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## RURAL DEVELOPMENT

### BORROWER ELIGIBILITY

- The borrower must not have sufficient assets to obtain other traditional conventional financing. The borrower may, however, qualify for an FHA or VA loan. In other words, applicants may have liquid assets and be eligible to participate in the GRH Program. Those assets, however, should not be sufficient to meet the down payment and closing cost requirements associated with a conventional uninsured mortgage product (LTV  $\leq$ 80%). This means applicants do have a choice of USDA-Guaranteed Rural Housing, FHA, VA, or a conventional mortgage product with private mortgage insurance.
- The appraisal determines the maximum loan amount. The applicant may borrow up to 102% of the appraised value for purchase transactions, and 100.5% for a refinance transaction if the guarantee fee is included in the loan amount (financed).
- **Non-Occupying co-borrowers are NOT allowed.**

### PROGRAM FEATURES – PURCHASE

- Closing costs may be financed when there is equity above the contract price as supported by the appraisal. Discount Points may not be financed.
- Seller contributions towards all closing costs are allowed up to 6% of the sales.
- Temporary buydowns are not permitted.

### PROGRAM FEATURES – REFINANCE

- Loan must be secured by the same property as the original loan. The original loan must be Guaranteed Rural Housing (GRH) or USDA Section 502 Direct only. **The Program may not be used to refinance FHA, VA, or other government or conventional mortgages.**
- Term of the new loan will be 30 years.
- Interest rate of the new loan must be a fixed rate.
- Interest rate of the new loan cannot exceed the interest rate of the loan being refinanced. However, the interest rate of the new loan does **not** have to meet the interest rate requirements established in RD Instruction 1980-D, §1980.320 Interest rate.

- Property must be owned and occupied by the borrowers as their principal residence.
- Discount Points may not be financed into the loan.
- Temporary buydowns are not permitted.
- The guarantee fee may be calculated in two ways, depending on whether the fee will be financed.

Transaction Type	Guarantee Fee Not Financed	Guarantee Fee Financed
<b>Purchase Transactions</b>	Multiply the loan amount by 2.0% and round to the nearest cent. <b>Example:</b> \$100,000 x .02 = \$2,000	The fee is calculated as follows: 1. Divide the base loan amount by .98 and round to the nearest cent. 2. Multiply that number by .02 (2.00%) and round to the nearest cent. <b>Example:</b> \$100,000 ÷ .98 = \$102,040.816326 (rounded to \$102,040.82). \$102,040.82 x .02 = \$2,040.8164 (rounded to \$2,040.82).
<b>Rate and Term Refinances</b>	Multiply the loan amount by .50%. <b>Example:</b> \$100,000 x .005 = \$500	Follow steps 1 and 2 above, substituting .9950 for .98 and .005 for .02. <b>Example:</b> \$100,000 ÷ .995 = \$100,502.51. \$100,502.51 x .005 = \$502.51.

- The .50% guarantee fee may be always financed into any GRH refinancing transaction. As usual, borrowers may finance other closing costs and fees up to 100% of the current appraised value. **However, it is possible for the loan-to-value (LTV) of the new loan to reach 100.5% if the .50% guarantee fee is financed.** Loans may exceed 100% LTV only to the extent that the excess represents a financed guarantee fee of no more than .50%.
- Total household income **cannot** exceed the moderate level for the area as established in RD Instruction 1980-D, Exhibit C.
- GRH refinance loans **are permitted** for properties in areas that have been determined to be non-rural since the existing loan (RD) was made.
- Applicants are not eligible to receive “cash out” from the refinancing transaction. However, applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinance transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of “cash out” to the applicants (beyond reimbursement of these “prepaid” items) may occasionally result due to final escrow and interest calculations. This amount, if any, must be applied to a principal reduction of the new loan.

- Subordinate financing such as home equity seconds and down payment assistance “silent” seconds cannot be included in the new loan amount. Any existing secondary financing must be subordinate to the new first lien.
- Maximum loan amount cannot exceed the balance of the loan being refinanced, plus the guarantee fee, and reasonable and customary closing costs, including funds necessary to establish a new escrow account.
- Unpaid fees, such as late fees due the current servicer, are not eligible to be included in the new loan amount.
- As part of the refinancing transaction, additional borrowers may be added to the new GRH loan or existing borrowers may be deleted from the current loan. All applicants that will be a party to the promissory note for the new loan must meet all eligibility requirements.
- Ratios must meet requirements as stated in RD Instruction 1980-D, §1980.345(c)(3). The monthly housing expense to income ratio should typically not exceed 29% and the total debt to income ratio should typically not exceed 41%. **Exceptions or ratio waiver requests will not be granted.**
- A complete Uniform Residential Appraisal Report (URAR) is required **unless the refinance loan amount includes only the unpaid principal balance with or without the .50% guarantee fee.**
- **No other property inspections or thermal certifications are necessary.** However, any conditions noted on an appraisal that are related to the safety or livability of the subject property must be addressed and rectified prior to loan closing. Expenses related to property inspections and property repairs may **not** be financed into the new GRH refinance loan, or escrowed for prior to closing.

#### PROPERTY ELIGIBILITY (PURCHASE TRANSACTIONS ONLY)

- In order for a property to be eligible for a Rural Development guaranteed loan, the property must be located in a rural designated area as defined in Rural Development Instruction §1980.312. You may view eligible areas on USDA Rural Development’s web-site at: <http://eligibility.sc.egov.usda.gov>.
- Property must be a nonfarm, non-income providing tract.
- According to Rural Development Instruction §1980.313 (e) "Generally, the value of the site must not exceed 30 percent of the total value of the property. When the value of the site is typical for the area, as evidenced by the appraisal, and the site cannot be subdivided into two or more sites, the 30 percent limitation may be exceeded."

- Specific thermal and construction standards must be met as set forth in Rural Development Instruction §1980.313(f) Thermal Standards. Contact your County or State Rural Development office for area specifications.
- In-ground swimming pools are not permitted.
- Inspection requirements on Rural Development properties are as follows:

**New Construction** - If the Builder is providing a one-year warranty, the following inspections are required:

- Framing Inspection
- Footing Inspection
- Final Inspection
- Thermal Certification

If a 10-year Builder Warranty is provided, only a Final Inspection and a Thermal Certification are required. (An example of the Thermal Certification form can be found in the Forms Section of this manual.)

**Existing Properties** (Properties older than one year) Existing properties must meet the current requirements of HUD Handbooks 4150.2 and 4905.1, typically verified through an RHS Adequacy Certification (Existing Dwelling Inspection Report), or by the appraiser certifying in the comments section of the appraisal that the property meets HUD Handbooks 4150.2 and 4905.1. Additionally, a Thermal Certification is required. (A sample of a Thermal Certification form can be found in the Forms Section of this manual.)

**Notes:** (1) A number of Rural Development State Offices have drafted their own Adequacy/Thermal Certifications. (2) In Florida and Virginia, only HUD roster appraisers are permitted. Please contact your Rural Development State or County Office for details.

#### **REQUIRED REPAIRS/ESCROW AGREEMENTS**

When repairs are required for structural or mechanical deficiencies that exceed the Seller's contractual obligation, GMG can assist borrowers. GMG allows the ability to finance required improvements based on an "as improved" appraised value, in combination with an escrow hold-back at closing.

Unless the deficiency is a significant item that negatively impacts the safety or livability of the dwelling, loan closing need not be delayed. For those deficiencies that can be corrected post-closing, GMG will require, in addition to our standard closing items:

- A corrected FNMA 1003 (Uniform Residential Loan Application) with the amount of financed improvements listed under the "Repairs" Section.
- Estimates/contracts for all repairs financed with loan proceeds.
- A GMG-approved escrow hold-back agreement signed by buyer and seller at closing.
  - A collection of one and one-half times of the estimated repair cost retained at closing to be disbursed by the settlement agent.
  - Final inspection of required repairs will be required.
- Rural Development requires all repairs to be completed prior to their issuance of the final Loan Note Guarantee (Rural Development Form 1980-17). However, external repairs delayed by weather related issues must be completed within 120 days of loan closing as outlined in Rural Development Instruction §1980.315 - Escrow accounts for exterior development.
- It is our policy to have repairs for internal deficiencies completed within 30 days of loan closing. As Rural Development will require a final inspection once the work is completed, please include this expense as part of the escrow holdback.

### ASSUMABILITY

The Guaranteed Rural Housing Loan is assumable subject to the following conditions:

- Subject property and applicant(s) must meet all criteria for the Rural
- Development Guaranteed Housing Program.
- Applicant (buyer) must be credit-approved by GMG.
- In accordance with Rural Development (FmHA) Instruction 1980-D, no release of liability will be granted to the original Borrower(s).
- A new title policy will be required at closing.
- Normal application, processing, and transfer fees will apply.

**INCOME VERIFICATION/REQUIREMENTS**

- The Guaranteed Rural Housing loan is documented with both Rural Development and FNMA forms. (Rural Development forms are provided in the Forms Section of this manual.)
- All sources of income must be verified using FNMA Form 1005 - "Verification of Employment". Rural Development, as outlined in Rural Development Instruction §1980.351, will typically review the past 24 months to determine both Income Eligibility, as well as compliance with Monthly Housing (29%) and Total Debt (41%) Ratios. Usually, GMG requires verified primary sources of income for a 24-month period to confirm loan approval.
- Alternate documentation is permitted in place of FNMA Form 1005. Alternate documentation must include: two years W-2's, 30 days paystubs with year-to-date information, and a Processor's Certification of Employment.
- The following should serve as a guideline for handling income-related issues:
- **Full Time** - For borrowers whose income is derived from full-time employment, two (2) years of full employment history must be verified on FNMA Form 1005 (Verification of Employment).
  - Borrowers are not required to have 24 months continuous employment with their current employer.
  - Where there has been a change in employers in the last 24 months, the borrower must explain any gap in employment that extends beyond one (1) month.
    - Two (2) years of tax returns will only be required for:
      - Self-employed borrowers
      - Commissioned borrowers
      - Borrowers employed by a relative or closely-held family business.
      - Borrowers who are not commissioned, but need to validate their expenses.
- **Part-Time** - Part-time or second job income with duration of 12 months may be used.

- **Overtime and Bonus Income** - Overtime and bonus income can be used to qualify the applicant if the employer verifies that the applicant has received it during the last 12 months and indicates that the overtime or bonus income will in all probability continue. The underwriter must develop an average of the last 12 months overtime and bonus income to determine the amount of income that can be considered in evaluating the borrower's qualifications.
- **Self-Employed Income** - Two (2) previous years 1040's are required. They must be signed and certified by the applicant. Additionally, a year-to-date Profit & Loss Statement with Balance Sheet, prepared and signed, must be submitted. If the applicant has 25 percent or more ownership interest in any business entity, the applicant must also provide the most recent two (2) years' business tax returns (Corporate, Sub-S Corporate, or Partnership) along with a current Profit and Loss Statement with a Balance Sheet prepared and signed by an accountant.
- **Alimony, Child Support, and Separate Maintenance** – GMG requires documentation that child support, alimony, or separate maintenance will continue for three (3) years after the date of the mortgage application or it will not be considered as income. The borrower must also provide evidence that the funds have been received for the last 12 months. Acceptable evidence includes deposit slips, canceled checks, court records, or tax returns.
- **Retirement Income** - Retirement income, i.e., pensions, annuities, 401K distribution, etc., may be verified by letters from the organizations providing the income, copies of the retirement award letters (with photocopies of canceled checks attached), tax returns, or IRS W-2 forms. This evidence must confirm a continuation of this income for a minimum of three (3) years.
- **Social Security Income** - Acceptable verification includes a photocopy of the Social Security Administration's award letter or copies of the borrower's last 2 bank statements to confirm the regular deposit of the payments. Benefits that have defined expiration dates must have a remaining term of at least three (3) years to be considered as income.
- **Disability Income** - Disability income will be considered acceptable income provided it can be documented by furnishing a recent copy of respective letter of benefits or allotment setting forth the terms of the income. The benefits must be on-going for a minimum of three (3) years.

- **Unemployment And Public Assistance Benefits** – Unemployment And Public Assistance benefits will be considered as income if they are properly documented by letters or exhibits by the paying agency. The amount, frequency and duration of payments must be stated in the verifying documents. If an individual receives unemployment benefits as a regular part of his/her income, GMG requires copies of tax returns for the past two (2) years to establish a history of receipt. This income must be documented as on-going for a minimum of three (3) years.
- **Dividends/Interest Income** - Dividends and interest may be used as income provided the assets that are generating the dividend/interest income will not be used for the down payment or closing costs on the proposed loan. The applicant must provide tax returns for the previous two (2) years along with verification of current assets via bank statements, verification of deposits, etc. This income will be averaged over two (2) years or calculated at current market interest rates, whichever is less.

#### **CREDIT CRITERIA IN GMG'S RURAL DEVELOPMENT GRH PROGRAM**

- Rural Development Guaranteed Rural Housing loans are typically underwritten to Rural Development Instruction §1980.345(d).

#### **Additional specific requirements:**

- The total debt ratio should include revolving debt regardless of when the debt will be retired. Installment loans will only be considered if the debt will be retired in more than six months. However, if the monthly payment on the debt is substantial, the payment will also be included in long term debt.
- If the borrower has co-signed a loan for another party, an acceptable 12- month history validating that the borrower is not making the payment must be provided in order to exclude the payment from the total debt.
- When a borrower has a delinquent student loan obligation, a satisfactory six month repayment history must be provided.
- A 24-month history of residence is required on all files. Additionally, a 12- month verification of rent or mortgage with a payment rating is also required on all files when the primary wage earner has a credit score of less than 620. This may be done using a Request for Verification of Rent or Mortgage Account, or information contained on the credit report, or cancelled checks. All lates greater than 30 days must be documented with an explanation from the applicant.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

- o Analysis of discretionary income through a household budget supports the ability to accumulate the funds.
- o Cash is a way of life for the borrower and can be documented with receipts where cash is used consistently to make household payments, such as rent/mortgage, utilities, etc.
- o **Gifts (or grants)** - A borrower can use funds obtained as a gift (or grant) to satisfy part of the cash requirement for closing only if the donor is a relative or friend, or charitable organization, municipality, or nonprofit organization.

A gift must be evidenced by a letter that is signed by the donor. The letter must:

- Specify the dollar amount of the gift and the date the funds were transferred;
- indicate the donor's name, address, telephone number, and relationship to the borrower; and
- include the donor's statement that no repayment is expected.

The underwriter must verify that funds have been transferred to the borrower's account and show documentation of the transfer of the gift funds from the donor's account; for example, by obtaining a copy of the donor's withdrawal slip or canceled check and the borrower's deposit slip, etc. When the funds are not transferred prior to settlement, the donor may give the closing agent a certified check for the amount of the gift. A copy of that check or a settlement statement showing receipt of that check will be sufficient documentation for the underwriter's records provided the donor is listed as the remitter.

A gift (or grant) from a charitable organization, municipality, or nonprofit organization must be evidenced by either a copy of the letter awarding the gift or grant to the borrower or a copy of the legal agreement that specifies the terms and conditions of the gift or grant. This supporting document must include language indicating that no repayment of the gift or grant is expected and an indication of how the funds will be transferred (to the borrower, GMG, or the closing agent). GMG must include in the individual mortgage file evidence of the transfer of the funds - such as a copy of the donor's canceled check or a settlement statement showing receipt of the check.

**Note:** All supporting gift documentation (other than the gift letter) is no longer required if the entire gift is going toward closing costs/prepays (any amount), or being used to pay-off debt of \$1,000 or less.

- o **Disposition of Personal Assets** - Proceeds from the sale of personal property may be used towards closing costs. Documentation for funds obtained should include a bill of sale, bank statement verifying deposit of funds, and when applicable, a transfer of title.
- o **Borrowing of Funds on an Unsecured Basis** - Borrowers that qualify may borrow funds on an unsecured basis to pay for their closing costs and prepaids. For example, a borrower could obtain an unsecured loan from a family member, bank or credit union, or even a credit card cash advance.

**In order to qualify for this option, a borrower's median credit score must be 660 or above.**

- o When utilizing this option, Underwriters must remember to include the unsecured debt in the total debt calculations, and should indicate on the "Source of Down payment, Settlement Changes, and/or Subordinate Financing" Section of the FNMA 1003 (Uniform Residential Loan Application) the amount of the unsecured funds.
- o **Reserve Funds** - There is no requirement for payment reserves after closing.
- o **Updating Documents** - When updating expired verification of funds documents, alternate documentation can be used. For example, when updating an expired Verification of Deposit, bank statements or print-outs may be used. Although one month current bank statement and bank printout may be used to update funds, these cannot be used to initially verify funds.

### **HOMEOWNERSHIP COUNSELING**

Applicants utilizing the Guaranteed Rural Housing Program represent a wide spectrum of credit profiles. Most applicants have never owned a home, many applicants have never rented, and many applicants have little or no established credit. Nonetheless, despite these varied profiles, they all may be excellent candidates to achieve successful homeownership through this affordable housing program.

As we work to support this objective, as well as to comply with the current Rural Development Instruction §1980.309(f)(4) Counseling, the underwriter may request evidence of your borrowers successful completion of homeownership counseling. This is not a requirement on every Rural Development loan file. It will be used selectively on files which have no previous housing expense and/or no established positive credit trades to demonstrate an ability to handle the proposed housing payment on a timely basis.

If this condition is part of our underwriting decision on your Rural Development loan file, the condition may be cleared by utilizing Fannie Mae's "Guide to Homeownership", or a comparable program offered by local non-profit organizations. This condition may be cleared at closing by providing a signed certificate of completion and the household budget worksheet information.

Please note, while homeownership counseling is not required on all files by GMG, many Rural Development State Offices require all first-time home buyers to complete home buyer education.

Rural Development State Offices that require homeownership counseling are:

- o California
- o Florida
- o Georgia
- o Indiana
- o Louisiana
- o Minnesota
- o Nebraska
- o South Carolina
- o Texas
- o Washington
- o Wisconsin

If you are originating Guaranteed Rural Housing product in a state not referenced above, please confirm with Rural Development your State's requirements regarding homeownership counseling, as additional states are considering this requirement as a mandatory item for all first-time home buyers.

**Helpful Links:**

**USDA Income and Property Eligibility**

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

**USDA Rural Development State Offices Map and Link(s)**

[http://www.rurdev.usda.gov/recd\\_map.html](http://www.rurdev.usda.gov/recd_map.html)

## **FAQ – Frequently Asked Questions**

### **What is the guarantee?**

USDA Rural Development provides the full faith and assurance of the U.W government that any financial loss resulting from servicing the loan will be reimbursed in full up to an amount not exceeding 90% of the original loan amount. All loss up to an amount not exceeding 35% of the original loan is fully reimbursed. Losses exceeding 35% is 85% reimbursed.

### **What is the advantage to the customer?**

100% financing, no MIP/PMI, no restrictions on size or design and flexible underwriting are just a few of the advantages.

### **What are the eligibility requirements?**

Have adequate and dependable income (up to 115% of the adjusted area median income), have acceptable credit, do not own a dwelling in the local commuting area, US citizen or permanent resident, have the ability to personally occupy the home on a permanent basis and are unable to qualify for conventional mortgage credit.

### **Can any lender originate GRH loans?**

Yes, however, only Agency approved lenders may submit the loans.

### **How long does it take to get an answer from USDA Rural Development?**

The review process takes 24 to 48 hours, upon receipt of a complete loan package from an approved lender.

### **Is approval from a USDA Rural Development office required prior to closing the loan?**

Yes. Approval must be obtained before you can close the Guaranteed Loan. Approval is granted from the local office servicing the subject property county.

### **What is the maximum Interest Rate and term?**

Refer to the GMG Rate Sheet for rate/price information.

### **What is the maximum loan amount?**

The loan amount is limited by the market value and repayment ability. Check this website for property eligibility: <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

### **What is the maximum LTV?**

It can be up to 100% LTV plus the Agency guarantee fee...not to exceed 102%.

### **What is the Guarantee Fee?**

The guarantee fee is 2% of the total loan amount for purchase transactions and 0.5% of the total loan amount for refinance transactions.



**Are seller concessions allowed?**

6% seller concessions towards closing costs are allowed.

**Who approves the Appraiser?**

The appraiser must be licensed by the State to complete appraisals.

**Can repairs be included in the loan?**

No. Additionally, GMG does not allow escrowing for repairs.

**Are alternate verifying income documents allowed?**

Yes. Paycheck stubs, payroll earnings statements and W-2 tax forms for previous 2 tax years, and telephone verification of employment.

**Income & Ratio Calculation Worksheet  
Guaranteed Rural Housing**

Name of Applicants: \_\_\_\_\_

Employee Initials: \_\_\_\_\_ Date of Calculation: \_\_\_\_\_

Applicant’s Income: \$ \_\_\_\_\_

Co-Applicant’s Income: \$ \_\_\_\_\_

Other Income:

Recipient & Source:

\_\_\_\_\_ \$ \_\_\_\_\_

**TOTAL REPAYMENT INCOME: (A)** \$ \_\_\_\_\_

Adjustment to Income: (RD Instruction 1980.348)

1. Number of minors: \_\_\_\_\_ x \$480 \$ \_\_\_\_\_

2. Number of disabled/handicapped adults: \_\_\_\_\_ x \$480 \$ \_\_\_\_\_

3. Number of full-time adult students: \_\_\_\_\_ x\$480 \$ \_\_\_\_\_

4. Deduct \$400 for an Elderly Family (1980.302) \$ \_\_\_\_\_

5. Planned child care deduction (include documentation) \$ \_\_\_\_\_

6. Medical Expenses for an elderly family  
(greater than 3% of gross annual income) \$ \_\_\_\_\_

**TOTAL ADJUSTMENTS: (B)** \$ \_\_\_\_\_

**Subtract total deductions from annual income to arrive at adjusted annual income  
for program eligibility purposes: (A) – (B)** \$ \_\_\_\_\_

SHOW MODERATE INCOME LIMIT HERE: \$ \_\_\_\_\_

**RATIOS CALCULATIONS (USING MONTHLY REPAYMENT INCOME (A/12))**

Mortgage pymt. + taxes + insurance = total / monthly income = PITI ratio  
 \_\_\_\_\_ + \_\_\_\_\_ + \_\_\_\_\_ = \_\_\_\_\_ / \_\_\_\_\_ = \_\_\_\_\_

Total Hsg. Costs + Other Monthly Debt = total / monthly income = TD Ratio  
 \_\_\_\_\_ + \_\_\_\_\_ = \_\_\_\_\_ / \_\_\_\_\_ = \_\_\_\_\_