales comparison approach must be used. Any change in market conditions from the date the contract of sale was signed and date of the appraisal must be considered.

Appraisals are:

- Expected to include at least two comparable sales that settled within 90 days of the appraisal's effective date, or a detailed explanation, consistent with the 1004MC addendum, identifying why the appraiser was unable to locate such sales.
- Required to include two additional active listings or pending sales, which should be truly comparable and which bracket the dwelling size and sales price whenever possible.
- To adjust active listings to reflect the 'list to sales price ratios' from the 1004MC.
- To reflect the contract price on pending sales and adjust pending sales to reflect the 'list to sales price ratios.'
- To include the original list price and any revisions, and total days on market (DOM), which should approximate the time frames in the neighborhood section and 1004MC.
- Reconcile the adjusted values of listings, pending sales and closed sales with each other, to arrive at a defensible value estimate.
- To include an absorption rate analysis.

Data source requirements

- Acceptable data sources are those that are confirmed using local sources (agents, sellers, etc; or public records. MLS by itself is not sufficient.
- Sources that are not readily verifiable are not acceptable, meaning the property cannot be used as a comparable.

- Known Incentives and sales concessions must be included in the comparable adjustments for sold comps, as well as listings and pending comparables.

New construction Projects and Developments - Additional Comparable Requirements

- The appraiser must use at least one current sale from the subject builder/developer in the project, and either:
 - One current sale from a competing builder/developer, or
 - A resale from within the subject property's development that has closed within the last 30 days.
- If the appraiser is unable to meet any of the above requirements, the appraiser must provide a detailed explanation as to why the requirements were not met, and if it resulted in making an adjustment to the property value.
- When appraising new construction, both the contract/sales date (when the buyer entered into the contract with the builder), and the closing date must be reported and analyzed. Differences in market conditions between the contract/sales date and the effective date must be analyzed.
- The appraiser must provide the builder names of the subject property, and the comparables (if new construction also).

Market Conditions Addendum to the Appraisal Report

The Market Conditions Addendum to the Appraisal Report (Form 1004MC) is required for all loans. Form 1004MC will:

- provide the appraiser with a structured format to report market data,
- help further clarify conclusions made by the appraiser, and
- supply the lender with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood.

Inspections

All inspections must be dated no more than 120 days old as of the funding date.

Private Septic System:

The septic system must be free of observable evidence of system failure. A government health authority, a licensed septic system professional, or a qualified home inspector may perform the septic system evaluation. Any FHA roster appraiser can make a determination concerning observable failure as this is part of the HUD Handbook 4150.2 regulation.

An actual test of the system (which would not be performed by the appraiser) is only necessary if required by the purchase contract or any inspection reports that may be provided, or the appraiser notes observable failure of the system or if property is vacant.

Septic systems must be functioning properly as of closing; holdback for repair or replacement is not allowed.

Private Well/Water Supply:

Water quality Test

The local health authority or state certified laboratory must perform a water quality analysis. The water quality must meet state and local standards. The Safe Water Drinking Act does not apply to private wells. Contact the EPA at (800) 426-4791 for referrals to certified labs and other inquiries. Water must be drawn by an independent party, or borrower in a purchase transaction; with water tested by a state or local health authority. A water quality test is required on all loans not having a public water source.

Well Certification

A well certification, primarily to test for acceptable flow/pressure, is required on all wells.

Termite:

If required by the lender, appraiser, inspector, or State law, a pest inspection must be obtained to confirm the property is free of active termite infestation. Borrowers are to sign the report to acknowledge receiving a copy; seller's signatures are not required.

Existing Properties (Properties older than one year)

Existing properties must meet the current requirements of HUD Handbooks 4150.2 and 4905.1, and confirmed by the appraiser certifying in the comments section of the appraisal that the property meets HUD Handbooks 4150.2 and 4905.1

New Construction Plans and Specification Requirements and Inspection Requirements (built for less than 12 months and never been occupied)

If the builder is providing a one-year warranty, the following inspections are required:

- Framing Inspection
- Footing Inspection
- Final Inspection
- Thermal Inspection – not required if addressed in plan certification or certificate of occupancy.
- The following documentation is also required for new construction:
 - Plans & Specs
 - Plan Cert – Form RD1924-25 completed by professional engineer, licensed architect or plan reviewer.
 - Permits
 - Occupancy certificate
 - Construction Warranties

If a 10-year Builder Warranty is provided: only a Final Inspection is required.

Unpermitted Space

- California properties with non-permitted space or additions are not acceptable.
- All other states: Non-permitted space or additions are not permitted unless approved in writing by the local Rural Development office. Originators should contact your local Rural Development office and include evidence of the RD office response with the loan submission. If not requested as indicated, underwriting must request and receive the RD office's acceptance/response prior to 'Final Submit'

Work Completion Escrows

Escrow Holdbacks for the completion of minor repairs will be permitted as long as they adhere to all of the following:

- The Holdback amount must be at least 1.5 times the amount needed for repairs and will be held by the Closing Agent
- Holdback amount not to exceed \$5,000, which means the cost of repairs cannot exceed \$3,333.00
- Holdbacks will be permitted up to 10 Business Days MAXIMUM.
- The lock period must be valid through the 10 business day escrow time frame.
- A copy of the invoice/contractor's bids reflecting an estimate of repairs to be completed and must be sent to the ROC Manager or UW Manager for approval.
- All Escrow Holdbacks will require the approval of the UW or ROC Manager.
- Closing Agent to hold any and all broker/originator funds including lender-paid or borrower-paid compensation until all repairs have been completed.
- Other than incidental painting, all work must be performed by licensed contractors (no do-it-yourself projects).

Construction-to-Perm

Not allowed

Disaster Areas

Loans with a disaster declared – applies to all loans not yet funded by HSOA and any applications dated less than 120 days after the disaster incident end date:

If the appraisal was completed prior to the disaster occurring, the property must be re-inspected (exterior and interior) prior to the loan closing. Refer to the Underwriting guidelines or Closing Manual for details

Appraisal review

Follow the corelogic appraisal review process to confirm value.

8. Compliance/Special Considerations

HSOA does not make any loans, which are defined, as “high-cost” under Section 32 or any State or locally governed legislation.

RD Form 1980-21

- Use of the revised form (10/10 revision date) is required
- HSOA tax ID # for completing the 1980-21 form is 41-0380056
- All borrowers must sign the form
- HSOA underwriter will sign as the Lender prior to sending it the USDA office

HSOA reserves the right to amend the requirements set out in this document without providing prior notice.

All loans must meet Program Guidelines and HSOA Conventional Underwriting guidelines.

- All Refinances must provide a net tangible benefit to the borrower.
- Maximum allowable fees charged to borrower is the greater of 5% or \$1,000 (excludes prepaids and charges from un-affiliated vendors (title co, appraiser, etc).
- Maximum Realtor fees allowed on any purchase transaction, including auction charges is 8%.

Cook County, Illinois

A copy of the Predatory Lending Database counseling determination and proof of counseling (if required) must be included in the loan file. If the loan is exempt from the requirements, a certificate of exemption must be included in the loan file.

Non-Purchasing Spouse in a Community Property State

If the subject property is located in 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 spouses' 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.
 - The credit reporting company should be given non-purchasing spouse information (name, address, birth date and any other significant information requested) in order to do the records check.
- The greater of the monthly payment amount or 5% of the outstanding balance of all debts of the non-purchasing spouse must be included in the qualifying ratios.
- Non-purchasing spouse's judgments and federal debt must be paid, or provide an acceptable eligible repayment agreement.
- Outstanding collections must be manually entered into GUS as liabilities, and marked 'omit'
- 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 sole basis for declining the loan.
- State law in the states of Arizona, California, Louisiana, Nevada and Washington dictate certain aspects of non-purchasing spouse requirements (such as treatment of delinquent debt, debts acquired prior to the marriage, homestead rights, etc.).

List of Community Property States

Arizona	Louisiana	Texas
California	Nevada	Washington
Idaho	New Mexico	Wisconsin