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CHAPTER 1: GENERAL PROGRAM REQUIREMENTS

1.1 WELCOME TO THE HANDBOOK

This Handbook provides Agency staff and lenders participating in the Single Family Housing Guaranteed Loan Program (SFHGLP) with the tools needed to originate, underwrite, and service guaranteed loans efficiently and effectively. Its goal is to help Agency staff and lenders administer the SFHGLP smoothly, while ensuring that the program's basic legal and administrative requirements are met. The Handbook describes:

- Loan origination, underwriting, servicing, and liquidation policies and procedures;
- The role of the Agency and participating lenders in program administration; and
- Practices that will help ensure efficient and effective program administration.

The guidance provided by this Handbook is intended to be consistent with all applicable laws, Executive Orders, and departmental regulations, including other Agency regulations. Nothing contained in this Handbook should be construed to supersede, rescind, or otherwise amend such laws, Executive Orders, and regulations.

SECTION 1: INTRODUCTION TO THE HANDBOOK

1.2 USING THIS HANDBOOK

The Handbook is organized to allow the reader to look up information on specific topics easily. There is a detailed Table of Contents that provides a guide to finding particular topics. In addition, several graphic tools and conventions have been used to make information easier to find and understand.

A. Citations

- **Regulatory citations.** The regulation for the SFHGLP is provided in 7 CFR Part 3555 and the text of that regulation is provided in Appendix 1. To assist readers in locating the regulatory authority for procedures described here, references to this regulation often appear in brackets, for example: [7 CFR 3555.55]. Other regulations or Rural Development instructions are simply referenced.
- **Cross references.** Topics discussed in more than one place in the Handbook are cross-referenced to help the reader find other related information more easily.

- **Form references.** Agency form names are shown in italics. A list of all forms referenced in this Handbook can be found in Appendix 2.

B. Attachments and Appendices

- **Attachments.** Attachments at the end of each chapter contain technical information that is specific to the topics covered in the chapter. Attachments are referenced in sequence using the chapter number and an attachment letter. For example, Attachment 4-A is the first attachment in Chapter 4.

- **Appendices.** Appendices include forms and other reference materials that relate to multiple chapters.

- **Glossary and acronym lists.** Key words and terms are defined in the glossary. A list of acronyms and their definitions is also provided. The glossary and acronym lists can be found after the appendices.

C. Terminology

The SFHGLP has a centralized delivery platform under the Origination and Processing Division (OPD). Servicing operations are located at the Servicing Office. This Handbook uses certain standard terminology to provide consistency.

- **Agency.** The organizational unit within the United States Department of Agriculture (USDA) that is responsible for administering the SFHGLP.

- **Lender.** A financial institution that has been approved to participate in the SFHGLP. The term is used to refer to entities that underwrite and apply for loan guarantees, service SFHGLP loans, or purchase SFHGLP loans from other entities.

- **Servicing Office**. The servicing center in St. Louis, Missouri where specific servicing functions, such as loss mitigation and loss claims, are processed.

- **Agency staff.** An Agency employee who is responsible for implementing the requirements of the SFHGLP on behalf of the Agency.

- **Applicant.** One or more individuals who have applied for a guaranteed loan.

- **Borrower.** One or more individuals who have received a guaranteed loan.

1.3 GETTING ADDITIONAL HELP

This Handbook has been designed to be as comprehensive as possible. Program requirements are outlined along with examples and case studies to assist lenders in complying with program requirements. However, no Handbook can provide guidance adequate for every circumstance, therefore Agency staff is available to answer specific questions.

Agency staff will not make underwriting decisions for a lender; however, they will help the lender understand the intent of the applicable requirements and provide guidance about the kinds of information that the lender should obtain to document its decision-making processes. Additional training may also be provided by Agency staff with regard to particular program requirements that a lender finds difficult to fulfill properly.

The Agency is committed to providing timely responses to lender inquiries. Lenders should submit general inquiries to SFHGLD.PROGRAM@usda.gov.

SECTION 2: OVERVIEW OF THE SFHGLP

1.4 SFHGLP GOALS

The SFHGLP is designed to provide low- and moderate-income households the opportunity to own adequate, modest, decent, safe, and sanitary dwellings and related facilities for their own residential use in rural areas. The program offers eligible applicants the opportunity to acquire, build, rehabilitate, improve, or relocate a dwelling in rural areas. The program provides loan guarantees to approved lenders for loans made to eligible applicants.

In providing this service, the Agency strives to meet several goals.

- **Customer Service.** The Agency is committed to providing customer-focused, streamlined service.
- **Partnerships.** The Agency is committed to working with participating lenders in order to expand housing opportunities in rural areas.
- **Effective Use of Resources.** The Agency is committed to using tax dollars efficiently.

1.5 SFHGLP SUMMARY

Private lenders are key to the success of the SFHGLP. Although the Agency issues loan guarantees, lenders that have been approved to participate in the program are responsible for originating, underwriting, servicing, and liquidating loans. The lender is ultimately responsible for ensuring that all program requirements are met, and that the underwriting procedures for the loan are followed. The Agency reviews each loan proposal to ensure the applicant and property appear to meet program eligibility requirements and monitors lender performance on an ongoing basis to help ensure that lenders accurately understand the Agency's expectations.

Applicant eligibility is discussed in detail in chapters 8 through 11. In summary, applicants may be eligible to receive a guaranteed loan if they:

- Are income-eligible;
- Agree to personally occupy the dwelling as their primary residence;
- Have acceptable citizenship or immigration status, as defined in Chapter 8;
- Have the legal capacity to incur the loan obligation;
- Have not been suspended or debarred from participation in Federal programs;
- Have demonstrated both the willingness and the ability to repay the loan; and
- Are purchasing a property that meets all program criteria.

In the event that a lender incurs a loss on a guaranteed loan, the Agency will compensate the lender under the terms of the Loan Note Guarantee and all program requirements.

SECTION 3: GENERAL PROGRAM REQUIREMENTS

1.6 CIVIL RIGHTS

The Agency, participating lenders, and agents of participating lenders, including appraisers, must administer the SFHGLP fairly and in accordance with all equal opportunity and fair housing legislation and applicable Executive Orders. Below is a list of the pertinent Federal laws and Executive Orders, as well as a brief description and highlights. While lenders will be familiar with many of these requirements, they should carefully review applicable legislation and orders, especially if new to Federally-conducted programs. Agency staff should refer to RD Instruction 1901-E for guidance on relevant civil rights requirements.

A. Major Civil Rights Laws Affecting the SFHGLP

- **The Equal Credit Opportunity Act (ECOA)** prohibits discrimination in the extension of credit on the basis of race, color, religion, national origin, sex, marital status, age, income from public assistance, or because an applicant has in good faith exercised any right under the Consumer Protection Act. An applicant or borrower who believes he or she has been discriminated by Rural Development for any of these reasons may write to the Secretary of Agriculture, Washington, D.C. 20250.

- **Title VIII of the Civil Rights Act of 1968** (also known as the Fair Housing Act of 1988, as amended) is enforced by the U.S. Department of Housing and Urban Development. The Fair Housing Act prohibits discrimination in the sale, rental or financing of housing on the basis of race, color, religion, sex, national origin, familial status, or disability.

- **Section 504 of the Rehabilitation Act of 1973** prohibits discrimination by the Federal government on the basis of disability. An applicant or borrower who believes he or she has been discriminated by Rural Development on the basis of disability may write to the Secretary of Agriculture, Washington, D.C. 20250.

- **Executive Order 11063 as Amended by 12259** prohibits discrimination in housing or residential property financing for any Federally assisted activity against individuals on the basis of race, color, religion, sex, or national origin.

B. Nondiscrimination Practices

The applicable civil rights laws prohibit the denial of loans, services, and benefits provided under the SFHGLP to any person based upon race, color, national origin, sex, religion, marital status, familial status, age, disability, source of income, or because the applicant has, in good faith, exercised any right under the Consumer Credit Protection Act (15 U.S.C. 1601). This applies to the Agency, participating lenders, and agents of participating lenders, including appraisers. Discrimination in employment practices is also prohibited.

The Agency is responsible for providing guidance and oversight to participating lenders and their agents, including appraisers, to ensure procedures are consistently met. Important key areas are listed below.

- **Outreach**. Information about the availability of the program and how to apply must be broadly disseminated, and the extent of the information, assistance, and courtesy extended to those who make inquiries must be consistent.

- **Application procedures**. Application procedures must be fair and accessible to all potential applicants.

- **Determining eligibility**. Equal rigor must be used for all applicants when verifying income, conducting credit checks, and allowing applicants to clarify information.

- **Making exceptions**. Standards for offering exceptions must be applied consistently.

- **Loan terms and subsidies**. Opportunities for any subsidies and favorable loan terms must be made available consistently.

- **Servicing**. Loan servicing, including offering benefits and assistance, must be offered in a fair and consistent manner to all borrowers.

- **Liquidation and property disposition**. Liquidation and any subsequent property disposition must be executed in a fair and consistent manner. Property disposition practices, like those outlined for outreach, must ensure that no person has an unfair advantage in acquiring foreclosed property.

C. Reasonable Accommodations for Persons with Disabilities

Participating lenders and their agents must make reasonable accommodations to permit persons with disabilities to apply for and benefit from Agency programs. Reasonable accommodations may include providing facilities that are physically accessible and effective communication and outreach tools so that all applicants can get good program information, for example, a Telecommunications Device for the Deaf (TDD).

1.7 REVIEWS AND APPEALS

Agency decisions that are not made in favor of a lender or other program participant (applicant or borrower) are known as adverse decisions and may be reviewed or appealed. Adverse decisions must be based upon 7 CFR Part 3555 found in Appendix 1 of this Handbook.

Adverse decisions include the administrative actions taken by Agency staff; and the Agency's failure to take required actions within time frames specified in statutes or regulations, or within a reasonable time if no deadline is specified. Adverse decisions made by a lender are not an Agency decision. Adverse decisions made by the Agency may be appealed to USDA, National Appeals Division (NAD) in accordance with Appendix 3 of this Handbook.

1.8 STATE AND LOCAL LAW

State and local laws and regulations, and the laws of American Indian tribes, may affect implementation of the program. In such cases, supplemental guidance to resolve any conflicts or differences may be issued.

1.9 EXCEPTION AUTHORITY

Exceptions to any requirement of this Handbook, or 7 CFR Part 3555, can be approved in individual cases by the Administrator, or designee, if application of the requirement or failure to take action would either adversely affect the Government's interest or conflict with the objectives and spirit of the authorizing statute. Any exception must be consistent with the authorizing statute and other applicable laws.

A. Who Can File a Request

Only Agency staff may file a request for an exception. However, lenders can request that the Agency consider submission of a formal request for exception. When asking the Agency to consider requesting an exception, the lender should include documentation that demonstrates how the exception would protect the Government's interest or maintain consistency with the program's authorizing statute.

B. What Must Be Included in the Request

The exception request developed by the Agency for the Administrator, or designee, must provide clear and convincing evidence of the need for the exception. At a minimum, the request must include:

- A full explanation of the unique circumstances, including an explanation of any adverse effect on the Government's interest if the waiver is not granted;
- A discussion of proposed alternatives considered; and
- A discussion of how the adverse effect will be eliminated or minimized if the exception is granted.

C. Where Requests are Submitted

Requests for exceptions are submitted to the Administrator, through the Deputy Administrator, Single Family Housing. Requests may be initiated by:

- The Executive Director, Single Family Housing Guaranteed Loan Program; or
- The Deputy Administrator, Single Family Housing.

Requests for exceptions regarding architectural and engineering, environmental, or civil rights issues will be referred for review and comment to the appropriate technical staff prior to making an exception request of the Administrator.

1.10 CONFLICT OF INTEREST

All Agency staff must strive to maintain the highest levels of honesty, integrity, and impartiality in conducting activities on behalf of the Agency. In order to avoid conflicts of interest, applicants and borrowers must disclose to the lender any prohibited relationship or association with any Rural Development employee and the lender must report this information to the Agency. Lenders must also disclose to the Agency any prohibited relationship or association that it or any of its employees has with any Rural Development employee.

A. Prohibited Relationships

Prohibited relationships and associations include:

- Immediate family members, including parents and children, whether related by blood or marriage, and any household residents;
- Close relatives, including grandmother, grandfather, aunt, uncle, sister, brother, niece, nephew, granddaughter, grandson, or first cousin, whether related by blood or marriage;
- Immediate working relationships, including co-workers in the same office, subordinates, and immediate supervisors; and
- Close business associations with an identity of financial interest, including, but not limited to, business partnerships, joint ventures, or closely-held corporations.

B. Disclosure Requirements

Disclosure of prohibited relationships and associations under this section will not result in applicant, borrower, or lender ineligibility. Disclosures may result in special handling or reassignment of Rural Development employee responsibilities with regard to the loan guarantee request in question, to ensure no prohibited relationships or associations exist between the Rural Development employees responsible for the loan guarantee transaction, and the lender(s), borrower(s), or applicant(s).

Applicants are required to disclose any known relationship or association with a Rural Development employee. When a relationship or association is identified in the application, the lender is required to notify the Agency prior to submission of the application. Attachment 1-A, *Notice of Relationship/Association Between SFHGLP Applicant and Rural Development Employee*, may be used to notify the Agency. After review by the Agency, the lender will be notified of any special handling procedures.

When a Rural Development employee is aware of a relationship or association with an applicant, the employee is required to notify the Agency in writing. Attachment 1-A may be used to notify the Agency of the relationship or association. Special handling of the application will be provided to avoid a potential conflict of interest.

The Agency official, as determined by a Director of the OPD, may use Attachment 1-B, *Requirements for Handling SFHGLP Application of Employee, Relative or Associate*, to determine the processing and servicing procedures. A copy of the notice will be provided to the lender and Agency employee.

1.11 UNAUTHORIZED ASSISTANCE

Unauthorized assistance occurs when a borrower is not eligible for all or part of the financial assistance received in the form of a loan guarantee. Loans made to unqualified borrowers or made for an ineligible purpose are considered unauthorized assistance. The form of unauthorized assistance can differ based upon false information or inaccurate information.

Unauthorized assistance may be identified through audits, reviews by the Agency or its agents, or as reported by lenders. Chapter 16, Attachment 16-B provides guidance for submitting lender self-reports. The significance of the unauthorized assistance will determine the Agency's response in accordance with Section 3555.257 of 7 CFR Part 3555.

When the Agency becomes aware of unauthorized assistance due to false information provided by the applicant, the lender may be required to accelerate the loan request. Failure of the lender to accelerate the loan may result in reduction of a loss claim and/or voiding the guarantee. Based upon the severity, the Agency may pursue criminal and civil false claim actions, suspension and/or debarment, or other appropriate actions.

The Agency will document the findings surrounding the unauthorized assistance in detail and provide a solution on disposition of the case.

1.12 AGENCY LOAN APPROVAL AUTHORITY GUIDELINES FOR THE SFHGLP

All new loan specialists working in the SFHGLP are expected to receive loan approval authority prior to officially issuing decisions on program applications. The process consists of initial training, proficiency-based tests, mentoring support, file reviews, and a formal recommendation by the new specialist's supervisor. The guidelines detail the expectations to be followed by Agency employees delivering the SFHGLP.

A. Training

- New specialists will complete all approved Single Family Housing (SFH) University guaranteed training modules in the order required by the SFH University curriculum.

- The SFH University curriculum will be supplemented with on-the-job training, provided by an experienced loan specialist/mentor.

B. Proficiency Testing

- The proficiency-based tests are a key component of the loan approval authority process. All new specialists are required to pass the test after each training module is completed. This will indicate to the supervisor and mentor that the new specialist has an acceptable level of knowledge in that program area and can proceed to the next training module. The proficiency-based tests and scoring system are administered in accordance with the SFH University curriculum requirements.

- After the final module is completed, the supervisor shall schedule a time for the specialist to take the final exam, which consists of questions generated from information presented in all the completed modules and will be used to assess the overall level of knowledge of the specialist.

- The minimum passing score for the proficiency test is 70. If a new specialist fails the first attempt, the first line supervisor will review the results of the test with the specialist, address weaknesses, advise the new specialist on the area(s) they need to focus, provide a solution to rectify the deficiencies, and allow the specialist to retake the test when the supervisor determines the specialist's readiness.

C. Mentoring

- At the time of enrollment in SFH University, the supervisor will assign a mentor to assist the new specialist in learning the requirements associated with the underwriting and review of SFHGLP applications.

- The assigned mentor shall prepare written quarterly reports to the new specialist's supervisor, outlining the progress and recommendations on areas needed for continued development.

- Mentoring is expected to last at least 12 months, but may be extended (in six-month increments) in the event the progress the specialist is making is not up to par with his/her SFH University curriculum and the proficiency-based tests.

- The assigned mentor shall not be the new specialist's supervisor. The mentor's role is to help facilitate continued learning and to serve as a resource for technical questions and procedural guidance.

D. File Review

- After a new specialist attains a passing score on the final test, the supervisor or mentor will assign SFHGLP files to the new specialist to review independently. Prior to obligation, the supervisor or mentor will complete a file review of each application to evaluate and attest that the new specialist is working at a standard worthy of independent loan approval authority.

- Once an acceptable level of review has been attained, the first line supervisor will submit a minimum of four (4) GUS ACCEPT and six (6) GUS REFER or REFER WITH CAUTION loan files for review by a Director of the OPD, or assignee, in order to determine the loan approval authority recommendation.

E. Supervisor Recommendation for Approval

- Upon successful completion of the SFH University curriculum, proficiency tests, final exam, mentoring period, and file reviews, a letter will be prepared by the new specialist's supervisor to a Director of the OPD recommending the delegation of loan approval authority.

- A Director of the OPD, or assignee, will review the recommendation and any supporting documentation to grant or deny the delegation of loan approval authority to the new specialist. The designation will be documented in writing. If approval is granted, a certificate will be awarded to the specialist noting his/her approval status with USDA Rural Development. Attachment 1-C, *Delegation of Loan Approval Authority*, may be used.

- The expected amount of time to complete this process may vary between 12 and 18 months. If more than 24 months have elapsed, a Director of the OPD, or assignee, will examine the reason(s) for the delay and will develop a plan of action.

- In the event the supervisor is unable to recommend loan approval authority within 24 months due to recurring deficiencies in the specialist's file reviews, a revised training plan will be developed by the supervisor to assist the new specialist in overcoming and resolving the identified deficiencies.

F. Continued Training Process

Supervisors should continue to evaluate the quality of loan reviews by new specialists after loan approval authority has been granted. Close monitoring by an established quality assurance process is recommended to determine if specific training might be required based on unusual application submissions.

G. Reinstatement of Approval Authority

If a specialist's loan approval authority is revoked, RD Instruction 1901-A authorizes the Administrator to provide written restrictions or revocations of the authority given to any loan approval official. The Administrator may take action upon the recommendation of a Director of the OPD, or assignee. Supervisors are granted the authority to determine what actions, training, and conditions are required to reinstate loan approval authority to a specialist.

ATTACHMENT 1-A
NOTICE OF RELATIONSHIP/ASSOCIATION BETWEEN SFHGLP APPLICANT AND RURAL DEVELOPMENT EMPLOYEE

TO: Origination and Processing Division

SUBJECT: Notice of relationship or association between applicant and Rural Development employee

This is to notify you that the following applicant is requesting a Single Family Housing Guaranteed Loan and is related or is associated with a Rural Development employee:

Applicant Name: ____

Borrower ID Number: ____

Property Address: ____
____

County Name: ______________________________

Status of Application:

_____Pre-Eligibility _____Ready to submit _____In process

Rural Development Employee Name: ______________________________

Duty Station: ____

Details of relationship/association: ______________________________
____
____

Submitted by: ______________________________ Date: ____________
Employee or Lender
Title/Organization

Email: ______________________________

ATTACHMENT 1-B
REQUIREMENTS FOR HANDLING SFHGLP APPLICATION
OF EMPLOYEE, RELATIVE OR ASSOCIATE

TO: (Lender Name)

SUBJECT: Requirements for handling SFHGLP applications of employee, relative or associate for (Applicant Name, Borrower ID Number)

The following application processing procedures have been established by a Director of the Origination and Processing Division:

Review of application,
approval and issuance of Conditional Commitment: ________________________________

Review of closing documents,
Issuance of Loan Note Guarantee: ____________________________________

Post Closing Review: ___________________________________

Access to the applicant's electronic case file in the Agency's automated systems will be restricted to the aforementioned employees. All servicing actions will be in accordance with 7 CFR 3555.

[Date] _______________________________
[Name]
Director, Origination and Processing Branch

cc: [Employee first-line supervisor]
Employee
eOPF

ATTACHMENT 1-C
DELEGATION OF LOAN APPROVAL AUTHORITY

TO: [Name]
[Title]
USDA Rural Development
[Location]

By my authority as Director of Origination and Processing Division for USDA Rural Development, in accordance with Rural Development Instruction 1901-A, I hereby make a delegation to the aforementioned employee:

- Loan approval authority for Single Family Housing Section 502 Guaranteed Loans described in 7 CFR Part 3555.

This delegation is effective immediately and will continue until the delegate leaves his/her position or until revocation or other change is made in writing.

[Date]

____
[Name]
Director, Origination and Processing Division

cc: [first-line supervisor]
eOPF

CHAPTER 2: RECORD RETENTION
7 CFR 3555.51

2.1 INTRODUCTION

Both the lender and the Agency have record retention responsibilities. Upon request, the lender must be able to provide the Agency with all mortgage loan files including all loan origination documents. When the lender uses imaging for storage of records, it must retain the capability to reproduce legible and exact duplicates of all original documents. The Agency must retain all files relating to its approval of a lender for participation in the Single Family Housing Guaranteed Loan Program (SFHGLP).

2.2 LENDER RECORD MAINTENANCE

Lenders must maintain loan origination records and keep record of all payments and disbursements in which the Agency has an interest. Upon written request from the Agency, the lender must provide any mortgage records or documents requested by the Agency.

A. Loan Origination Records

Loan origination records must be retained by the lender. If the lender sells the loan, the selling lender must retain copies of the loan origination documents for a minimum of two years after selling the loan. In addition, the purchasing lender must receive copies of the loan origination documents from the selling lender and retain those copies for a minimum of two years after the lender sells the loan. Retention of origination documents for a minimum of two years after selling a loan is required for each succeeding lender. Each selling lender is required to transfer copies of the origination documents to the purchasing lender.

Loan origination records retained by the lender include:

- Loan application, including any preliminary (handwritten) application and the final typed application signed at loan settlement;
- Summary of program eligible income and repayment income calculations, verification of employment and income, including documentation of any oral contact or correspondence with an employer for all adult members of the household;
- All credit reports, including explanations for adverse credit;
- Uniform Underwriting and Transmittal Summary or loan approval form;

- All inspection reports, plan certifications, builder warranties, including lender certifications to the Agency;

- All Agency forms submitted to the Agency or received from the Agency;

- Closing documents, including original security instruments; and

- All residential real estate appraisals and supporting documents.

B. Payment and Disbursement Records

Lenders must maintain a record of all payments received and disbursements paid on the obligation while the Agency has potential liability. The lender should also maintain a record of all servicing actions, relevant post-closing documents, and all borrower notices and correspondence. The following retention periods apply:

- Mortgage files that have been satisfied through payment in full will be retained for a minimum of three years from the date of the final payment or foreclosure.

- Mortgage files that have been satisfied through voluntary or involuntary liquidation must be retained for at least six years from the date the claim proceeds were received.

2.3 AGENCY RECORD MAINTENANCE

A. Lender Approval Files

The Agency will establish a file folder for each lender approved for participation in the SFHGLP. The Agency will digitally image or electronically store all lender approval documents in the Rural Development Electronic Customer File (ECF). The Agency will retain all documents relative to lender approval for participation as long as the lender remains active and maintains its approval status. Refer to Chapter 3 and Attachment 3-A of this Handbook for required documentation for lender approval.

If a lender's approval status is voluntarily withdrawn by the lender or terminated by the Agency, the lender file and all documentation pertaining to the withdrawal or termination will be retained in accordance with the most recent Agency file record retention requirements.

B. Mortgage Files

The Agency may dispose of all documents except those listed below, which will be retained in accordance with RD Instruction 2033-A, once the Agency receives notification from the lender that the mortgage has been satisfied. The Director of the Origination and Processing Division will designate or delegate authority to the supervisory staff of the unit or other qualified personnel to ensure that appropriate files are established and maintained.

All core documents will be retained for long-term preservation in ECF, except for the Credit Reports on GUS loans, which will be stored in GUS. A quality control review will be performed to confirm the imaged documents have been uploaded and indexed to quality expectations of accuracy and consistency. The following records will be retained:

1. Form RD 3555-18 or Form RD 3555-18E*, Conditional Commitment for Single Family Housing Guarantee,* with conditions, requirements, and Lender Certification;

2. Promissory Note;

3. Loan Application(s);

4. Employment/Income Verifications and Income Determinations;

5. Credit Report(s);

6. Form RD 3555-21*, Request for Single Family Housing Loan Guarantee*;

7. All forms related to the Agency's environmental review (Forms RD Instruction 1970-B, Exhibit D*, Environmental Checklist for Categorical Exclusions*; current FEMA Form*, Standard Flood Hazard Determination Form*; etc.);

8. Documentation providing annual and repayment income calculations on Attachment 9-B, Income Calculation Worksheet, Uniform Underwriting and Transmittal Summary 1008, and/or an equivalent form provided by the lender. This requirement excludes Guaranteed Underwriting System (GUS) "Accept" recommendations;

9. Final GUS Underwriting and Findings Report;

10. Form RD 3555-17 or Form RD 3555-17E*, Loan Note Guarantee* and the final Amortization Schedule attached to the Loan Note Guarantee*;*

11. Confirmation the requirements under 7 CFR 3555, Section 3555.202 have been met;

12. Appraisal Report(s);

13. Form RD 1922-15*, Administrative Appraisal Review;*

14. National Office waivers, if applicable;

15. Final Closing Disclosure;

16. Internal Agency Processing Checklist;

17. Internal Agency Loan Closing Checklist, if applicable;

18. Any other forms deemed necessary for record retention by the Agency.

When a loss claim is paid on an account, the mortgage file and documentation supporting the claim will be retained in accordance with RD Instruction 2033-A. Loss claim documents may also be digitally imaged and stored in ECF.

CHAPTER 3: LENDER APPROVAL
7 CFR 3555.51

3.1 INTRODUCTION

A lender is defined as an entity that originates, services, or holds a loan guaranteed by the Agency.

The Single Family Housing Guaranteed Loan Program (SFHGLP) is not intended to promote risky lending. For its success, the program relies on lenders to make sound underwriting decisions. Because the Agency does not underwrite the loans it guarantees, lenders that apply for loan guarantees must originate, underwrite, service, and hold loans responsibly. To ensure that these standards are met, the Agency must approve a lender before it participates in the SFHGLP. To be approved, a lender must agree to follow the Agency's program guidelines and consistently demonstrate high-quality in the areas of loan origination, underwriting, servicing, and reporting. Once the Agency has approved the lender, it may participate in the program as long as it maintains these standards and continues to follow all program requirements. The Agency periodically monitors approved lenders to verify that continued program participation is warranted.

3.2 LENDER APPROVAL CRITERIA [7 CFR 3555.51]

A lender must demonstrate that it has the expertise to make and/or service single-family housing mortgage loans.

Lenders that have been approved for single-family housing loan-making activities by organizations referenced in Paragraph A of this section are considered to have demonstrated the ability to originate, underwrite, and service SFHGLP loans. In all other cases, the Agency determines whether a lender is qualified by reviewing the lender's history, along with other documentation.

In all cases, lenders are required to provide evidence that all principal officers have a minimum of two years of experience in originating or servicing guaranteed mortgage loans. In addition, all guaranteed lenders must be registered in the System for Award Management (SAM) system, which is validated by the Agency in the lender approval process.

A. Approval from Another Recognized Source

Acceptable documentation includes a copy of the official letter or other verifiable communication from an acceptable secondary market organization or other Federal government agency showing that the lender is approved for participation by that entity. The lender must also provide the additional documentation listed in Attachment 3-A, *Lender Approval Checklist*. The Agency reviews and confirms the information submitted by the lender.

Acceptable secondary market organizations, Federal government, and state agencies include:

- A State Housing Finance Agency (SHFA). Evidence that a private sector lender is approved by a SHFA to participate in SHFA programs does not represent an automatic approval to participate in the guaranteed program.
- The U.S. Department of Housing and Urban Development-Federal Housing Administration (HUD-FHA), when the lender is approved as a supervised or non-supervised mortgagee with Direct Endorsement Authority for title II lending activity.
- Government National Mortgage Association (Ginnie Mae), when the lender is an issuer of Ginnie Mae mortgage-backed securities.
- The U.S. Department of Veterans Affairs (VA), when the lender is a supervised lender or is approved as a supervised or non-supervised mortgagee with the authority to close loans under VA's automatic guaranty procedure.
- Fannie Mae, when the lender is approved for single-family loan activities.
- Freddie Mac, when the lender is approved for single-family loan activities.

The Agency may revoke a lender's approval to participate in the SFHGLP if the lender fails to maintain the appropriate eligibility status or violates the terms and conditions of the Agency's lender agreement.

B. Approval by Demonstrated Ability

A lender that does not meet the conditions of Paragraph 3.2A may seek approval by demonstrating its ability to originate and/or service sound loans. In such a case, the lender must meet the following criteria:

- Be overseen by a Federal regulator, be a Farm Credit System (FCS) institution, be an active participant with an approved lender agreement in another USDA guaranteed loan program, or meet the requirements for demonstrated ability, as outlined in this section;
- Have a minimum adjusted net worth of $250,000, or $50,000 in working capital plus one percent of the total volume in excess of $25 million in guaranteed loans originated, serviced, or purchased during the lender's prior fiscal year, up to a maximum required adjusted net worth of $2.5 million; and

- Have one or more lines of credit with a minimum aggregate of one million dollars.

1. Federal Oversight

A lender that is a federally regulated depository institution may be considered for participation in the SFHGLP. The lender must provide an official letter, or other verifiable communication, from the oversight authority that indicates the lender's ability to process, underwrite, and service single-family residential mortgage loans. The documentation must confirm that Federal oversight is being provided by one of the following Federal oversight entities:

- The Federal Reserve System;
- The Office of the Comptroller of the Currency (OCC);
- The Federal Deposit Insurance Corporation (FDIC);
- The National Credit Union Administration (NCUA); or
- The Federal Housing Finance Board regulating lenders within the Federal Home Loan Bank (FHLB) system.

2. Experience with a USDA Program or Farm Credit System

A Farm Credit System institution or lender participating in certain other USDA programs is eligible to participate in the SFHGLP if it can also demonstrate experience in underwriting and servicing single-family residential mortgage lending. Lenders meeting these criteria include:

- An FCS lender with direct lending authority; or
- A lender participating in other Rural Housing Service, Rural Business-Cooperative Service, Rural Utilities Service, or Farm Service Agency guaranteed loan programs that has an active lender agreement.

3. Demonstrated Ability

The lender must have a proven ability to originate, underwrite, and/or service single-family mortgage loans and must have a staff with adequate knowledge and expertise in these areas. Expert knowledge and experience in residential mortgage lending may be demonstrated through the following documentation:

- **A summary of residential mortgage lending activity**. At a minimum, the summary must include the dollar amount and number of residential mortgage loans in its loan origination and servicing portfolio, along with percentages of delinquencies, foreclosures, and credit losses. The Agency will examine the summary to verify that the lender's performance is comparable to that of other participating lenders in good standing.

- **Written criteria that outline the policies and procedures the lender typically follows when originating, underwriting, and closing residential mortgage loans.** The quality control system must ensure that the lender demonstrates safe and sound lending practices including, but not limited to, the analysis and review of appraisals and other factors affecting property values, credit analysis and review, and income analysis and review. In addition, the policies and procedures must comply with all applicable laws and regulations such as the Equal Credit Opportunity Act (ECOA), the Real Estate Settlement Procedures Act (RESPA), and the Home Mortgage Disclosure Act (HMDA).

- **Evidence that the lender has an experienced loan underwriter on staff**. The lender must provide a copy of the underwriter's signed resume showing that the underwriter has at least two years of experience in underwriting single family residential loans, and is knowledgeable of the principles, practices, and techniques of residential mortgage lending.

4. Additional Requirements for Originating Lenders that do not Service Loans

A lender that does not intend to service SFHGLP loans must certify that it will contract with an Agency-approved lender that agrees to follow all Agency servicing requirements, and that has the capacity to hold funds for taxes and insurance in escrow. Originating lenders should be prepared to escrow funds for taxes and insurance when required to repurchase loans.

5. Additional Requirements for Lenders Servicing Loans

If the lender intends to service SFHGLP loans, the lender must provide the following additional documentation:

- **Written criteria concerning the policies and procedures for servicing residential mortgage loans.** The Agency will review these policies and procedures to determine if escrow accounts are handled in compliance with RESPA, and that all other applicable laws and regulations, such as the Fair Credit Reporting Act (FCRA), are followed.

- **Evidence of a written plan if the lender contracts for escrow services**. If a lender does not have an escrow system for taxes and insurance, it must submit a written plan to the Agency for ensuring that taxes and insurance for mortgage loans are paid when due.

- **Evidence that the lender has serviced single-family residential mortgage loans in the year before applying for Agency approval.** This documentation should include the number and dollar amount of the loans in the lender's portfolio, the number and percentage of loans in default (categorized by 30-60-90-days late, in bankruptcy, and in foreclosure), and the number, percentage, and dollar amounts of loans on which losses have been paid.

The Agency reserves the right to re-evaluate a lender's status from time to time. Lenders who fail to follow established guidelines for real estate taxes and hazard insurance premiums, or other conditions of the lender's agreement, may have their lender approval revoked by the Agency. The lender may be required to provide information to support continued Agency approval, similar to the documentation provided with its initial application.

C. Participation as an Agent of an Approved Lender

A lender that does not meet the requirements for Agency approval may participate in the program as the agent of a lender approved by Rural Development. The lender approved by Rural Development must designate the agent in writing and state the functions that the agent performs on its behalf. The agent may be permitted to originate the loan and close it in their name as long as the loan was reviewed by the approved lender and is transferred to the approved lender immediately upon closing and prior to issuance of a Loan Note Guarantee. The lender approved by Rural Development is responsible for ensuring that its agent's loan origination, underwriting, and closing activities are in accordance with Agency standards. The Conditional Commitment for Loan Note Guarantee and the Loan Note Guarantee will be issued to the approved lender.

3.3 APPLICATION

Lenders will submit Form RD 3555-16*, Agreement for Participation in Single-Family Housing Guaranteed/Insured Loan Programs of the United States Government,* and the necessary supporting documentation as outlined in Attachment 3-A, *Lender Approval Checklist*, to the Loan Servicing Branch at sfhglpservicing@usda.gov.

A. **Quality Control Plan**

Reliable and effective quality control (QC) programs are essential to a lender's success in the mortgage industry. Quality control begins prior to application intake and continues through the mortgage process. The purpose of quality control is to monitor and evaluate the integrity of the origination and servicing processes and is customized to the lender's organization, circumstances, and needs. The quality control plan must contain the necessary controls as required by other recognized sources noted in Section 3.2A of this chapter. At a minimum, the lender's plan should include all of the following:

- Mission Statement or stated objective.

- Describe the lender's participation with other Federal agencies, such as the Department of Treasury and any other investors or partners. Include a statement that the lender plans to operate within USDA Rural Housing Service guidelines.

- Written procedures for documenting a re-verification process. This includes implementing a sampling methodology that consists of a representative sample of Rural Development loans, has a consistent and timely review process, and addresses document retention.

- A post-closing review process describing how a sampling of loans are independently reviewed for adherence to lending guidelines.

- A quality control team that operates independently from loan origination, underwriting, and servicing functions; or contracts out this function. If contracted out, the lender must adequately monitor the performance of the contractor.

- Describe the separation of duties between the loan production staff and quality control staff. Under no circumstances should the quality control review staff be involved in the day-to day loan production.

- Describe the standard operating procedures for all employees who will be involved with, or affected by, the quality control process.

- Describe the timelines of internal quality control reviews, including the percentage of loans reviewed and the frequency of the quality control reviews. For example, 10% of closed loans are independently reviewed each quarter by a quality assurance specialist who was not involved in underwriting and closing those loans.

- Quality control reviews should include a description of how appraisals or property evaluation reports are reviewed.

- Written procedures to report violations of laws or regulations, false statements, and program abuses directly to appropriate authorities in a timely manner. Information regarding violations must be reported to the Loan Servicing Branch at sfhglpservicing@usda.gov.

- Ensure adequate quality control and data integrity checks are included for loans processed through automated underwriting systems on a regular and timely basis.

- Ensure adequate monitoring of all vendors, contractors, and third-party providers involved in the origination process (e.g. mortgage brokers, correspondents, appraisers, and credit agencies).

- Identify training opportunities for lender staff.

B. Additional Requirements for Quality Control Plans for Servicing Lenders

Quality control plans for servicing lenders must contain the required information identified in Section 3.3A, as well as address the following:

- How escrows are handled for taxes, hazard, and flood insurance (if applicable).

- How funds are applied when payments are received for principal and interest, hazard and flood insurance, and taxes.

- What happens if excess funds are collected in escrow.

3.4 AGENCY REVIEW

The Agency review of the lender's application includes the following:

- Ensuring that all required documents have been submitted and are completed correctly. Incomplete applications cannot be approved, and the lender will be advised of the omission(s) in writing.

- Form RD 3555-16 has been properly executed by a person authorized to bind the lender to the terms stated on the form.

- Evidence that the lender's demonstrated ability is consistent with the requirements of this chapter.

- Evidence that neither the lender nor any of the lender's principal officers have been suspended or debarred from participation in Federal programs.

- Evidence that the lender's approval status with Fannie Mae, Freddie Mac, HUD, VA, or another acceptable Government Agency is active at the time of the application to the Agency.

- Verification the lender is registered in SAM.

A. Approval of Application [7 CFR 3555.52]

1. Pre-Approval

If the lender meets the criteria for an approved lender and provides the supporting documentation as outlined in Attachment 3-A, the Agency will issue an approval notice to the lender. Final approval is dependent upon the lender and all origination and underwriting staff involved with the SFHGLP completing mandatory training. The Agency will provide additional information on access to mandatory trainings as part of the lender approval process. The purpose of the training is to provide an overview of the SFHGLP objectives, lender responsibilities, required loan documentation, and the process to obtain a Loan Note Guarantee. Any additional staff hired after the initial lender approval should also complete all mandatory trainings.

2. Final Approval

Upon completion of all mandatory trainings by the lender, the Agency will update the lender pages of GLS and forward the lender a copy of the executed Form RD 3555-16, notifying the lender of their approval to participate in the SFHGLP. The lender may begin participating in the program once final approval is obtained.

New lenders will be subject to an oversight review, as outlined in Paragraph 3.8 of this chapter.

B. Denial of Application

If the lender does not qualify for participation in the program, the Agency will provide written justification along with appeal rights in accordance with Appendix 3 of this Handbook.

A lender who does not meet the criteria to participate in the program as an approved lender may act as an agent for an approved lender, as described in Paragraph 3.2C.

C. Record Retention

Lender approval files will be maintained and retained in accordance with Chapter 2.

3.5 LENDER SALE OF GUARANTEED LOANS [7 CFR 3555.54]

SFHGLP loans can only be sold to lenders meeting the requirements of Paragraph 3.2. The purchasing lender must execute Form RD 3555-16 or have an approved Form RD 3555-16 on file. The selling lender is responsible for providing the original Loan Note Guarantee to the purchasing lender and must report the sale of the guarantee on Form RD 3555-11, *Guaranteed Rural Housing Lender Record Change*, within 30 days of the sale in accordance with Chapter 4, Paragraph 4.6.

3.6 LENDER RESPONSIBILITY

The lender will be responsible for the processing and servicing of the loan and may use third party originators, such as agents or correspondents, in carrying out its responsibilities. Lenders are fully responsible for their own actions and the actions of those acting on the lender's behalf. The approved lender must adhere to SFHGLP guidelines as outlined in Chapter 4, Paragraph 4.8.

- **Processing**. The lender must abide by restrictions on loan purposes, loan limitations, interest rates, and terms set forth in 7 CFR 3555 and this Handbook. The lender will underwrite the loan and submit the necessary items as outlined in Chapter 15 in order to receive a Conditional Commitment. The agent may close the loan in its name, provided the loan is immediately transferred to the approved lender to whom the guarantee will be issued.

- **Servicing.** Lenders are fully responsible for regular and default servicing and maintaining security interest for all guaranteed loans. Regular and default servicing requirements are outlined in Chapters 17 through 19 of this Handbook. When servicing is subserviced to a third party, the lender will inform Rural Development of the name and address of the servicer by utilizing Form RD 3555-11.

3.7 EDUCATION AND OUTREACH

A. Lenders

Rural Development has developed a series of educational modules for the SFHGLP which are available on the USDA Linc Training and Resource Library, located at https://www.rd.usda.gov/resources/usda-linc-training-resource-library. These educational modules are available in addition to the mandatory lender trainings utilized for lender approval and recertification. Additional resources can be accessed on the

Agency's SFHGLP web page located at https://www.rd.usda.gov/programs-services/single-family-housing-guaranteed-loan-program.

B. Agency

The Agency will conduct outreach and lender education activities to encourage eligible lending institutions to apply for approved lender status, as eligible rural homebuyers benefit when their choice of lending institutions includes mortgage bankers, mortgage brokers, credit unions, Federal Home Loan Banks, etc.

The Agency has Guaranteed training programs available. Lenders should contact the Lender and Partner Activities Branch at sfhgld.lenderpartner@usda.gov to request individual trainings.

3.8 MONITORING A LENDER'S ORIGINATION AND SERVICING OF LOANS [7 CFR 3555.51]

Rural Development will conduct oversight reviews of the lender's operations as provided in this section. Form RD 3555-16 outlines the responsibilities and terms to maintain approval for the SFHGLP. If Rural Development determines that the lender is not fulfilling the obligations of Form RD 3555-16, or that the lender fails to meet the required criteria, the lender will receive written notice of any deficiencies. If the lender is unwilling or unable to correct the deficiencies, Rural Development will proceed with termination as provided in Paragraph 3.9.

Form RD 3555-16 requires the lender to provide records pertaining to the SFHGLP for review by the Agency. The Agency will conduct an oversight review on a periodic basis as defined in Paragraph B of this section. Oversight reviews assist in Agency risk management and validate that lenders are complying with SFHGLP regulations. Oversight reviews include the examination of lender policies and procedures, cash management practices, and individual borrower case files (loan origination and servicing records, liquidation, and claim files).

A. Review Circumstances and Factors

- **New Lender Oversight Review.** Rural Development may review loans originated by a newly eligible lender to ensure understanding of Agency regulations. Thereafter, the lender will be subject to a review provided in Paragraph 3.8B.

- **Other reviews.** Rural Development may elect to conduct more frequent oversight reviews when major trends or weaknesses, such as loan delinquencies, loan losses, failure to submit required data and reports, or other influencing factors related to assuring that the Government's interest is adequately protected, have been noted, regardless of the volume of loans originated or serviced.

B. Conducting Oversight Reviews

Oversight reviews will be performed on each lender as noted in this section. Oversight reviews may be conducted as an on-site review at the lender location or as a desk review at a site determined by the Agency. The review should be conducted by Agency staff or a designated representative that is knowledgeable of the lender functions to be reviewed. Rural Development will determine the amount of time that is needed to conduct the review. The review team members will utilize the Oversight Review Guide when planning, conducting, and reporting reviews.

Three standards reviews may be performed:

- **Loan origination review**. A loan origination review is applicable to lenders who perform all or a portion of the following functions: underwriting, processing, and closing.
- **Loan servicing review**. A loan servicing review is applicable to a servicer which is performing all or a portion of the following functions: reporting, loss mitigation, loss claims, and property disposition.
- **Expanded review**. An expanded review is performed for lenders and servicers that are both originating and servicing loans.

Oversight review findings will be communicated to the lender and/or servicer verbally and in writing. The reviewers will work with the lender and/or servicer to correct any findings identified. The clearance and follow-up process commences upon issuance of the findings report by the Agency or their representative. Upon closure of the review, or expiration of any follow-up period, a report will be prepared summarizing the review performed. A copy of all oversight review reports will be maintained in the Electronic Customer File (ECF) system.

3.9 LENDER RECERTIFICATION AND REVOKING LENDER ELIGIBILITY

The lender remains eligible as long as the lender meets the criteria in Paragraph 3.2 of this chapter unless the lender's status is revoked by Rural Development or another Federal Agency. The Agency is required to review each approved lender's eligibility at least every two years, which includes verifying the lender has registered in SAM and completed the mandatory recertification training. All approved lenders are required to recertify their status by responding to the renewal notification email, sent to the lender, within the timeframe provided.

Rural Development may terminate the lender's approval due to noncompliance with any of the eligibility requirements described in 7 CFR 3555.51. Status may also be revoked if the lender violates the terms of Form RD 3555-16, fails to properly service any guaranteed loan, or fails to adequately protect the interests of the lender and the Government. In addition to revocation of eligible lender status, the lender may be debarred by Rural Development, or may be required to indemnify Rural Development for any losses paid.

If Rural Development terminates a lender's approval, the lender will have 30 days from the date of receipt of the Agency's notification to appeal the decision. Refer to Appendix 3 of this Handbook for additional information regarding appeal procedures. Notifications will be sent electronically to the email point of contact on file, marked with a read receipt. If the email is returned as "undeliverable," the Agency will contact the lender by phone to obtain a current point of contact. The email notice will then be sent to this individual with a read receipt. Read receipt notifications will be saved in the Agency's records as evidence that the lender was sent notice that they no longer met approved lender status. Agency staff will update GLS by removing the lender designation and any authorizations. Closed lender eligibility files will be retained in accordance with RD Instruction 2033-A.

3.10 VOLUNTARY WITHDRAWAL

The lender may voluntarily withdraw from participation in the SFHGLP. Lenders must notify the Agency of their intent to withdraw participation, along with a plan to transfer their Agency book of business where pending, unclosed Conditional Commitments, and loans serviced or held are transferred to another approved lender participating in the SFHGLP.

ATTACHMENT 3-A
LENDER APPROVAL CHECKLIST

Section 3555.51 of 7 CFR Part 3555 and Chapter 3 of this Handbook describe the qualifications required to become an Agency approved lender. Other entities may participate as an approved lender's agent or correspondent, but only approved lenders are responsible for underwriting and servicing and may hold the Loan Note Guarantee on a Rural Development guaranteed loan. Lenders may utilize the following checklist to ensure a complete application is submitted. Requests must contain all of the following information, in the order listed, and be submitted to Loan Servicing Branch at sfhglpservicing@usda.gov.

Lender Approval Checklist
USDA Rural Development

Lender Information				
Name:			TAX ID:	
DBA Name(s), if applicable. Use separate sheet for any additional DBAs:				
Geographic Address:		Mailing Address (if different)		Phone:
				Fax:
Chartered State/Headquarters:				County:
Website:		Company E-Mail:		
Contact Person	Name:	Phone:	E-Mail:	
	Title:	Fax:		
Minority/Women-Owned Business (Optional)		☐ Minority-Owned	☐ Women-Owned	☐ Minority-Owned/ Women-Owned

Provide the following information for all principal officers, directors, and senior managers. Additional sheets may be attached, if necessary.

Legal Full Name, including M.I.	Title/Physical Location

Lender Functions	**Lender Type (Select Applicable):**			
☐ Originate	☐ Commercial Bank	☐ Credit Union	☐ CDFI	☐ Others
☐ Underwrite	☐ Mortgage Loan Co	☐ Savings Bank	☐ Non-traditional	
☐ Service	☐ Insurance Co	☐ Banks for Co-Ops	☐ USDA Agency	
☐ Own	☐ Farm Credit System	☐ State Housing Finance Agency	☐ Specialty Servicer	

Current eligibility designations [Section 3.2 of HB-3555 Chapter 3]:			
☒	**Agency Certifications (*Select applicable*)**	**Preferred Method of Evidence/Certification (*Submit as supplemental information*)**	**Applicable Agency Assigned Identification**
☐	Fannie Mae	Fannie Mae Form 582, "Annual Eligibility Certification Report"	
☐	Freddie Mac	Freddie Mac Form 16SF, "Annual Eligibility Certification Report"	
☐	U.S. Department of Housing and Urban Development – Federal Housing Administration (HUD-FHA)	Letter showing lender approved by HUD as a Title II supervised or non-supervised mortgagee for submission of one to four family housing applications for Federal Housing Mortgage Insurance or as an issuer of Ginnie Mae mortgage backed securities "supervised" or "non-supervised."	
☐	U.S. Department of Veterans Affairs (VA)	Letter showing lender approved as a supervised or non-supervised "automatic" mortgagee with direct lending authority for VA	
☐	State Housing Finance Agency (SFHA)	N/A	
☐	Farm Credit Service (FCS)	☐ Lender must have direct lending authority. Provide Membership letter. ☐ Financial statements that demonstrate the lender meets the financial requirements described in Section 3.2B.	
☐	Lenders participating in USDA guaranteed loan programs.	☐ Copy of executed agreement showing approval by Rural Housing Service, Rural Business and Cooperative Service, Rural Utilities Programs and/or the Farm Service Agency. ☐ Financial statements that demonstrate the lender meets the financial requirements described in Section 3.2B.	
☐	Evidence of Federal oversight (if applicable)	☐ Evidence and supporting documentation per Section 3.2 of Chapter 3 of Federal oversight by any of the following: ☐ The Federal Reserve System; ☐ The Office of the Comptroller of the Currency (OCC); ☐ The Federal Deposit Insurance Corporation (FDIC); ☐ The National Credit Union Administration (NCUA); or ☐ The Federal Housing Finance Board regulating lenders within the Federal Home Loan Bank (FHLB) system. ☐ Financial statements that demonstrate the lender meets the financial requirements described in Section 3.2B.	
☐	Evidence of demonstrated ability in underwriting and/or servicing (if applicable).	☐ A summary of residential mortgage lending activity. ☐ Written criteria that outline the policies and procedures the lender typically follows when originating, underwriting, and closing residential mortgage loans. ☐ Evidence that the lender has an experienced loan underwriter on staff. ☐ Financial statements that demonstrate the lender meets the financial requirements described in Section 3.2B.	

List of Supplemental Information to be Submitted with Lender Approval Checklist [Check the box to indicate that each required document has been included with the lender approval request package.]			
1.	Form RD 3555-16	*Agreement for Participation in Single-Family Housing Guaranteed/Insured Loan Programs of the United States Government* (Lender Agreement). https://formsadmin.sc.egov.usda.gov/eFormsAdmin/welcomeAction.do?Home	☐
2.	Resume	Evidence of Underwriter's qualifications and experience in the industry and evidence that all principal officers have a minimum of two years of experience in originating or servicing guaranteed mortgage loans.	☐
3.	Retail Lender – Spreadsheet	If your firm is a **retail lender**, provide complete contact information (addresses, telephone numbers, fax numbers, and e-mail addresses) for your branch locations, loan processing/underwriting departments, loan servicing, and a contact person for loan production. Information assists in populating Rural Development's lender record database.	☐
4.	Wholesale Lender or Servicing Lender-Spreadsheet	If your firm is a **wholesale lender or a servicing lender**, provide a general description of your services (loan processing, underwriting, table funding, loan servicing, real estate owned (REO) disposition, etc.) and provide complete contact information (address, telephone number, fax number, and e-mail addresses) for your various departments, including regional account executives.	☐
5.	Underwriting Outline	A brief outline of underwriting criteria from the lender's internal loan policy manual. Include a statement to use forms approved by the Federal Housing Administration (FHA), Fannie Mae, or Freddie Mac.	☐

6.	Quality Control Plan	General requirements for quality control plans: • Must be in writing outlining policies and procedures along with any forms and checklists used in the process. • Lender's Mission Statement or stated objective. • Employees must operate independently of loan origination and servicing departments, or the lender/servicer may contract out this function. If this function is contracted out, the lender must adequately monitor the performance of the contractor. • Identify how escrows are handled for taxes, hazard, and flood insurance (if applicable). • Identify what happens if excess funds are collected in escrow. • Have procedures to report non-compliance to the highest levels of management. May be monthly or, at the least, a quarterly basis. • Have procedures to report non-compliance or suspected misrepresentation to the appropriate regulatory authorities. • Identify training opportunities for lender/servicer staff. • Set timeframes for review and follow-up procedures. • Have procedures in place to monitor any third party originators (TPOs). • Include a consistent process to sample select and review SFHGLP loans.	☐
7.	Training Certification	New Mandatory Lender Training	☐

Certifications/Acknowledgments

I certify I am a corporate officer and/or principal/owner of the above-named entity with the authority to legally bind the organization and to execute certifications and acknowledgements on behalf of the entity/organization named. I certify information provided and any accompanying documentation is true and accurate to the best of my knowledge and belief.

Name:	Title:
Signature:	Date:

Send the executed Lender Agreement, Checklist, and Supplemental Information to sfhglpservicing@usda.gov.

CHAPTER 4: LENDER RESPONSIBILITIES [7 CFR 3555.51]

4.1 INTRODUCTION

Lenders must operate responsibly and comply with all Single Family Housing Guaranteed Loan Program (SFHGLP) requirements. The Agency will provide notice of all program changes; however, lenders are responsible for remaining informed of all program policies and procedures and ensuring that lender staff is adequately trained. The Agency encourages lenders to attend or participate in training provided by the Agency or other approved methods, as outlined in Chapter 3 of this Handbook. For Agency provided training, the Lender and Partner Activities Branch can arrange training for lenders and their staff members. New lenders who request participation in the SFHGLP by submitting Form RD 3555-16, *Agreement for Participation in Single Family Housing Guaranteed/Insured Loan Programs of the United States Government,* are required to take training prior to approval by the Agency. Lenders are encouraged to register for automatic email notification regarding loan origination and servicing updates. Lenders may register at: https://public.govdelivery.com/accounts/USDARD/subscriber/new.

4.2 OPERATE RESPONSIBLY

The lender must:

- Operate in a prudent and businesslike manner. A lender that maintains approval from Fannie Mae, Freddie Mac, VA, or HUD (as outlined in Chapter 3 of this Handbook) is presumed to act responsibly if all elements of the Lender Agreement are maintained.

- Establish and maintain adequate written policies for loan origination, underwriting, servicing, and quality control. Refer to Chapter 3 for additional guidance on quality control plans. It must be compliant for the organization on which approval is based and include a representative sampling of SFHGLP loans. The lender must provide copies of the quality control plan for Agency review.

- Avoid Conflicts of Interest**.** Employees that have an impact on the mortgage transaction (i.e. loan originators, processors, underwriters, appraisers, inspectors, etc.) are prohibited from having multiple roles or multiple sources of income, either directly or indirectly, in a single Rural Development transaction. Examples include, but are not limited to, compensation resulting from an ownership interest in another business that is party to the same Rural Development transaction or compensation earned by a spouse, domestic partner, or other family member that has a role in the same Rural Development transaction. Employees who are also the applicant may not participate in any part of the loan origination, approval, or closing process on behalf of the lender.

4.3 MAINTAIN A WELL-TRAINED STAFF

A lender must ensure that its loan processors, underwriters, and servicers are fully trained to implement the SFHGLP properly and document this training was provided before originating SFHGLP loans.

- **Maintain knowledgeable staff.** The lender must ensure that new staff members are trained on relevant SFHGLP areas. Lenders will ensure that all staff utilizing the Guaranteed Underwriting System (GUS) and Lender Loan Closing (LLC) system are up to date on mandatory trainings. On a periodic basis, lenders are encouraged to seek refresher training for staff to promote efficiency and consistency in delivering the SFHGLP.

- **Performance improvement.** If the Agency finds that a lender needs to improve its performance, the Agency will require training for the lender's staff.

4.4 COLLECT LOAN PAYMENTS AND ENSURE PAYMENT OF TAXES AND INSURANCE

The servicing lender, or their representative, must collect the borrower's monthly payment and apply the funds to the borrower's account in accordance with the terms of the promissory note and mortgage. The servicing lender must maintain first lien position and ensure that real estate taxes and hazard insurance premiums are paid when they are due. If tax and insurance funds are collected from the borrower, they must be held in escrow in accordance with the Consumer Financial Protection Bureau (CFPB) regulations. A lender that is not able to hold funds in escrow must have a plan that ensures that taxes and insurance are paid, as described in Attachment 4-A.

4.5 MAINTAIN FIDELITY BONDING

The lender must maintain fidelity insurance covering its employees' errors and omissions at a level of coverage deemed prudent based on the size of the lender's operation. The fidelity bond or errors and omission insurance that is generally acceptable to the secondary market agencies (Ginnie Mae, Fannie Mae, and Freddie Mac) will meet Rural Development requirements.

4.6 SELL LOANS ONLY TO APPROVED LENDERS [7 CFR 3555.54]

A. Procedure

A SFHGLP loan may be sold only to an Agency-approved lender, Fannie Mae or Freddie Mac. The selling lender must report any guaranteed loan sale to the Agency by using Form RD 3555-11, *Lender Record Change*. The notification of transfer of the loan(s) should be emailed to the Rural Development Servicing Office at RD.SO.HSB@usda.gov. If the loan is sold to a party not approved to participate in the SFHGLP, the Loan Note Guarantee will be considered invalid. Should a lender be unable to complete the sale of a loan due to the loss of the original Loan Note Guarantee, the lender may request a copy from the Agency. The Agency will provide a copy marked "Reissued Loan Note Guarantee." If the loan was closed in the Agency's Lender Loan Closing System, the lender can access a duplicate copy within the system.

B. Purchaser Risks and Responsibilities

The purchaser of a SFHGLP loan acquires all the rights of a loan holder under the guarantee. This means that, should there ever be a loss, the purchaser is entitled to file a loss claim with the Agency. However, the purchaser must ensure that it properly fulfills all servicing obligations and must provide the Agency any requested assistance for its program monitoring. Negligent servicing actions from the lender may invalidate the Loan Note Guarantee.

Negligent servicing is defined as servicing that is inconsistent with §3555.252 and includes the failure to perform those services which a reasonably prudent lender would perform in servicing its own loan portfolio of loans that are not guaranteed. Examples include, but are not limited to, violation of usury laws, civil rights laws, servicing requirements, failure to obtain the required security, and use of loan funds for unauthorized purposes. The Agency maintains the authority to enforce this policy regardless of the timeframe in which Rural Development is made aware of such action. Negligent servicing includes not only the concept of a failure to act, but also not acting in a timely manner or acting contrary to the way a reasonably prudent lender would act up to the time of loan maturity or until a final loss is paid.

4.7 REPORT SIGNIFICANT CHANGES

The lender must immediately inform the Agency, in writing, of significant changes in its structure or status. Failure to keep the Agency informed of changes in accordance with Form RD 3555-16 could lead to withdrawal of approval. Significant changes include instances where the lender:

- Changes its name, location, address, tax identification number, or corporate structure;
- Changes its fidelity bonding or errors and omissions insurance coverage;

- Becomes insolvent;
- Files for any type of bankruptcy protection, is forced into involuntary bankruptcy, or requests an assignment for the benefit of creditors;
- Takes any actions to cease operations, or discontinue servicing its SFHGLP portfolio;
- Becomes delinquent on any Federal debt, or is debarred, suspended, or sanctioned in connection with participation in any Federal program;
- Is debarred, suspended, or sanctioned in accordance with any applicable State licensing or certification requirement or regulation; or
- Voluntarily withdraws from participation in the SFHGLP.

4.8 ADHERE TO SFHGLP GUIDELINES

The lender must follow all SFHGLP guidelines. Failure to comply could result in reduction or denial of a loss claim or revocation of approval to participate in the program. These program guidelines include:

- **Approved Forms**. The lender must use forms approved by the FHA, Fannie Mae, Freddie Mac, or FCS lenders when forms are not provided by the Agency.
- **Eligibility Requirements**. The lender is responsible for ensuring that the loan applicant and property meet all SFHGLP eligibility requirements.
- **Underwriting Requirements**. The Agency approved lender is responsible for underwriting the loan even if an agent originates the loan.
- **Servicing Requirements.** The lender must comply with the loan servicing requirements in this Handbook. The approved lender is responsible for proper servicing even if it has sub-contracted the servicing.
- **Counterparty Management and Third-party Providers.** Lenders are responsible for managing all counterparty and third-party providers that may assist to the processing, underwriting, and servicing of SFHGLP loans.
- **Monitoring Requirements**. The lender must submit all required reports and cooperate with all Agency monitoring efforts and information requests.

4.9 INDEMNIFICATION

If the Agency determines that the originating lender did not originate a loan in accordance with the requirements of 7 CFR 3555 and this Handbook, the Loan Note Guarantee will remain in effect for any holder of the loan who acquired it from an originating lender. The Agency may use available legal remedies against the originating lender, which may include revoking the originating lender's eligibility status in accordance with §3555.52 and Chapter 3 of this Handbook. The Agency may also require the originating lender to:

1. Indemnify the Agency for the loss, if the loan default under the guarantee occurred within 60 months of loan closing, when one or more of the following conditions is present:

- The originating lender utilized unsupported data or omitted material information when submitting the request for a Conditional Commitment to the Agency.
- The Agency determined that the originating lender did not originate a loan in accordance with the applicable statutory requirements or the regulatory requirements of 7 CFR Part 3555.
- The originating lender failed to properly verify and analyze the applicant's income, assets, and employment history in accordance with Agency guidelines.
- The originating lender failed to properly verify and analyze debt and obligations in accordance with Agency guidelines.
- The originating lender failed to address appraisal discrepancies or deficiencies impacting the value of the property.
- The originating lender failed to address property deficiencies identified in the appraisal or inspection report that affect the health and safety of the occupants or the structural integrity of the property.
- The originating lender used an appraiser that was not properly licensed or certified to make residential real estate appraisals in accordance with §3555.107(d).

2. Indemnify the Agency for the loss, regardless of how long ago the loan closed or the default occurred, if the Agency determines that fraud or misrepresentation was involved in the origination of the loan.

If it is determined the loan is subject to indemnification, the payout of a loss claim shall be determined based on the following scenarios:

- If the originating lender sold the loan and transferred the Loan Note Guarantee to a servicing lender, the loss claim may be paid to the lender that acquired the loan and indemnification will be pursued against the originating lender.

- If the originating lender assigned servicing rights to a servicing lender but continues to hold the Loan Note Guarantee, the loss claim will not be paid.

- If the originating lender is also the servicing lender, and no transfers have occurred, the loss claim will not be paid.

Adverse decisions involving loss claims shall be resolved in accordance with guidance provided in Appendix 3 of this Handbook.

4.10 PREVENT MORTGAGE FRAUD

Lenders are accountable for the contents of a loan file, including:

- The sources of and authenticity of all qualifying documentation; and

- Representation made on the loan application, such as occupancy, employment income, assets, equity contribution, etc.

Lenders must ensure they have adequate quality control procedures in place to help detect and effectively prevent mortgage fraud. Sound pre-funding quality control practices and rigorous post-funding quality control programs are examples to safeguard against fraud. The quality control procedures should address updating company policies and procedures when fraud is discovered.

When a lender becomes aware of mortgage fraud, they must report the findings surrounding the discovery to the Quality Assurance and Lender Oversight Division at SFHGLD.Compliance@usda.gov. The following information should be included:

- Provide the name, email address, and telephone number of the company point of contact of the case reported;

- Indicate if the fraud involves origination or servicing of the loan;

- Indicate the originating lender (underwriting lender) and/or servicing lender, as applicable. Include the lender's federal tax identification number and the lender loan number;

- Agency borrower identification;
- Property street, city, state, and zip code;
- A detailed description of findings; and
- Identify the mortgage broker, loan officer, appraiser, closing agent, real estate agents, etc., as applicable.

Refer to Chapter 1 of this Handbook for more information regarding falsely submitted information, fraud, and unauthorized assistance.

4.11 WITHDRAWAL OF APPROVAL

A lender's approval to participate in the SFHGLP does not expire if the lender is an active program participant who is complying with Agency guidelines, continues to meet the criteria of Form RD 3555-16, *Agreement for Participation in Single Family Housing Guaranteed/Insured Loan Programs of the United States Government*, and remains an eligible lender with Fannie Mae, Freddie Mac, HUD, VA, or other lender approval criteria explained at Section 3.2 of Chapter 3 of this Handbook. The Agency will perform a review on a two year basis to recertify the lender's on-going eligibility. When the Agency withdraws approval, the Agency retains the right to pursue debarment and other legal actions, as appropriate.

A. Criteria to Withdraw Approval

A lender's approval may be withdrawn when the lender is neither servicing loans guaranteed under the program, does not hold SFHGLP loans, nor has originated a SFHGLP loan in the previous 24 months. Updated training to ensure a lender's continued knowledge of the program may be required when lenders originated a small number of loans in the previous 24 months.

The Agency will withdraw a lender's approval if the lender experiences uncorrected performance problems. The Agency will notify the lender in writing of the reasons for the termination and of its appeal rights as described in Appendix 3 of this Handbook. If a lender chooses to stop participating in the SFHGLP, the lender should notify the Agency in writing.

B. Sale of Loans upon Termination

Upon the Agency's termination of a lender's approval, any SFHGLP loans held by the lender must be sold within six months to an Agency-approved lender. Failure to sell the loans can result in the Agency withdrawing its guarantee from the loans. If poor loan quality prevents the sale, the lender may continue to hold the SFHGLP loans in its portfolio; however, it must contract with an Agency-approved lender to conduct all servicing activities and give proper notifications to the Agency.

4.12 ADDITIONAL LENDER RESPONSIBILITIES UPON APPROVAL

- **Guaranteed Underwriting System (GUS).** An automated underwriting system is available to approved participating lenders. Lenders will utilize GUS and must enter into a User Agreement. Information on obtaining access to GUS is provided in Chapter 5 of this Handbook and at https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library.

- **Electronic Lender Loan Closing System.** Lenders must submit closed loans electronically upon execution of a User Agreement. Access to the system provides the benefit of paying guarantee and technology fees electronically in lieu of paper checks. Additionally, the lender will have access to the Loan Note Guarantee electronically. Additional information is provided in Chapter 16 of this Handbook. An online user guide is available at http://www.rd.usda.gov/resources/usda-linc-training-resource-library/loan-closing.

- **Payment of Annual Fees.** Lenders will pay annual fees electronically. Lender/servicers will enter into a User Agreement to receive automatic notification and electronically pay annual fees due. Additional information is provided Chapter 16 of this Handbook.

- **Electronic Status Reporting.** Servicers must submit monthly default reports and portfolio reports indicating the status of loans they are servicing via Electronic Status Reporting (ESR) to the Servicing Office. The link https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library provides information on completing a *Trading Partner Agreement* and utilizing the Electronic Status Reporting (ESR) system. Questions or requests for assistance may be emailed to RD.SO.HSB@usda.gov. Refer to Chapter 17 and Appendix 8 of this Handbook for additional information regarding electronic reporting.

- **Loss Mitigation and Loss Claim Administration.** An automated method of processing loss mitigation requests pre-liquidation and loss claim administration post-liquidation is available to participating lender/servicers. Lenders will enter into a User Agreement. Servicers will utilize USDA LINC (Lender Interactive Network Connection) to submit loss mitigation plans and loss claims, which can be accessed at http://usdalinc.sc.egov.usda.gov/RHShome.do

- **Post-Closing Lender Self Report.** Once a loan closes and the Loan Note Guarantee has been issued, the Agency will not release the loan in GUS/GLS for corrections. If the lender determines that information was not accurately reported during the underwriting process or changes occurred between issuance of the Conditional Commitment and the Loan Note Guarantee, the lender will submit a self-report to the Agency with a detailed description of the issue along with supporting documentation. The Loan Note Guarantee will not be revoked. The Agency will review the lender's documentation and provide the lender with a written response. The Agency's correspondence should be sufficient to satisfy most investor's concerns regarding lender oversights. Additional information on submitting a self-report can be found in Attachment 16-B of Chapter 16 of this Handbook.

ATTACHMENT 4-A

CONDITIONS FOR LENDERS NOT HOLDING FUNDS IN ESCROW

A lender who does not hold borrower funds in escrow for taxes and insurance should consider the following:

- The Agency's loan guarantee covers a maximum of twelve months' past-due real estate taxes and hazard insurance.
- Loan losses attributable to the borrower's failure to maintain appropriate hazard insurance will not be covered by the Agency's loan guarantee.
- Loan losses attributable to the borrower's failure to pay real estate taxes when due will not be covered by the Agency's loan guarantee.
- The lender will report annually to the Agency the number of borrowers who failed to pay real estate taxes and/or hazard insurance premiums which resulted in the lender advancing funds on the borrowers' behalf.

Lenders who do not hold borrower funds in escrow should consider doing the following to minimize the risk of taxes and insurance not being paid:

- Prior to loan closing, the lender must extensively counsel applicants about the need for prompt payment of real estate taxes and hazard insurance premiums. Applicants must sign a statement indicating that they fully understand the significance of these obligations.
- The lender must include the estimated monthly tax and insurance expenses in the ratio calculations when determining the borrower's loan eligibility.
- The lender should encourage applicants to set money aside for taxes and insurance through payroll deductions or bank accounts with direct deposit.
- The lender must ensure that taxes and insurance are paid by monitoring insurance policy expiration, contacting the taxing authority annually, and reviewing local newspapers for tax delinquencies.

ATTACHMENT 4-B

SAMPLE FOR ACKNOWLEDGMENT OF REAL ESTATE TAX AND HAZARD INSURANCE REQUIREMENTS

_____________(Date)____________

I (We), ____, hereby acknowledge that ____(lender), has explained the requirements for monthly deposits, or set-asides for payment of annual real estate taxes and hazard insurance premiums. I (We), the undersigned, do state that I (We) understand and agree to set-aside _______ dollars each month ($ monthly amount) to pay real estate taxes and hazard insurance premiums when they are due.

_____________________________________(Borrower Signature)

_____________________________________(Borrower Signature)

_____________________________________(Lender)

CHAPTER 5: ORIGINATION AND UNDERWRITING OVERVIEW

5.1 INTRODUCTION [7 CFR 3555.51(b)]

Single Family Housing Guaranteed Loan Program (SFHGLP) loans are originated and underwritten by approved lenders. However, the process of requesting, issuing, and receiving the loan guarantee is one in which the lender and the Agency must cooperate closely. Lenders must provide the Agency with clear and accurate information so that Agency staff can promptly determine whether the loan qualifies for a guarantee. At the same time, Agency staff must process loan applications quickly and accurately to avoid delays that might hamper the lender's efforts to close the loan efficiently.

5.2 REQUESTING A GUARANTEE [7 CFR 3555.151]

Not all loans are appropriate for the SFHGLP. The lender should determine whether, based on preliminary information, it appears that the loan will meet the program's criteria. The lender should answer the preliminary eligibility questions below to assist in making this determination. The lender should also ensure that the applicants are fully informed about the requirements of the program.

A. Preliminary Determination of Applicant Eligibility

In general, the program is most appropriately used to offset the risk of making high loan-to-value loans in rural areas. It is not intended to offset risks that stem from a poor credit history or poor property condition. In particular, the lender should review the following items to make a preliminary determination of the applicants' eligibility.

- **Applicant Characteristics (Chapter 8)** Are the applicants able to secure conventional credit? Do the applicants own a dwelling? Are the applicants U.S. citizens or eligible non-U.S. citizens as detailed in Chapter 8? If the applicants are not U.S. citizens, they must produce evidence per Agency guidelines to qualify as a non-U.S. citizen.

- **Income (Chapter 9)** At the time of loan approval, is the household's adjusted income below the applicable moderate-income limit? To determine eligibility for the SFHGLP, the lender is responsible for documenting the income of all adult members of the applicants' household (not just those who will be signatories to the note). Current income limits can be found in Appendix 5, on the USDA Income and Property Eligibility website at http://eligibility.sc.egov.usda.gov/eligibility/, or by using the Agency's automated underwriting system, GUS.

In addition to meeting adjusted annual income requirements, the applicants must also have sufficient repayment income and meet additional program requirements. Chapter 9 provides more detailed information about annual, adjusted, and repayment income.

- **Credit (Chapter 10)** Is the credit history consistent with program guidelines? The applicants must have a credit history that demonstrates the ability and willingness to repay the loan. GUS is unable to render an underwriting recommendation on supplemental credit reports. These should be uploaded with the application package.

- **Ratios (Chapter 11)** Do the applicants' PITI (Principal, Interest, Taxes and Insurance) and total debt (TD) ratios fall at or below the limits established by the Agency? Ratios are calculated using repayment income from applicants who will be a party to the Promissory Note.

- **Appraised Value/Loan amount (Chapter 12)** Is the loan amount supported by the appraisal's fair market value? If there is not yet a current appraisal, is the loan amount expected to be supported by the appraisal?

- **Site and Property (Chapter 12)** Does the property appear to be in an eligible rural area as designated by program guidelines? If warranted, did Agency staff confirm that the property location was rural? The Agency encourages lenders and those involved in the origination package to verify a property's eligibility on the Agency's property eligibility website. Property eligibility may be checked online at http://eligibility.sc.egov.usda.gov/eligibility/, or by using the Agency's automated underwriting system, GUS.

B. Informing the Applicant

Before requesting a loan guarantee, the lender should take the following steps to ensure that applicants have a general understanding of the SFHGLP.

- **Concept of a loan guarantee**. Describe to the applicants what a loan guarantee is, why it is used, and the benefits of a loan guarantee. Benefits include, but are not limited to, no required down payment and a fixed interest rate.

- **Loan guarantee fee**. Inform the applicants of the upfront guarantee fee to be paid at loan closing.

- **Annual fee**. Inform the applicants of the annual guarantee fee, if applicable.

- **Occupancy**. Inform the applicants that they must occupy the property as their principal residence.

- **SFHGLP requirements**. Inform the applicants of program requirements such as income limits, property location eligibility, debt ratio thresholds, and other requirements such as the certifications outlined on Form RD 3555-21, *Request for Single Family Housing Loan Guarantee*.

5.3 UTILIZING THE GUARANTEED UNDERWRITING SYSTEM [7 CFR 3555.107(b)]

The Guaranteed Underwriting System (GUS) was developed to automate the process of credit risk evaluation for the SFHGLP. Automated underwriting (AU) systems are an efficient, consistent, objective, and accurate method of mortgage underwriting compared with traditional manual methods. 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.

GUS incorporates applicant eligibility and underwriting requirements of this Handbook by utilizing a modified version of the Federal Housing Administration (FHA) mortgage scorecard known as Technology Open to Approved Lenders (TOTAL), concurrently with a rules based engine. GUS is accessed through a secure web-based automated underwriting environment at https://usdalinc.sc.egov.usda.gov/. GUS considers mortgage loan application data entered by the approved lender, credit repository data, and income and property information to evaluate a potential applicant's ability to meet a proposed mortgage obligation. GUS evaluates select components in a mortgage loan application and provides a credit evaluation and underwriting recommendation within seconds. GUS is not designed to evaluate the dependability of an applicant's income proposed for repayment. This remains the underwriter's responsibility to determine prior to final submission. Refer to Chapter 9 of this Handbook to determine adequate and dependable income for repayment ability. Lenders are reminded that data entered in GUS must coincide with that of the lender's permanent case file.

A. Functionality of GUS

Incorporated within the functionality of GUS are the following components:

Property and Income Eligibility

- The dwelling offered as collateral for the proposed mortgage loan is located in an eligible rural area; and

- The applicants' adjusted annual household income meets the adjusted income limits in accordance with size of household, county, and state in which the applicants will reside.

Rules Based Engine

- The Engine incorporates the guidelines found in this Handbook regarding originating SFHGLP loans.

- Periodically new rules may be created to respond to issues analyzed within the SFHGLP portfolio.

Scorecard

- GUS uses a modified version of the FHA mortgage scorecard known as TOTAL, exclusive to Rural Development.

- The scorecard has been validated and adjusted for SFHGLP use.

- The TOTAL scorecard, including the modified version validated for SFHGLP use, is intellectual property that is proprietary to HUD.

- Examples of factors considered under the scorecard include but are not limited to credit history, payment-to-income ratios, and loan-to-value ratios.

- The scorecard allows favorable consideration to applicants that exhibit positive compensating factors such as available reserves for housing payments after loan closing.

- Periodically the scorecard may be modified to react to the changing lending market. When modifications occur, loans remaining as a preliminary recommendation may not receive the same underwriting results upon a final submission.

Credit Bureau Interface

- GUS links with a number of credit providers nationwide. Users may link to a full list of credit providers at https://singlefamily.fanniemae.com/credit-information-providers.

- An interface occurs between GUS and the credit bureaus through a platform known as the Fannie Mae Credit Interface Service (CIS).

- The interface is seamless to lenders and only acts as a conduit. An attempt to access information from all national credit repositories will occur, but GUS can complete its credit risk evaluation with information from only one repository.

- New or re-issued credit can be pulled through GUS.
- Credit reports pulled through GUS are valid for 120 days, unless the credit provider's expiration is more restrictive.
- Lenders are not required to be a Fannie Mae subscriber or partner to utilize the credit report interface in GUS.

B. Gaining Access to GUS

Approved lenders with active Lender Agreements will utilize GUS as part of their credit risk evaluation, when possible. Lenders who utilize this system will be required to enter into a User Agreement and obtain authorized access through the use of an eAuthentication account and password. GUS User Guides may be obtained at https://www.rd.usda.gov/resources/usda-linc-training-resource-library/guaranteed-underwriting-system.

C. Underwriting Guidance for Lenders

GUS evaluates the overall creditworthiness of the applicants based upon a number of credit variables and, when combined with remaining functionalities of GUS, indicates a recommended level of underwriting to determine a loan's eligibility for a SFHGLP guarantee. GUS will conclude that the credit and capacity for repayment of the mortgage are acceptable or will refer the loan to the lender's underwriter for further consideration, review, and manual underwriting.

Regardless of the underwriting recommendation provided, the lender remains accountable for compliance with SFHGLP eligibility requirements, as well as any credit, capacity, and documentation requirements. Applicants should not be approved or denied a SFHGLP guarantee solely on the basis of a risk assessment generated by GUS.

D. Compatible Loan Origination System (LOS) and Point of Sale (POS) Vendors

A single file import feature is available in GUS. GUS currently accepts Desktop Underwriter® Specification exported files. For guidance on the current version GUS is accepting at the time of file submission, the lender may refer to the GUS Lender User Guide, which can be located at https://www.rd.usda.gov/resources/usda-linc-training-resource-library/guaranteed-underwriting-system.

E. Cash Reserves

Although cash reserves after closing are not required for the SFHGLP, cash reserves are considered in the risk assessment provided by GUS. When disclosing the assets of applicants on the "Assets and Liabilities" page of GUS, lenders have the responsibility to determine if the asset is liquid or readily converted to cash and can be done so absent retirement or job termination. Assets such as 40l (k)s, IRAs, 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. Gift funds from any source will not be included in the cash reserves calculation in GUS. Cash reserves are used for the purpose of qualifying applicants for a loan. Cash to close remains the lender's responsibility to verify and document that applicants have sufficient funds to facilitate loan closing. Documentation will be retained in the lender's permanent case file.

Assets should never be overvalued as it affects the risk assessment provided by the automated underwriting system and misrepresents the file presented for a Conditional Commitment for Loan Note Guarantee. Guidance on the calculation of reserves is explained in Chapter 9. In lieu of entering assets in GUS, the lender may underwrite to the most conservative approach with no consideration of assets on the "Assets and Liabilities" page and underwriting recommendation.

Assets may also influence program eligible income. Refer to Paragraph 9.4 of Chapter 9 for additional information regarding assets and program eligible income.

F. Omitting Liabilities

If a lender omits an adverse trade line when utilizing GUS and receives an Accept underwriting recommendation, an applicant explanation letter and supportive documentation of adverse trade lines will be retained by the lender. The lender will indicate the justification for the omission in the "If Omit, please specify" section of the "Asset and Liabilities" page.

G. Established Data Tolerances

Loan application data submitted to the Agency must reflect a true and accurate representation of the loan to be closed. This data must match the loan file submitted to the Agency when requesting the Conditional Commitment for Loan Note Guarantee or fall within the tolerances established by the Agency.

A tolerance threshold has been established when an increase in obligations do not exceed a cumulative total of $50. Examples of these obligations include, but are not limited to, installment loans, revolving credit lines, real estate taxes, final homeowner's insurance premiums, etc. Loan files that have received a Conditional Commitment for Loan Note Guarantee do not require updated underwriting or resubmission of GUS when the cumulative total of obligations increase, but do not exceed the established thresholds. This tolerance threshold applies to situations where an increase in monthly debt provided on the loan application at time of Conditional Commitment differs from the amount recorded at loan closing.

Tax and Insurance Escrows: Approved lenders must ensure that an accurate estimate for the property tax/insurance component of an applicant's monthly mortgage payment is utilized when submitting loan applications to the Agency. The threshold policy should not be construed to allow lender manipulation of escrow variables to obtain approvals. Care must be taken to assume a realistic estimate is used for computing the monthly escrowed amount. For existing properties, the escrowed amount for real estate taxes is based on the actual taxes assessed. For new construction, tax estimates must be based on the land and completed improvements, not just on the land value (i.e. value of both the property and the completed dwelling). The lender 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. The Agency reserves the right to request and review files from lenders that are suspected of purposely underestimating tax and insurance payments in order to secure a commitment or loan guarantee.

Income: Verification of income shall be obtained prior to final submission. Therefore, data entered in GUS must be supported with verifying documentation of income in the lender's permanent loan file. Income shall be verified and documented in accordance with Chapter 9 of this Handbook.

Liquid Assets: Asset data reflected in GUS must be supported by verification documentation. The final submission will reflect the verified amount. Guidance regarding verifying assets can be found in Attachment 9-A.

H. GUS Findings and Underwriting Report

The responsibilities associated with producing loans of acceptable quality for loans guaranteed by the Agency remains the same for a GUS evaluated loan or a manually underwritten loan. When a lender enters mortgage loan data into GUS and requests a loan underwriting evaluation, a two part underwriting summary is delivered to the lender through a GUS Underwriting Findings Report. The first portion of the underwriting summary will render an underwriting recommendation of Accept, Accept with Full Documentation, Refer, Refer with Caution, or Ineligible. The underwriting recommendation is followed by a risk evaluation of Eligible, Ineligible, or Unable to

Determine. The second portion represents a combined analysis of property, income, loan eligibility, and applicant eligibility.

The GUS Findings and Underwriting Report provides important feedback messages and conditions for the loan. The lender must review the final findings, comply with the conditions, and provide the Agency with any additional documents, as applicable.

The final GUS Findings and Underwriting Report must be retained in the lender's permanent loan file. Non-GUS submissions, Accept with Full Documentation, Refer, and Refer with Caution files will be accompanied by Attachment 9-B, the Uniform Transmittal Summary *(FNMA Form 1008/Freddie Mac Form 1077*), or equivalent. The documentation provided must include calculations for annual, adjusted, and repayment income. Further clarification regarding income can be found in Chapter 9.

The Agency commitment will reference the GUS underwriting findings report as a condition of guarantee loan approval.

I. Lender Steps When Requesting a Commitment

1. Ensure the data entered in GUS is true, complete, accurate, and supported by the documents retained in the lender's permanent loan file.

2. The approved lender's underwriter must review and confirm the entire loan package meets SFHGLP requirements.

3. The lender should verify all required documents have been successfully uploaded per Attachment 15-A, Loan Origination Checklist. Underwriting documents should be combined into a single black and white file. The appraisal report must be uploaded as a separate color file.

4. Submit the file in GUS as a "Final Submission" to electronically transmit the loan application to the Agency.

5. If the loan is a "Refer" or "Refer with Caution," the lender's underwriter must manually underwrite the loan to determine if the applicants are creditworthy, in accordance with SFHGLP credit policies and guidelines. If approved, the lender's underwriter will submit the file in GUS as a "Final Submission" to electronically transmit the loan application to the Agency. Additional documents are required for loans receiving a "Refer," "Refer with Caution" or "Full Documentation" recommendation.

6. Loans that are unsupported by GUS must be manually submitted and underwritten. However, the documents can be submitted through GUS. A job aid

for this type of submission is available in the USDA LINC Training and Resource Library in the "Loan Origination" tab located at https://www.rd.usda.gov/page/usda-linc-training-resource-library.

J. GUS Underwriting Recommendations

Based on the analysis of credit, capacity, and other loan characteristics, GUS will render an underwriting recommendation. The recommendation is based upon the data entered in GUS with the representation from the lender that the data is true, complete, accurate, and verified. The following represent possible underwriting recommendations with guidance on documentation to be submitted to the Agency when requesting a Conditional Commitment for Loan Note Guarantee.

ACCEPT/ELIGIBLE Underwriting Recommendation

Minimal documentation provisions apply to GUS underwriting recommendations that receive an Accept, unless a quality control message on the GUS Underwriting Findings Report indicates an Accept with Full Documentation file is required. A quality control message requiring a full documentation file will appear on the GUS Underwriting Findings Report upon final submission. Lenders should submit full additional documentation files as noted in Attachment 15-A, Loan Origination Checklist, for files for that receive GUS underwriting recommendations of Accept with Full Documentation.

If the property is located in a community property state and there is a non-purchasing spouse, additional documents may be required.

Accurate data is the responsibility of the approved lender. By submitting the mortgage loan application request through GUS as a final submission, the lender is representing that the data input is true, complete, accurate, and verified. Underwriting is the responsibility of the approved lender. Lenders are required to review the results of the GUS Underwriting Findings Report and credit reports. If necessary, make data changes and resubmit the loan to GUS. Approved lenders then make a lending decision using the Findings Report obtained from GUS, credit report(s), stable and dependable income, employment, assets, collateral, and other file documentation.

During the review process, should data appear to be questionable, the Agency reserves the right to request further supportive information. Files may be selected for full file review if the lender is a new user to GUS, has demonstrated a disregard for Agency policies and procedures, has a high first year delinquency rate, or loss payments in excess of the national average. Randomly, full documentation of a file in lieu of minimal documentation noted above will be requested when receiving an underwriting recommendation of Accept. This random selection is for quality control purposes. A message on the lender's final pass of underwriting will confirm when a full documentation file is required. Full file documentation reviews are to confirm the data input into the GUS file accurately reflects that of the lender's file and documentation.

Mortgage loan documents will be delivered electronically through GUS. In cases when the system may be unavailable, or a transition to the system is occurring, documents may be delivered by encrypted email to the appropriate production team at https://www.rd.usda.gov/page/sfh-guaranteed-lender. It is anticipated that all lenders will utilize the automated method when available.

ACCEPT/INELIGIBLE Underwriting Recommendation

Loans receiving this recommendation have been determined as meeting the SFHGLP risk standards for loan guarantee; however, do not meet certain eligibility guidelines. Typical reasons for an Accept/Ineligible recommendation may include:

- Property is not located in a rural area
- Income exceeds Agency guidelines
- Non-owner occupied transaction

Loans that receive a recommendation of Accept/Ineligible may still be eligible for a SFHGLP loan guarantee. To achieve eligibility, the lender's underwriter should analyze the findings report and determine the basis for the ineligibility and determine if the reason for ineligibility can be resolved in order to comply with Agency guidelines. Issues that caused the loan to be ineligible may be resubmitted to obtain an updated underwriting recommendation.

REFER or REFER WITH CAUTION Underwriting Recommendation

GUS loans receiving an underwriting recommendation of Refer or Refer with Caution will require the lender's underwriter to perform a manual underwriting evaluation of the mortgage loan application to determine if applicants are creditworthy in accordance with SFHGLP credit policies and guidelines. Risk factors have been identified based upon the data entered in GUS. The credit risk evaluation represented by a Refer with Caution is greater than the credit risk of loans that receive a Refer. Lenders should practice extreme care in their underwriting analysis and decisions when underwriting a loan file receiving a Refer or Refer with Caution recommendation. Lenders must submit additional documentation as noted in Attachment 15-A of this Handbook for files that receive GUS underwriting recommendations of Refer or Refer with Caution. Credit documentation, mitigating circumstances, and compensating factors considered in the manual underwriting analysis should be recorded in the lender's permanent case file. Compensating factors considered in the evaluation of the mortgage loan application should be documented on the underwriting analysis and summary (typically the *Uniform Underwriting Transmittal Summary* – FNMA Form 1008/Freddie Mac Form 1077 or equivalent).

Loans should not be approved or denied solely on the basis of a risk evaluation generated by GUS. Mitigating circumstances according to Agency standard guidelines may be considered.

K. Lender's Reliance on the GUS System

Lenders represent and agree that they will not rely principally or exclusively on the GUS system in determining whether credit will or will not be extended to any applicants. The lender remains responsible for the loan qualifying decision in addition to eligibility of the household for the SFHGLP.

L. Lender's Permanent Loan File - Documentation Requirements

The lender's permanent case files must be supported with the following verified documentation, regardless of the GUS recommendation:

- Credit history;
- Adjusted Annual Income – determined for program eligibility;
- Stable and Dependable Income – determined for repayment and qualifying purposes;
- Assets – for income calculation, conventional credit test, and compensating factor analysis;
- Collateral requirements; and
- Any other documentation supporting the mortgage loan request.

Stable and dependable income will be documented in accordance with Chapter 9 of this Handbook and remains the responsibility of the lender. GUS does not evaluate or predict the stability of an applicant's continuance of income. This determination is performed by the lender prior to final submission of an application.

M. Resubmission Policy

The lender is responsible for the integrity of the data used to obtain an underwriting evaluation in GUS. If data changes during the loan application stage, after Conditional Commitment or prior to loan closing, the GUS underwriting recommendation could be compromised. Lenders are responsible for resubmitting the loan to GUS when material changes are discovered. Lenders must follow the Conditional Commitment guidance outlined in Paragraph 15.7 of Chapter 15 of this Handbook prior to closing a loan. **Any request to release GUS for data updates after issuance of a Conditional Commitment will be treated as a new request, processed in date order of applications received.**

Under the following conditions, lenders must resubmit the loan through GUS for an updated evaluation:

- Applicants were either added or deleted from the loan application or critical information has changed.
- A **decrease** in the applicants' income and/or cash assets/reserves.
- An **increase** in loan amount or interest rate on the mortgage loan request.
- Any changes that would **negatively affect** the applicants' ability to repay the mortgage.

The lender should submit a request via e-mail to the appropriate production team at https://www.rd.usda.gov/page/sfh-guaranteed-lender, requesting the loan be released from the Agency to the lender. The lender should modify the data and resubmit the loan through GUS for an updated final evaluation underwriting recommendation.

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:

- A **decrease** in loan interest rate
- A **decrease** in loan amount
- A **decrease** of mortgage or personal liabilities
- An **increase** of assets

- The bureau update of a credit report due to the expiration of the credit report (expires at 120 days prior to loan closing) after a final submit has occurred by the lender and a Conditional Commitment has been issued; yet prior to loan closing as long as no adverse impact has occurred that would affect the outcome of the underwriting recommendation. The lender must retain the updated credit report in their permanent case file.

N. Lender's Representations to the Agency upon Final Submission

The lender represents as of the date of final submission to the Agency the following:

- All terms, conditions and requirements of the SFHGLP are fully satisfied.
- All representations submitted by the lender are true, correct, and verified.
- The lender is in compliance with the criteria outlined in Chapter 3 and eligible to participate in the SFHGLP and utilize the GUS System.
- The lender has not misstated or omitted any material fact about the mortgage loan request for guarantee.
- Applicable laws, including state laws, terms of the note, and security instruments have been correctly and timely disclosed to all applicants.
- The lender represents that all persons executing documents on behalf of the lender are duly authorized to do so.

O. Termination

The Agency reserves the right to terminate the lender's approved lender status in the event of any default under the terms of the lender agreement.

A lender's suspension, withdrawal, or termination of approval to participate in the SFHGLP may be pursued if (not all inclusive):

- A lender fails to provide the Agency with information that is true, complete and accurate.
- Omission of any material fact on any application, other documents, or oral representation made to the Agency when seeking a Loan Note Guarantee.

- A lender has a 30-, 60-, or 90- day delinquency rate or loss claim rate more than 50% higher than the average 30-, 60-, or 90- day delinquency rate or loss claim for all guarantees issued in the Agency's portfolio. This can be measured within a geographic area of the nation.

- Misuse of GUS in accordance with terms and conditions of the agreement to utilize the System.

Emphasis of any evaluation conducted will be placed on the risk that the loan(s) poses to the Agency.

Agency Actions

- Initially, contact the lender to ensure a firm understanding of the lender's terms and conditions of the lender agreement. Firm evidence of any violations must be discussed and addressed.

- Follow up the initial communication with a written notice outlining the agreed upon plan to improve.

- Allow a lender a reasonable time frame to institute a remedy and represent improvement to the identified findings.

- Monitor the lender for improvement.

- After continued evaluation of findings and results to improve, if the lender fails to comply, their approved lender status may be revoked.

CHAPTER 6: LOAN PURPOSES
7 CFR 3555.101

6.1 INTRODUCTION

Single Family Housing Guaranteed Loan Program (SFHGLP) loan funds can be used to acquire new or existing housing that will be the applicant's principal residence. This section describes loan purposes, restrictions, and refinance opportunities. The lender is responsible to ensure that loan funds are used only for eligible purposes.

6.2 ELIGIBLE LOAN PURPOSES

Guaranteed loan funds must be used to acquire a new or existing dwelling to be used as a permanent residence and may be used to pay costs associated with such an acquisition. Properties must be residential in use, character, and appearance. Loan funds may be used for the following purposes:

- Acquiring a site with a new or existing dwelling;
- Repairs and rehabilitation when associated with the purchase of an existing dwelling;
- Reasonable and customary expenses associated with purchasing a dwelling; and
- Refinancing under specific situations.

A. Acquiring a Site and Dwelling

Loan funds may be used to acquire a site with a new or existing dwelling that meets the Agency's site, dwelling, and environmental requirements, or will meet the Agency's requirements once planned rehabilitation or repair work is completed. These requirements are addressed in Chapter 12 of this Handbook.

B. Repairs and Rehabilitation

The lender may request the loan note guarantee prior to work completion if all requirements as outlined in Chapter 12 of this Handbook are met.

C. Reasonable and Customary Expenses Associated with the Purchase of an Existing Dwelling or New Construction

Loan funds may be used for expenses associated with purchase of a dwelling if they are reasonable and customary for the area. These expenses may include the following items:

- **Loan Acquisition Expenses**. These include legal, architectural, and engineering fees, title clearance costs, and insurance costs. The up-front guarantee fee and fees for appraisal, environmental inspections, surveying, tax monitoring, expenses for homeownership education counseling, and other technical services associated with obtaining the loan.

- **Reasonable Lender Fees**. Reasonable lender fees, when financed, may include an origination fee and other fees and charges. Lender fees and charges must meet the points and fees limits published by the Consumer Financial Protection Bureau (CFPB) in the Federal Register at 12 CFR 1026.43(e)(3) and cannot exceed those charged other applicants by the lender for similar transactions such as FHA-insured or VA-guaranteed first mortgage loans. It is the lender's responsibility to ensure CFPB requirements are met. Payment of finder's fees or placement fees for the referral of an applicant to the lender may not be included in the loan amount. Discount points to "buydown" or permanently reduce the effective interest rate may be financed. Loan discount points and the loan origination fee must be itemized separately on the Closing Disclosure. The SFHGLP up-front guarantee and annual fee are not included in the lender fees and charges calculation.

- **Closing Costs**. Closing costs that are reasonable and customary for the area can be financed with loan funds. Closing costs cannot exceed those charged to other applicants by the lender for similar transactions such as FHA-insured or VA-guaranteed first mortgage loans. If the lender does not participate in such programs, the loan closing costs may not exceed those charged other applicants by the lender for a similar program that requires conventional mortgage insurance or a guarantee.

- **Interested Party Concessions**. Seller contributions (or other interested parties) are limited to six percent of the sales price and must represent an eligible loan purpose in accordance with this paragraph. Closing costs and/or prepaid items paid by the lender through premium pricing and funds provided by the seller for repairs or to pay the buyer's real estate commission fees are not included in the interested party contribution limitation. However, seller concessions for repairs must be held in an escrow account. Refer to Chapter 12 for repair escrow guidance. The approved lender is responsible to ensure applicable limitations and eligible loan purposes are met. Seller contributions cannot be used to pay an applicant's personal debt or as an inducement to purchase by including movable articles of personal property such as furniture, cars, boats, electronic equipment, etc. This does not include household appliances that are typically part of the purchase transaction.

- **Single Close to Permanent Construction.** Lenders have the option to escrow a borrower's regularly scheduled principal, interest, taxes, and insurance (PITI) payment established at loan closing to make the loan payments during the construction period. The inclusion of all reserve accounts (e.g. contingency and payment) are considered an eligible loan purpose. Seller contribution limits do not apply to single close construction to permanent loans.

- **Contract for Deed.** Loan funds can be used for the conversion of a seller-financed mortgage with an existing dwelling. These contracts are also known as a conversion of contract for deed or land contract. The Agency considers this a "purchase" transaction. The dwelling must meet the requirements for existing dwelling outlined in Chapter 12 of this Handbook.

- **Design Features or Equipment for Physical Disabilities.** Special design features or permanently installed equipment to accommodate a household member who has a physical disability is an eligible loan purpose. The purchase of personal items for such individuals, such as wheelchairs, is not an eligible loan purpose.

- **Connection, Assessment, and Installment Fees.** Reasonable and customary connection fees, assessments, or the pro rata installment costs for utilities such as water, sewer, electricity, and gas for which the buyer is liable are eligible costs.

- **Taxes and Escrow Accounts**. A pro rata share of real estate taxes that are due and payable on the property at the time of closing and funds for the establishment of escrow accounts for real estate taxes, hazard and flood insurance premiums, and related costs are eligible costs.

- **Essential Household Equipment.** Loan funds can be used to pay for essential household equipment such as wall-to-wall carpeting, ovens, ranges, refrigerators, washers, dryers, and heating and cooling equipment if the equipment is conveyed with the dwelling and such items are normally sold with dwellings in the area.

- **Energy Efficiency Measures**. Loan funds can be used for purchase and installation of measures to promote energy efficiency, such as insulation, double-paned glass, and solar panels.

- **Broadband**. Loan funds may be used to install fixed broadband service to the household if the equipment is conveyed with the dwelling.

- **Site Preparation.** Site preparation activities, including grading, foundation plantings, seeding or sod installation, trees, walks, fences, and driveways are eligible costs.

D. Refinance [7 CFR 3555.101(d)]

SFHGLP provides opportunities to refinance an existing loan. Borrowers must meet all eligibility requirements outlined in this Handbook, except where noted.

1. Construction Financing and Sites without a Dwelling

A refinance of a debt for a site without a dwelling, interim construction financing to build a new dwelling, or associated with the purchase and improvement of an existing dwelling prior to the issuance of a loan note guarantee is allowed. The Agency considers this a "purchase" transaction.

- These types of transactions typically utilize two separate loan closings with two separate sets of legal documents.

- A modification may not be used to update the original note. A new note will be signed by the borrowers.

- The first transaction/closing obtains the interim construction financing. The second closing obtains the permanent financing when construction or improvements are completed.

- The lender is responsible to ensure all costs involved in both transactions represent an eligible loan purpose in accordance with Section 6.2 of this Chapter.

- The construction period is limited to no greater than 12-months. The 12-month period must have occurred directly prior to permanent financing.

- New construction documentation (certified plans and specifications, inspections, and warranty) must be obtained. Refer to Chapter 12 for documentation requirements.

- In the case of a site without a dwelling, the debt to be refinanced was incurred for the sole purpose of purchasing the site with the intent to build.

For combination construction to permanent financing, also known as single-close loan transactions, refer to Section 6 of Chapter 12.

2. Existing Section 502 Direct and Guaranteed Loans

Existing mortgage loans for existing guaranteed and direct borrowers may be refinanced. SFHGLP cannot refinance mortgage debt that is not financed or guaranteed by USDA. Three refinance options are available:

a. Non-streamlined refinance.

- A new appraisal is required.

- The maximum loan may include the principal and interest balance of the existing loan and reasonable and customary closing costs up to the new appraised value. The appraised value may only be exceeded by the amount of the financed up-front guarantee fee.

- Direct loan borrowers can refinance or defer the amount of subsidy recapture due. Borrowers choosing to refinance subsidy recapture may be eligible for a discount on the amount that is due. Borrowers that do not refinance subsidy recapture will be required to enter into a second lien securing that amount and are not eligible for a discount.

- Additional borrowers may be added to the new guaranteed loan. Existing borrowers on the current mortgage note may be removed when one of the original borrowers remains on the refinanced loan.

- The existing loan must have closed at least180 days prior to submission to the Agency and have a mortgage payment history which must not reflect a delinquency greater than 30 days within the previous 180-day period.

- The borrower must meet credit requirements as outlined in Chapter 10 of this Handbook.

- Lenders may request a debt ratio waiver when strong compensating factors in accordance with Chapter 11 are documented.

- The Guaranteed Underwriting System (GUS) may be utilized to underwrite the non-streamlined refinance.

b. Streamlined refinance.

- A new appraisal is not required to refinance an existing guaranteed loan. A direct loan borrower will be required to obtain a new appraisal if they have received payment subsidy to determine the amount of subsidy recapture due. If subsidy recapture is due, the amount cannot be included in the new refinance loan. Subsidy recapture must be paid with other funds or subordinated to the new guaranteed loan. If an applicant elects to finance the subsidy recapture into the new refinance loan, refer to the non-streamlined refinance guidance.

- The maximum loan amount may include the principal and interest balance of the existing loan and reasonable and customary closing costs, including any financed portion of the up-front guarantee fee.

- Additional borrowers may be added to the new guaranteed loan. Existing borrowers on the current mortgage note may be removed, when one of the original borrowers remains on the refinance loan.

- The existing loan must have closed at least 180 days prior to submission to the Agency and have a mortgage payment history which must not reflect a delinquency greater than 30 days within the previous 180-day period.

- Lenders may request a debt ratio waiver when strong compensating factors are documented in accordance with Chapter 11 of this Handbook.

- GUS may be utilized to underwrite the streamlined refinance loan.

c. Streamlined-assist refinance

- A new appraisal is not required for existing guaranteed loan borrowers. A direct loan borrower will be required to obtain a new appraisal if they have received payment subsidy to determine the amount of subsidy recapture due. If subsidy recapture is due, the amount cannot be included in the newly refinanced loan. Subsidy recapture must be paid with other funds or subordinated to the new guaranteed loan. If an applicant elects to finance the subsidy recapture into the new refinance loan, refer to the non-streamlined refinance guidance.

- The maximum loan amount may include the principal and interest balance of the existing loan and reasonable and customary closing costs, including any financed portion of the up-front guarantee fee.

- 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 monthly payment compared to the existing principal, interest, and annual fee monthly payment.

- The borrower is not required to meet the repayment ratio provisions as outlined in Chapter 11 of this Handbook.

- The existing loan must have closed at least 180 days prior to submission to the Agency.

- The borrower is not required to meet all the credit requirements as outlined in Chapter 10 of this Handbook. Prior to submission to the Agency, the existing mortgage payment history must not reflect a delinquency greater than 30 days within the previous 180 days. Lenders may verify mortgage payment history through a verification of mortgage obtained directly from the servicing lender or a credit report. When a credit report is ordered to determine timely mortgage payments, other credit accounts are not to be considered.

- Additional borrowers may be added to the new guaranteed loan. Existing borrowers on the current mortgage note must remain on the refinanced loan; however, deceased borrowers may be removed from the loan.

- Lenders are required to document their annual income calculations on the FNMA 1008/FHLMC 1077, Attachment 9-B, or similar form in order to support the household income does not exceed the allowable maximum income limits.

- GUS is unavailable for this loan type, so it must be manually submitted and underwritten. Follow the instructions on the manual file submission process job aid for this type of submission, located at https://www.rd.usda.gov/resources/usda-linc-training-resource-library in the "Loan Origination" tab "Documents and Resources", "Manual

Submission Job Aid".

The following terms and conditions are applicable to non-streamlined, streamlined, and streamlined-assist refinance transactions:

- Loan terms must be fixed for 30 years.
- The interest rate of the new loan must be fixed and not exceed the interest rate of the loan being refinanced.
- The loan security must include the same property as the original loan and owned and occupied by the applicants as their principal residence.
- Properties located in areas since determined by the Agency to be non-rural (ineligible) remain eligible for a refinance. Lenders may continue to submit loan requests in the Guaranteed Underwriting System (GUS) with an ineligible property determination. USDA will correct the property determination during loan review and processing.
- Property inspections, as outlined in Chapter 12 of this Handbook, are not required. If the lender requires repairs as a condition of loan approval, the expenses related to property inspections and repairs may not be financed into the new loan amount.
- Secondary financing such as leveraged loans, down payment assistance loans, or home equity lines of credit cannot be included in a new guarantee refinance loan. These types of financing must be subordinated to the new guaranteed loan or be paid in full.
- Cash out is not permitted. Borrowers may receive reimbursement from loan funds at settlement for eligible closing costs paid from the borrower's personal funds for the refinance transaction. Borrowers may also receive a refund at settlement that represents prepaid interest or overage from the borrower's escrow account.
- Unpaid fees, past-due interest, and late fees/penalties due to the servicer cannot be included in the new loan amount. Borrowers who are facing repayment hardships should be considered for loss mitigation under Chapter 18 of this Handbook.
- The lender may establish charges and fees for the refinance loan, provided they are the same as those as charged to other applicants for similar transactions.

Lenders and the Agency should make every effort to ensure that applicants are not charged excessive fees.

- The entire up-front guarantee fee may be financed into the new refinance loan. The amount of the up-front fee will be published in Exhibit K of RD Instruction 440.1, available in any Rural Development office or by selecting "Part 1800: General" on the Rural Development Instructions website located at: https://www.rd.usda.gov/resources/directives/instructions.

- An annual fee will be charged by the Agency for refinance transactions. The amount of annual fee will be published in Exhibit K of RD Instruction 440.1, available in any Rural Development Office or by selecting "Part 1800: General" on the Rural Development Instructions website located at: https://www.rd.usda.gov/resources/directives/instructions.

- Lenders should submit the complete application package in accordance with Chapter 15 and Attachment 15-A, *Loan Origination Checklist*, of this Handbook.

The lender will follow the same procedures as provided in Chapter 16 of this Handbook for closing the loan. The Agency will review loan closings for SFHGLP refinance loans using the same procedures for SFHGLP purchase loans prior to issuance of the Loan Note Guarantee.

E. Supplemental Loans

When an existing SFHGLP loan is assumed, a supplemental loan can be provided if funds are needed for seller equity, closing costs, or essential repairs. Refer to Chapter 17 of this Handbook for a detailed discussion of transfers and assumptions in the SFHGLP.

6.3 PROHIBITED LOAN PURPOSES

SFHGLP loan funds cannot be used for any of the following purposes:

- **Cash Back to Borrower.** Borrowers may be reimbursed out of loan funds for eligible loan costs incurred prior to closing. Excess loan funds that cannot be applied towards eligible closings as outlined in paragraph 6.2, or that do not represent a reimbursement to the borrower for eligible pre-paid fees from their out-of-pocket expenses, must be applied as a principal reduction.

- **Select Loan Discount Points.** Loan discount points such as to compensate for a low credit score or low loan amount are ineligible.

- **Income Producing Property.** Purchase or improvement of income-producing land or buildings that will be used principally/specifically for income producing purposes is not allowed. Vacant land or properties used primarily for agricultural, farming, or commercial enterprise are ineligible. A minimal income-producing activity, such as maintaining a garden that generates a small amount of additional income, does not violate this requirement. A qualified property must be predominantly residential in use, character, and appearance. Refer to Chapter 12 of this Handbook for additional information on qualifying a property.

- **Lease Payments.** Payment on any lease agreement associated with the proposed real estate transaction is prohibited.

- **Closing Costs in Excess of Three Percent.** Closing costs, including lender fees, that exceed three percent of the total loan amount are prohibited, unless flexibility is provided through guidance published by the CFPB's Ability to Repay and Qualified Mortgage (ATR/QM) standards.

6.4 AGENCY REVIEW OF LOAN PURPOSES

The Agency will determine if the purposes for the loan guarantee are acceptable before issuing a Conditional Commitment for loan guarantee. If the Agency determines loan funds will be used for an ineligible purpose, the Agency will contact the lender and attempt to resolve the situation prior to issuance of the Loan Note Guarantee. Loan purposes will also be reviewed during the Agency's Quality Assurance (QA) internal monitoring process and Lender Oversight (LO) compliance reviews to ensure that the lender has an accurate understanding of eligible and prohibited loan purposes. Refer to Chapter 19 of this Handbook for a detailed discussion of how the Agency handles loss claims for loan funds that were used for an ineligible purpose.

REFINANCE OPTIONS FOR SECTION 502 DIRECT AND GUARANTEED LOANS			
REQUIREMENT	**NON-STREAMLINED**	**STREAMLINED**	**STREAMLINED-ASSIST**
New Appraisal	Yes	Only for Direct 502 with recapture subsidy due	Only for Direct 502 with recapture subsidy due
Maximum Loan Amount	Up to the new appraised value plus the amount of the financed up-front guarantee fee and include: • Principal & interest balance • Eligible closing costs • Subsidy recapture	May include: • Principal & interest balance • Eligible closing costs • Up-front guarantee fee	May include: • Principal & interest balance • Eligible closing costs • Up-front guarantee fee
Net Tangible Benefit	No	No	Yes $50 or greater reduction of the total principal, interest and monthly annual fee payment
Include Subsidy Recapture	Yes Up to the new appraised value	No	No
Add/Remove Borrowers (one original borrower must remain)	Yes	Yes	• Add borrowers • Remove only deceased borrowers
Credit	• No defaults in the previous 180 days prior to Agency request • Meet Chapter 10 requirements	• No defaults in the previous 180 days prior to Agency request • Meet Chapter 10 requirements	• No defaults in the previous 180 days prior to Agency request
Ratio waivers	• GUS Refers only • Must meet Chapter 11 requirements	• GUS Refers only • Must meet Chapter 11 requirements	No ratio calculations required
Final Submission in GUS	Yes	Yes	No
Soft seconds and/or subsidy recapture may be subordinated	Yes	Yes	Yes

REQUIREMENTS FOR ALL REFINANCE OPTIONS

- Only loans financed or guaranteed by USDA are eligible.
- Existing loan must have closed at least 180 days prior to submission to the Agency.
- Fixed interest rate at or below the current interest rate of the loan being refinanced.
- Borrower must meet applicable adjusted annual household income.
- No cash out from collateral equity. Only reimbursement of borrower prepaid eligible closing costs and/or refund from escrow overage.
- Borrowers must occupy the property.
- Properties located in areas now deemed ineligible remain eligible for refinance.
- Existing leveraged loans or subordinate liens must be paid in full or be subordinated.

Guidance for Refinancing Section 502 Direct Loans

The Section 502 Direct Loan Program provides loans to low and very-low income borrowers that may include payment assistance, or payment subsidy that reduces the mortgage payments determined by the borrower's adjusted household income.

Subsidy Recapture

Arrangements must be made to either pay off or defer repayment of any subsidy recapture due when a Section 502 loan is refinanced. Any recapture amount owed as part of the 502 direct loan pay off may be included into the amount being financed with the SFHGLP non-streamline refinance loan subject to the maximum loan amount. A discount on recapture may be offered if the customer does not defer recapture (pays amount due in full) or includes the recapture amount due into a non-streamlined refinance loan. Alternatively, any 502 direct recapture amount that is owed at the time of refinance may be deferred if the recapture amount takes a subordinate lien position to the new SFHGLP loan.

Obtaining a "Statement of Loan Balance" Letter for Direct Loan Borrowers

Lenders may determine an applicant has a direct loan when the credit report reflects "USDA" or "Farmers Home Administration" as the mortgage creditor or the applicant informs the lender they applied and received their mortgage loan through a USDA Service Center. Direct loans are serviced by the Servicing and Asset Management Office (Servicing Office). Obtaining a "Statement of Loan Balances" letter will assist lenders to determine if subsidy recapture is due. The "Statement of Loan Balances" will also include instructions for the lender to follow regardless of information submitted at the time of payoff request.

To obtain a "Statement of Loan Balance", submit a request on lender letterhead which includes the borrower's name, account number and address along with a signed authorization from the customer to release the information. The "Statement of Loan Balance" will reflect the maximum amount of subsidy recapture that may be due. It is not a payoff statement. Requests can be faxed to (314) 457-4433.

The Servicing Office will not provide payoff quotes verbally or over the phone. The Servicing Office also assists lenders with subordination agreements when direct loan borrowers elect to subordinate the subsidy recapture due. Lenders and direct loan borrowers that have questions regarding a direct loan account may contact the Servicing Office at (800) 414-1226.

CHAPTER 7: LOAN TERMS AND CONDITIONS
7 CFR 3555.104

7.1 INTRODUCTION

The SFHGLP helps low- and moderate-income people living in rural areas purchase adequate, modest, decent, and safe homes by providing guarantees for qualified loans that a lender would not make without a guarantee. The program's loan terms and conditions, which are described below, are designed to ensure that the loans are used to acquire modest homes and that the property will provide adequate security for the loan.

7.2 MAXIMUM LOAN AMOUNT

The applicant is permitted to finance reasonable and customary expenses associated with purchasing a home as described in Chapter 6, if the total amount financed does not exceed any of the following limits:

- The maximum loan amount for which the applicant qualifies, as determined by their income and repayment ability as further discussed in Chapter 8 and 9 of this Handbook;

- The fair market value of the property, as determined by a current appraisal conducted in accordance with the Uniform Standards of Professional Appraisal Practices (USPAP); and

- The LTV of the loan can exceed 100 percent of the market value of the property when the guarantee fee is financed. Loans may exceed 100 percent LTV only to the extent that the excess represents a financed guarantee fee. See additional guidance in Chapter 6 of this Handbook regarding refinance loans.

The purchase price of the property is permitted to exceed these limits for applicants with sufficient cash reserves or access to a source other than credit through which to obtain the necessary cash difference.

A newly constructed dwelling that does not meet the definition of an existing dwelling, as defined at Section 3555.10, and cannot meet the requirements of Section 3555.202(a) is limited to 90 percent of the present market value. The dwelling must meet or exceed the International Energy Conservation Code (IECC) in effect at the time of construction.

7.3 LOAN TERMS

The lender must consider whether the loan could be made without a guarantee. If the lender is willing to make the loan without the guarantee at the same rates and terms, the loan is not eligible for the guarantee program. If the lender is not willing to make the loan without a guarantee and wishes to request a guarantee, the required loan terms for all loans guaranteed under the program are described below.

A. Repayment Period

The loan term must be 30 years and the loan must fully amortize in that period. The promissory note must show regular monthly payments generally payable on the first day of the month.

B. Interest Rate

The lender and the borrower are free to negotiate any mutually acceptable fixed interest rate. The interest rate should be locked by the time of loan settlement. In the event the interest rate is not locked at the time Form RD 3555-18 is issued, and the interest rate increases between the time of issuance of Form RD 3555-18 and loan closing, the lender will note the change when submitting the loan closing package and support the increase in interest rate with modified loan application documents. Modified loan documents will include at a minimum:

- Updated URLA reflecting data changes due to an interest rate adjustment.
- Underwriting analysis reflecting the updated interest rate and confirming the applicant(s) remain eligible for the SFHGLP.
- Interest rates that have been underwritten with the assistance of GUS will require a resubmission if the locked interest rate adversely affects the eligibility of the loan. The resubmission will be treated as a new request by SFHGLP processing offices. An increased interest rate could result in a denial of Loan Note Guarantee request if the underwriting recommendation of GUS at issuance of Form RD 3555-18 results in a recommendation lower than the original recommendation (i.e. an Accept underwriting recommendation at issuance of the Form RD 3555-18, changed to Refer underwriting recommendation as a result of a resubmission with a higher interest rate).

C. Terms Unacceptable for a Guarantee

The following terms are unacceptable for the guaranteed loan.

- Adjustable rate mortgages (ARMs);
- Balloon mortgages;
- Mortgages for other than 30 years;
- Interest on interest or negative amortization (or any non-fully amortizing loan); and
- Prepayment penalties.

CHAPTER 8: APPLICANT CHARACTERISTICS
7 CFR 3555.151

8.1 INTRODUCTION

Applicants seeking the assistance of a Single Family Housing Guaranteed Loan Program (SFHGLP) loan must meet the minimum applicant characteristics outlined in this chapter. Lenders must determine that the criteria have been met prior to analyzing the applicants' income, credit, and ratio qualifications.

8.2 APPLICANT ELIGIBILITY REQUIREMENTS

The lender must confirm the applicants meet the criteria for obtaining a SFHGLP guarantee prior to full analysis of the applicants' loan request.

A. Owning a Dwelling [7 CFR 3555.151 (e)]

Applicants who own an additional dwelling to which they will retain ownership may be eligible for a guaranteed loan. It is not the intent of the SFHGLP to assist applicants in building an investment portfolio. The loan applicants are limited to owning one single family housing unit, other than the house associated with the loan request.

Applicants may purchase another home if **all** the criteria below are met:

- The applicants are not financially responsible for another Agency guaranteed or direct home loan by the time the guaranteed home loan is closed;
- The applicants are financially qualified to own more than one house;
- The applicants will occupy the home financed with the guaranteed loan as their primary residence throughout the term of the loan; and
- The current home owned, whether adequate or inadequate, no longer meets the applicants' needs. Examples include, but are not limited to:
    - Relocation due to a new job opportunity.
    - Requires a larger home to provide for a growing family.
    - Obtaining a divorce and the ex-spouse will retain the dwelling.
    - Is a non-occupying co-owner or co-borrower on another mortgage loan and wants to purchase their own dwelling.

All documentation will be retained in the lender's permanent case file and may be requested by the Agency upon review.

Repayment Income for rents received less than 24 months. Applicants retaining their existing dwelling must qualify for all mortgage liability payments. Rents received less than 24 months do not represent a stable continued source of income for repayment income and cannot be used when qualifying the loan request. The corresponding mortgage liability associated with the retained dwelling must be included in the debt ratio calculation. Refer to Chapter 9 for additional guidance on rental income.

Repayment Income for rents received 24 months or more. When applicants can demonstrate rental income is stable and dependable, as evidenced and documented with the most recent two years tax returns and a copy of the current written lease executed by the homeowner and the lessee, the net rental income can be considered for repayment ratios. IRS Form 1040 Schedule E is required to verify all rental income. Depreciation or depletion shown on Schedule E may be added back to the net income or loss for repayment income. Positive rental income is considered gross income for repayment income. Negative rental income must be treated as a recurring liability and included in the debt ratio calculation. Refer to Chapter 9 for additional guidance on rental income.

Annual Income Calculation. Any positive net rental income will be included in the calculation of annual income to determine eligibility of the household for the SFHGLP. Rental income must be considered in the annual income analysis regardless of its duration. Rental income, for annual income purposes, is considered the total rental real estate income amount reported on the most recent IRS Form 1040 Schedule E for the previous 12 months. In the absence of a Schedule E; canceled checks, money order receipts, bank statements, or other documentation may be used to support the amount of rents received for annual income purposes. Any negative net rental income is treated as zero for the purposes of calculating annual income.

Documentation. Refer to Chapter 9 for additional guidance on documentation requirements of rental income. Guidance on the process of entering rental income into the Guaranteed Underwriting System (GUS) is available at: https://www.rd.usda.gov/resources/usda-linc-training-resource-library, select GUS, Training, Real Estate Page.

B. Obtaining Credit [7 CFR 3555.151 (j)]

Form RD 3555-21, *Request for Single Family Housing Loan Guarantee*, requires both the lender and the applicants to certify that the applicants are unable to secure credit from other sources upon terms and conditions which the applicants can reasonably fulfill.

The certification can be made if the applicants will not meet the requirements to obtain a traditional conventional credit loan at loan closing. Traditional conventional credit is defined for Agency purposes as:

- The applicants have available personal non-retirement liquid verifiable asset funds of at least 20% of the purchase price that can be used as a down payment;

- The applicants can, in addition to the 20% down payment, pay all their closing costs associated with the loan;

- The applicants can meet qualifying ratios of no more than 28% PITI and 36% TD when applying the 20% down payment; and

- The applicants can demonstrate qualifying credit for such a loan. The conventional mortgage loan term is for a 30- year fixed rate loan term without a condition to obtain private mortgage insurance (PMI).

If the applicants meet the cumulative criteria of traditional conventional credit, as defined by the Agency above; the applicants are ineligible for the SFHGLP.

It remains the underwriter's responsibility to support the criteria of this Section. However, when the criteria identified in the first three bullet points above are met, documentation to support ineligibility for conventional credit should be submitted to the Agency as part of the complete loan application. In all cases, the lender will retain the documentation to support the applicants' ineligibility for conventional credit in their permanent case file.

Liquid assets for conventional credit down payment purposes typically consist of cash or cash equivalents. Cash or cash equivalents include funds in the applicants' checking or savings accounts, sale proceeds from a real estate owned property, or investments in stocks, bonds, mutual funds, certificates of deposit, and money market funds, unless they are encumbered (pledged as collateral) or otherwise inaccessible without substantial penalty. Cash equivalents do not include funds in Individual Retirement Accounts, 401(k) accounts, Keogh accounts, or other retirement accounts that are restricted and may not be accessed without incurring substantial monetary penalties. Educational college savings plans, such as a 529 plan, which incur a penalty to withdraw, are not considered a cash equivalent. Owning land is not considered a liquid asset.

If the applicants have ownership in a business, or are self-employed, the lender should closely review the asset accounts to verify assets are not transferred between a personal account and a business account and vice versa. These accounts should function as two separate financial tools, one for personal transactions and one for business transactions. In the event the assets from the business account and personal account are co-mingled, the co-mingled assets would need to be included in the test for obtaining credit.

C. Occupying the Property [7 CFR 3555.151(c)]

Applicants must agree to personally occupy the dwelling as a principal residence throughout the term of the loan. Bona fide occupancy in the home as the applicants' principal residence within 60 days after signing the security instruments is required.

- **Active duty military applicants.** Active duty military applicants may be eligible for the SFHGLP. They must occupy the property as their principal residence. The military applicants must express intent to meet occupancy requirements upon his/her discharge from the service. A military serviceperson who cannot physically reside in a property because they are on active duty will be considered to meet occupancy requirements defined in § 3555.10 of 7 CFR 3555 if:
    - The serviceperson's family will continue to occupy the property as their principal residence. Refer to Attachment 9-A, for additional guidance on calculating military income for repayment of the loan request.
- **Student applicants.** Due to the probability of relocation after graduation, full-time students cannot obtain loans unless they intend to make the home a permanent residence and there are reasonable prospects of securing employment in the area after graduation.

D. Having Legal Capacity [7 CFR 3555.151(f)]

Applicants must be considered an adult under State law and must have the legal capacity to incur the loan obligation. Applicants with a court-appointed guardian or conservator, empowered to obligate the applicant in real estate matters, are eligible for a loan. Applicants must be an individual, not a trust, corporation, or partnership.

E. Not Having a Suspension or Debarment [7 CFR 3555.151(g)]

Individuals who have been suspended or debarred from participation in Federal programs are not eligible for a guaranteed loan. Applicants that have been excluded from a non-housing federal program continue to be eligible to participate in the SFHGLP, unless the individual becomes suspended or debarred pursuant to 2 CFR Part 180 and 417. Applicants that are excluded from federal housing programs or excluded from all federal programs are ineligible to participate in SFHGLP.

The approved lender, or their agent, is responsible for screening the applicants and all others who are parties to the transaction such as:

- Loan Officer
- Loan Processor
- Underwriter
- Appraiser
- Surveyor
- Builder
- Title Company/Closing Agent

on the U.S. General Services Administration's (GSA) System for Award Management at https://sam.gov/content/exlusions as part of their eligibility determination of applicants. The lender must use due diligence in determining if the applicants are suspended or debarred and eligible for the program. Lenders must retain documentation in their permanent case file to support their decision. The above list is not all inclusive as the lender is responsible for determining all parties involved in the transaction.

Lenders who utilize an automated method that creates a report, similar to a watch list, which performs a check of the SAM website, will meet the criteria of this check. The results of the SAM check including date and screen print will be retained in the lender's permanent case file. Additionally, during submission of the application the lender will ensure a SAM check was performed by documenting the date in GUS and/or on Form RD 3555-21, *Request for Single Family Housing Loan Guarantee*. The check should occur prior to the request for Conditional Commitment and no greater than 30 days prior to loan closing; otherwise, the lender will update their documentation by performing another check of SAM. Rural Development staff is not required to rescreen applicants upon request of a loan guarantee.

F. Having Acceptable Citizenship or Immigration Status [7 CFR 3555.151 (b)]

The applicants must be a U.S. citizen, a U.S. non-citizen national, or a qualified alien as identified in Section 401 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (8 U.S.C. Section 1611). Lenders must secure and retain acceptable documentation to determine whether the applicants for a guaranteed loan are U.S. citizens, U.S. non- citizen nationals, or "qualified aliens." In all cases, non-U.S. citizens legally admitted into the United States will have a United States Citizenship and Immigration Services (USCIS) number. In the rare occasion where a number is not available or known, the applicants should contact the USCIS.

For all file submissions, the lender is responsible for documenting the applicants' legal residency. The lender is responsible to collect any necessary documents needed to validate eligibility. By submitting the request for a Conditional Commitment to the Agency, the lender represents and warrants that the non-U.S. citizen applicant is legally present in the United States and meets the eligibility requirements of the SFHGLP.

This program is available to individuals who receive a loan note guarantee under the SFHGLP who:

- Reside as a citizen in any of the 50 States, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Marianas, Federated States of Micronesia, and the Republics of the Marshall Islands and Palau; or,
- A non-citizen national who resides in one of the foregoing areas after being legally admitted to the U.S. for permanent residence or on indefinite parole.

The term "indefinite parole" is no longer a term used by the Citizenship and Immigration Service (CIS), formerly the Immigration and Naturalization Service (INS).

Generally, a U.S. non-citizen national is a person born in American Samoa or Swains Island or after the date the U.S. acquired American Samoa or Swains Island, or a person whose parents are U.S. non-citizen nationals. Typical evidence of the relatively uncommon status as a non-citizen national includes a birth certificate or passport. Persons who are non-citizen nationals are eligible for consideration.

Aliens must provide acceptable evidence that they are qualified aliens. A qualified alien is defined under PRWORA (8 U.S.C. Section 1641) as:

- An alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act (INA); or
- An alien who is granted asylum under section 208 of such Act; or

- A refugee who is admitted to the United States under section 207 of such Act; or
- An alien who is paroled into the United States under section 212(d)(5) of such Act for a period of at least 1 year; or
- An alien whose deportation is being withheld under sections 243(h) or 241(b)(3) of such Act, as amended; or
- An alien who is granted conditional entry pursuant to section 203(a)(7) of such Act as in effect prior to April 1, 1980; or
- An alien who is a Cuban/Haitian Entrant as defined by section 501(e) of the Refugee Education Assistance Act of 1980; or
- An alien who has been battered or subjected to extreme cruelty under section 431 of the Immigration and Nationality Act.

In addition to the categories of qualified aliens described above, Native Americans born in Canada may also be eligible as lawfully admitted for permanent residence. The documentation described above may be unavailable.

To establish the applicants are qualified aliens, the Native American should provide **all** of the following documentation:

- A letter from their Native American tribe stating that the alien has at least 50 percent Native American or Aboriginal blood (also referred to as the blood quantum);
- Their Canadian “Certificate of Indian Status Card” with a red stripe along the top;
- Their birth certificate;
- If a Haudenosaunee, their Red I.D. Card;
- If an Inuit, an Inuit enrollment card from one of the regional Inuit lands claim agreements;
- Their social security card issued by the U.S. Social Security Administration; and
- Their Canadian or United States driver’s license.

8.3 TRUTHFUL APPLICATION

The integrity of the information presented in the mortgage application process is of the utmost importance. Applicants and lenders should be aware that they will be held responsible for the validity of the information submitted to the Agency. Applicants must provide truthful information when applying for a guaranteed loan. Applicants who provide false information, or who fail to disclose relevant information, will be denied a guaranteed loan. Falsification of information or disclosure can jeopardize any issuance of a Loan Note Guarantee or continued eligibility of the approved lender, depending on the severity of the action.

The types of information covered by this policy include all documentation and information submitted by the approved lender when requesting a Conditional Commitment, Loan Note Guarantee, or servicing action request. Fraud or other criminal misconduct in connection with loan applicants will be reported to the appropriate office or Agency as required by state or federal law. These include the Office of Inspector General, state agencies, or other entities that may take whatever action is required by law.

Any intentional or negligent misrepresentation of information contained in the application package may result in civil liability, including monetary damages, to any person who may suffer any loss due to reliance upon any misrepresentation made on the application and/or in criminal penalties including but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Sec. 1001, et seq.

CHAPTER 9: INCOME ANALYSIS
7 CFR 3555.152

9.1 INTRODUCTION

The lender is responsible to confirm applicants and households meet the eligibility criteria for the Single Family Housing Guaranteed Loan Program (SFHGLP). Lenders must calculate and document annual, adjusted annual, and repayment income. The guidance provided applies to all loans, including manually underwritten loans and loans that utilize the Agency's automated underwriting system, GUS.

SECTION 1: ELIGIBILITY INCOME

9.2 OVERVIEW

The SFHGLP assists very-low, low, and moderate-income households. Therefore, the lender must certify that any household that requests a loan guarantee does not exceed the adjusted annual income threshold for the applicable state and county where the dwelling is located. Additional information on income limits can be found in Appendix 5 of this Handbook.

This section assists lenders in analyzing income types, completing income calculations (annual, adjusted annual, and repayment), and documenting the income with acceptable verifications. Documentation of income calculations are recorded on Attachment 9-B, *Worksheet for Documenting Eligible Household and Repayment Income*, FNMA Form 1008 or Freddie Mac Form 1077, *Uniform Underwriting and Transmittal Summary,* or an equivalent lender income worksheet. Attachment 9-C provides a case study to illustrate how to properly complete the income worksheet. A public website is available to assist in the calculation of annual and adjusted annual income at: https://eligibility.sc.egov.usda.gov/eligibility/incomeEligibilityAction.do?pageAction=state.

9.3 ANNUAL INCOME [7 CFR 3555.152(b)]

Annual income includes all eligible income sources from all adult household members, not just parties to the loan note. The annual income for the household will be used to calculate the adjusted annual household income. The adjusted annual income determines if the household is eligible for a guaranteed loan.

A. Income that is Never Counted

7 CFR 3555.152(b)(5) lists income sources that are never included in the annual income calculation. Refer to Attachment 9-A to review income and asset types, guidance for annual and repayment purposes, and documentation options acceptable to verify the income or asset source.

B. Calculation of Annual Income

Annual income is calculated for the ensuing 12 months, based on income verifications, documentation, and household composition. Lenders must examine all evidence to ensure the calculation is supported.

In addition to 7 CFR 3555.152(b) and Attachment 9-A, lenders must consider the following to calculate annual income:

- Use the gross amount, before any payroll deductions, of base wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, and other compensations for personal services of all adult members of the household, unless they meet the exclusion criteria of 7 CFR 3555.152(b)(5) and Attachment 9-A. Documented cost of living allowances or wage increases that will be effective on or before loan closing must be included in the annual income calculation.

- Include the first $480 of earned income from adult full-time students who are not an applicant, or a spouse of an applicant.

- Include the income of an applicant’s spouse, unless the spouse has been living apart from the applicant for at least three months (for reasons other than military or work assignment), or court proceedings for divorce or legal separation have been commenced. Evidence to support living apart for three months may include, but is not limited to, an apartment lease, bills, or bank statements in their name alone delivered to a different address, etc. This guidance applies to domestic partners, significant others, and fiancée’s that are currently living with the applicant as a household/family unit. This guidance does not apply to adult dependents age 18 and up.

- An adult household member that is currently unemployed but is seeking new employment must have their previous earnings included in annual income. The previous earnings are not required to be included when there is documented evidence to support they are not seeking to be reemployed, such as a tendered resignation or official termination from previous employer, or a signed statement from the adult household member that they do not plan to pursue new employment.

- Income verifications provided by applicants that do not currently support historical earnings with the same employer (e.g. less hours worked, less overtime, less bonus, declining self-employment income, etc.) must be carefully reviewed to determine appropriate calculations.

- Verified changes of income amounts or sources in the ensuing 12 months must be documented. Examples include, but are not limited to, pending retirement, resignation tendered, documented raise that will occur prior to loan closing, etc.

- When an income source will not be received for the entire year, the amount anticipated to be received within the ensuing 12 months must continue to be included in annual income unless excluded under 7 CFR 3555.152(b)(5). Examples include, but are not limited to, child support, alimony, maintenance, Social Security, etc. Annual income is the total of all income sources for a 12-month timeframe. Income calculations must state the income source, the number of months receipt remaining for the ensuing 12- month timeframe, and the total amount to be received.

Lenders are responsible for accurately calculating annual household income. The calculation should be logical based on the history of income and documentation provided. Training is available on the USDA LINC Training and Resource Library website, located at https://www.rd.usda.gov/resources/usda-linc-training-resource-library/lender-training.

Annual income calculations will typically vary from adjusted annual and repayment income.

C. Income of Temporarily Absent Household Members

A household member is defined as all persons routinely living in the dwelling as a principal residence, except for live in aides, foster children, and foster adults (7 CFR 3555.10). If a member of the household that will make the dwelling their principal residence is temporarily absent, their income must be included.

D. Applicant Assets

Income earned from non-retirement assets may be required to be included in the annual income calculation, as applicable. Refer to paragraph 9.4 for guidance.

E. Verification Requirements

Lenders must verify income and asset documentation provided by applicants and other adult household members. Lenders will verify the income for each adult household member for the previous 2 years. The following guidance will assist:

- Written, oral, or electronic verifications, and documents provided or prepared by third-party sources are acceptable, unless otherwise specified. These verifications must be provided directly to the lender.

- Lenders may not accept verifications or documents transmitted by, or passed through, an interested third party such as builders, real estate professionals, or sellers.

- Facsimiles, photocopies, digital images, and computer-generated documents may be accepted in lieu of original forms, unless otherwise specified.

- The lender is responsible for the integrity and accuracy of the information in the mortgage underwriting file. Regardless of the type of documentation used to support the loan application, the documents must be legible and free of any alterations, erasures, “white-outs,” or similar indications that changes have been made.

- Verification documentation of household annual, adjusted annual, and repayment income will be retained in the lender’s permanent case file.

- Paystubs/earning statements must include adequate information to calculate income and include year-to-date earnings. The lender must utilize paystub(s)/earning statement(s) that are dated no earlier than 30 days prior to the initial loan application date.

- W-2 forms must include the most recent one or two years, as applicable. W-2’s must clearly identify the applicant and employer.

- Tax returns for self-employed borrowers must be copies of the original returns filed with the IRS and include all supporting schedules. Lenders may substitute IRS transcripts obtained directly from the IRS with all supporting schedules. The most recent tax return refers to the last return filed as determined by IRS schedule/deadlines. Lenders must continue to obtain the most recent two years of returns, as applicable. Applicants must not be delinquent on federal taxes as determined by the IRS.

- Applicants with an approved IRS extension for the current tax year may continue to be eligible if they are not delinquent on taxes owed, as determined by the IRS. Evidence of tax payments made, if applicable, must be retained in the lender's permanent loan file in accordance with Chapter 10 of this Handbook.

- Income and asset documents and verifications cannot be greater than 120 days old at time of loan closing. Divorce decrees, income tax returns, and other documents that do not expire will continue to have the most recent or filed copy accepted.

- Applicable income and asset documents greater than 120 days old at the time of loan closing must be updated or re-verified to support applicant/household eligibility.

For all loan types, lenders must verify the income for all applicants and adult household members (excluding eligible full- time students ages 18 and above) through one of the following documentation methods. Refer to Attachment 9-A for documentation and verification options that are acceptable to support income types.

1. ***Full Income Documentation – Non-Self-Employed***

- W-2 forms for the most recent two tax years, which may be electronically generated or provided in paper format, or IRS Wage and Income transcripts;

- Paycheck stubs or payroll earning statements that report the most recent four weeks of earnings; and

- Prior to loan closing, a Verbal Verification of Employment (VVOE) must be obtained for all applicants within 10 business days of loan closing. A written verification or email confirmation (other than a paystub), that confirms the applicant's current employment status within this time frame is also acceptable. The documentation must include the name and title of the person who completed the verification for the employer. This verification will be retained in the lender's permanent loan file. Adverse changes to the applicant's employment may render the loan ineligible.

2. ***Alternative Income Documentation – Non-Self-Employed***

- Written Verification of Employment (VOE): Electronically generated verifications from the employer or a verification service utilized by the employer, Form RD 1910-5, *Request for Verification of Employment*, or an equivalent HUD, VA, Fannie Mae, or Freddie Mac form may be utilized to verify the current year-to-date (YTD) and previous year's employment earnings. This verification must confirm base income/wages, bonus, overtime, commissions, and other income sources earned, as applicable;

- Recent paycheck/earnings statement: Lenders must compare a recent paystub that includes YTD earnings and employment information to the VOE to confirm these two documents reasonably agree; and

- Prior to loan closing, a Verbal Verification of Employment (VVOE) must be obtained for all applicants within 10 business days of loan closing. A written verification or email confirmation (other than a paystub), that confirms the applicant's current employment status within this time frame is also acceptable. The documentation must include the name and title of the person who completed the verification for the employer. This verification will be retained in the lender's permanent loan file. Adverse changes to the applicant's employment may render the loan ineligible.

3. *Self-Employed Income Documentation*

Applicants or household members are considered self-employed when they have a 25 percent or greater ownership interest in a business. If the ownership interest is less than 25 percent, neither the "Business Owner" or "Self-Employed" options should be selected in GUS.

Federal Income Tax Returns for the business will be required when ownership is 25 percent or greater. The lender must analyze the most recent two- year history of the business earnings. Sharp increases or decreases in self-employment income may require the lender to review additional documentation to support their calculation of annual, adjusted annual, and repayment income. Sharp increases or decreases are defined as a 20 percent or greater variance for income earnings from the previous 12 months. The lender's permanent file must contain the following, as applicable:

- Federal Income Tax Returns (filed and signed) for the most recent two consecutive years with all schedules, or IRS transcripts that include all applicable schedules;

- Federal Income Tax Returns for the business (filed and signed) for the most recent two consecutive years with all schedules, or IRS transcripts that include all applicable schedules, if required for the ownership interest/business type;

- Recent profit and loss statement (not required to be audited); and

- Confirmation the business is operational, obtained within 30 days of the loan closing. Documentation may include evidence of a website, additional internet documentation, licensing bureau certification, etc. Adverse changes to the business may render the applicants ineligible.

Lenders may utilize Fannie Mae Form 1084, *Cash Flow Analysis*, Fannie Mae Form 1088, *Comparative Income Analysis*, or a comparable self-employment evaluation form(s), and Attachment 9-E to assist in the calculation of self-employment income.

A business (full time or part-time) that is closed may be removed from consideration for annual income when the applicants provide a letter of explanation and documentation to the lender which details: 1. When the business was closed; 2. Why the business was closed; 3. How the business was closed; and 4. Evidence, satisfactory to the lender, to support the closure of the business.

REMINDER: Refer to Attachment 9-A for documentation options and verification requirements of additional income and asset types that may apply to the household. If a specific income or asset type is not listed, refer to 7 CFR 3555.152. All income and asset types must be documented and verified. The lender must retain all documentation and calculations in their permanent loan file.

4. IRS Transcripts: Verification of Income

IRS transcripts are required for all required household members in addition to the documentation option selected by the lender. Lenders must require each adult household member, as applicable, to complete and sign IRS Form 4506-T, *Request for Transcript of Tax Return,* or IRS Form 4506-C, *IVES Request for Transcript of Tax Return,* for the previous two tax years at the time of submission to the Agency. The 4506-T/4506-C must be used to request full transcripts with all schedules.

Full time students ages 18 and up that are not the applicant, co-applicant, or spouse of an applicant are not required to sign the 4506-T/4506-C or have transcripts provided.

Guaranteed loans cannot be made to a household that exceeds the applicable adjusted annual income limit. The transcripts provide a quality control measure to ensure all income and asset earnings reported to the IRS have been disclosed to the lender.

Lenders must obtain and review available transcripts prior to loan closing and retain them in their permanent loan file.

Previously unknown/undisclosed income or asset sources that are identified by the transcripts will require additional review by the lender and may render a loan file ineligible.

The lender is responsible for requesting tax transcripts in the early stages of the application process. When the lender is unable to obtain transcripts from the IRS for the applicants or required household members, they may document their correspondence to and from the IRS in the permanent loan file to support the omission. The loan file will be considered complete when the explanation is documented. Loan closings will not be delayed due to obstacles in obtaining the tax transcripts. The lender remains responsible for obtaining transcripts, even if post-closing.

9.4 CALCULATING INCOME FROM ASSETS [7 CFR 3555.152(d)]

Household members with cumulative net family assets (non-retirement) of $50,000 or greater, must have those assets reviewed for annual income purposes, as indicated in 7 CFR 3555.152(d). Lenders must review the most recent asset information provided by applicants and household members at the time of loan application. Net family assets with actual earnings will use the stated rate of interest to calculate annual income. Net family assets that do not earn interest will use a current passbook savings rate (verified through the lender’s personal banking rates, online website, etc.) to calculate annual income.

If the applicants have ownership in a business, or are self-employed, the lender should closely review the asset accounts to verify assets are not transferred between a personal account and a business account and vice versa. These accounts should function as two separate financial tools, one for personal transactions and one for business transactions. In the event the assets from the business account and personal account are co-mingled, the co-mingled assets would need to be included in the calculation of net family assets.

Refer to the Asset section in Attachment 9-A for individual asset types and options for documentation/verification.

9.5 ADJUSTED ANNUAL INCOME [7 CFR 3555.152(c)]

The adjusted annual income calculation will determine if the household is eligible for the guaranteed loan program. Adjusted annual income is calculated by using the annual income calculation and subtracting any of the eligible deductions in 7 CFR 3555.152(c) for which the household may qualify. Attachment 9-C provides an example of using deductions.