Carrington
mortgage services, llc

Underwriting Guidelines (USDA Loans)

DOCUMENT OVERVIEW

Purpose

The following document describes the responsibilities and requirements of the Carrington Mortgage Services, LLC (CMS) Mortgage Lending Division USDA Certified Underwriter when reviewing and underwriting United States Department of Agriculture Office of Rural Development (USDA) mortgage loan applications.

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Revision History

See the Revision Summary section.

USDA UNDERWRITING

Overview

This document describes how to review and underwrite USDA Office of Rural Development (USDA) mortgage loan applications.

USDA LOAN PROGRAMS AND COMPLIANCE

Overview

This section describes the eligible loan programs and compliance requirements necessary to obtain a USDA loan guarantee and Conditional Commitment. CMS must ascertain whether the specific provisions of the loan program are permissible under all applicable laws and regulations. CMS must also take the necessary steps to verify the continued validity of the loan program provisions under applicable laws and regulations, and must notify any investors in the event it believes that any provisions might be restricted or impermissible under such laws or regulations.

The requirements outlined in this section represent USDA core requirements for underwritten loans. The GUS Underwriting Modified TOTAL Scorecard finding report decision and recommendations for reduced documentation may be followed, unless otherwise noted in this document. Requirements that vary from one loan program to another are described in the CMS Product Matrices. Waivers do not apply to state specific compliance restrictions.

USDA Guarantee Program

Overview

This section describes the USDA Guarantee 502 loan program. The program is designed to provide mortgage financing for low and very low income individuals in rural areas that are unable to obtain financing from a private source. The USDA program is a part of the USDA Rural Development's efforts to improve the quality of life in rural areas.

The basic requirements of the borrower to qualify for a USDA 502 loan are as follows:

- Be unable to obtain sufficient credit from another source;
- Agree to personally occupy the dwelling;
- Meet citizenship or eligible noncitizen requirements;
- Demonstrate both the willingness and ability to repay the loan.

Property Eligibility

For a property to be eligible for the USDA Guarantee the property must be located in a qualified area. To confirm a property is eligible for the program go to: https://eligibility.sc.egov.usda.gov.

USDA LOAN ELIGIBILITY

Overview

This section provides eligibility standards that all apply to the USDA guarantee loan programs.

LDP and GSA Procurement/Non-Procurement

Requirements

If any party to the transaction appears on either list, the following must occur:

- It must be verified that the person on the list is the same person in the transaction.
- If evidence can be provided proving that he or she is not the same person listed, the process may continue. The following are examples acceptable documentation:
  - Evidence of residency for the borrower for the past seven years to verify borrower has not lived at the address listed on the LDP or GSA.
  - Evidence that the borrower's full name differs from the name on the list (e.g., Document borrower has a different middle initial).
- If the person listed is the same person in the transaction, then that person must be removed from the transaction.

USDA Case Number

The USDA Case number is automatically assigned from USDA's Conditional Commitment. The case number consists of the State Code (3 digits), the County Code (3 digits) and the Borrower's ID.

All 3 can be found on the Conditional Commitment, which is received after the underwriter submits to USDA Rural Housing for approval.

The underwriter will enter the USDA case number without any dashes or spaces in the following order:

- State Code (with an additional 0 added in front), County code, and then the Borrower's ID for a total of 15 digits.

The case number does not expire, but the conditional commitment which it is tied to expires after 90 days.

Documenting Clearances

USDA condition for SAM clearance:

> *USDA- LDP/GSA Review – Provide evidence of clear LDP and GSA for all parties in transaction.* ***Must include screen prints from SAM for all GSA verifications of all parties.***

Documentation of the clearance must be completed through the SAM website (https://www.sam.gov/portal/SAM) for all USDA loans as USDA does not permit third-party verifications such as the DataVerify report.

Note: To search more than one name at a time, the SAM website permits multiple name searches (up to six names at once) through the "Advanced Search – Exclusion" option.

Uniform Residential Loan Application

Loan Application Requirements

The loan application submitted for underwriting must be reviewed during the underwriting process to ensure it is complete:

- A full two-year history of employment and residency is required (unless otherwise exempted by the loan program) and all personal information for each borrower (social security number, date of birth, address, and education) must be complete.
- All declaration questions must be marked as well as whether the application was taken face-to-face, by telephone, or by mail.
- All applications must be signed by the borrowers.
- The interviewer's name and employer must be completed in all cases.

The final application for closing must adhere to the requirements above, including the borrower's complete and accurate financial information relied upon by the USDA Certified Underwriter, and the application must be signed and dated by all borrowers. The final application must include all debt incurred during the application process and through loan closing of the mortgage.

During the underwriting process, all transactions must be reviewed for reasonability, including the feasibility of occupancy claims and the overall financial picture of the borrowers. An adequate explanation must be obtained and documented in the loan file if conflicting information exists between or within documents,

All documents in the origination file relevant to underwriting must be reviewed for signs of alteration or fabrication. An adequate explanation must be obtained and documented in the loan file if conflicting information exists between or within documents.

Face-To-Face Interview

Overview

The borrower must be given the option to complete the application face-to-face for all loan transactions. The file must be documented accordingly to verify that this option was provided if the applicant declines a face-to-face application.

The supporting documentation must be completed and maintained in all purchase files when the application is completed by mail, telephone, video conferencing, or electronically.

Identity and Social Security Number Validations

Identity Verification

The borrower's identity must always be established even though a face-to-face interview is not a requirement. The borrower must provide one piece of acceptable identification to the closing agent as evidence of his or her identity at closing. The following are acceptable forms of identification:

- Passport (government issued, valid, and unexpired)
- Resident Alien Card (government issued, valid, and unexpired)
- Driving License (state issued, valid, and unexpired)
- State ID Card (state issued, valid, and unexpired)

The borrower's Identify Certification must be completed and returned by the closing agent. The form must clearly indicate which of the above documentation was provided as identification.

To be eligible for Agency assistance, the applicant must be a U.S. citizen, a U.S. noncitizen national, or a qualified alien and provide acceptable evidence of eligible immigration status. Any applicant who is not a U.S. citizen, a U.S. non-citizen national, or a qualified alien should be rejected. Aliens and alien non-citizen nationals must provide acceptable evidence that they are qualified aliens.

A Borrower who is a non-permanent resident may be eligible for financing provided:

- the Borrower has a valid SSN;
- the Borrower is eligible to work in the United States, provided the borrower provides either:
  - an Employment Authorization Document (USCIS Form I-766) showing that work authorization status is current;
  - evidence of being granted refugee or asylee status by the USCIS (see below); or
  - evidence of citizenship of the Federated States of Micronesia, the Republic of the Marshall Islands, or the Republic of Palau; and
- the Borrower satisfies the same requirements, terms and conditions as those for U.S. citizens.

A Borrower residing in the U.S. by virtue of refugee or asylee status granted by the USCIS must provide documentation:

- Employment Authorization Document (USCIS Form I-766) or USCIS Form I-94 indicating refugee (EAD codes A03 or A04) or asylum status (EAD code A05), or
- USCIS Form I-797 notice indicating approval of a USCIS Form I- 589, Application for Asylum or Withholding of Removal substantiating the refugee or asylee status.
- Note – Asylum applicants with EAD code C08 or I-797 showing receipt of asylum application without approval are not acceptable nonimmigrant types.

Borrowers classified under Diplomatic Immunity, Temporary Protected Status (TPS, EAD classes A12 or C19), Deferred Enforced Departure (DED, EAD class A11), or Humanitarian Parole (EAD card states “Serves as I-512 Advance Parole”) are not eligible for financing.

Supporting documentation of non-citizens is subject to review and acceptance by USDA.

Identity and Social Security Number Validations (continued)

Social Security Number Validation

All borrowers must provide evidence of a valid Social Security number regardless of the Loan transaction. Acceptable documentation for Social Security number includes the following:

- Valid social security card
- Current pay stub
- W-2 form

The Social Security number provided for the borrowers will be validated by CMS. The validation process is intended to reconcile consistency with the numbering format, the borrowers' names, and dates of birth.

Note: Any use of a Social Security or Individual Taxpayer Identification Number for purposes of filing taxes that was not issued legally to an applicant is considered fraud. As such, the applicant will not be eligible for a loan through Carrington and evidence of such fraud will be reported as required under Carrington policy.

Occupancy Types

Overview

If a borrower indicates that the subject property will be his or her primary residence, the viability of the borrower occupying the property must be assessed. For refinance transactions, the current address reported on the Uniform Residential Loan Application (URLA)must be compared to the addresses listed on the credit report. Any red flags or inconsistencies found within the last 12 months must include a full explanation.

Primary Residence

A primary residence is a property that is physically occupied by the borrower as his or her principal residence. A primary residence is a property that:

- The borrower occupies the property as his or her principal residence.
- The borrower occupies the property for the major part of the year.
- The location is convenient to the borrower's principal place of employment.
- The address is of record for one or more of the following: federal income tax reporting, voter registration, driver's license, occupational licensing, etc.

The borrower must occupy the property within 30 days of closing.

An applicant who owns a dwelling generally is not eligible for a Section 502 loan, except for refinancing an existing Section 502 or 504 loan for a rate reduction, no cash out refinance loan. However, if the applicant's dwelling is structurally unsound, functionally inadequate, too small to accommodate the needs of the household, or the borrower's current home is at least 50 miles away from the subject property funds may be provided to purchase a new one.

- **Increase in Family Size**

  The borrower may be permitted to obtain another primary residence with an FHA mortgage if the number of legal dependents increases where the present house no longer meets the family's needs. The borrower must provide satisfactory evidence of the increase in dependents and the property's failure to meet the family's needs.

  The borrower must pay down the outstanding mortgage balance on the present property to 75% LTV or less. A current residential appraisal must be used to determine LTV compliance. Tax assessments, market analyses by real estate brokers, etc. are not acceptable proof of LTV compliance.

- **Vacating a Jointly Owned Property**

  If the borrower is vacating a residence that will remain occupied by a co-borrower, the borrower is permitted to obtain another USDA mortgage.

  In all other cases, existing USDA guaranteed mortgages must be paid off before borrowers may obtain another USDA loan.

Borrowers, Co-Borrowers, Co-Signers, and Non-Purchasing Spouses

Borrowers and Co-Borrowers

A borrower must be an individual. Title must be in the borrower's name at application for refinance transactions.

Ineligible Borrowers

The following non-individual legal entities are ineligible borrowers:

- Corporations
- General Partnerships
- Limited Partnerships
- Real Estate Syndications
- Investment Trusts
- Non-occupant borrowers are not eligible
- Trusts (including Inter-vivos and Living Trusts)
- Limited Liability Company (LLC)

Non-Purchasing Spouse

Non-purchasing spouses may be required to sign either the security instrument or documentation evidencing that he or she is relinquishing all rights to the property if required by state law in order to perfect a valid and enforceable first lien, as is the case in some community property states. If the non-purchasing spouse executes the security instrument, he or she is not considered a borrower for underwriting purposes and need not sign the loan application or note.

In all other cases, the non-purchasing spouse is not to appear on the security instrument or otherwise take title to the property.

Non-purchasing spouse may be added to title on a purchase transaction or may remain on title when refinancing. No other party other than the borrower or their spouse may be permitted to have a vested interest to the property.

Community Property States

If the property is located in a community property state or the borrower resides in a community property state, the following requirements must be followed:

- A credit report for the non-purchasing spouse is required to determine any joint or individual debts and to determine the debt-to-income ratio.
- The credit report for the non-purchasing spouse must not be a joint report, it must be obtained separately.
- Authorization from the non-purchasing spouse must be obtained and documented to pull a separate credit report. The loan must be rejected if the non-purchasing spouse refuses to provide authorization for the credit report.
- In order to do the records check, the Credit Company must be given non-purchasing spouse information, including names, address, birth date, and any other significant information requested. If the non-purchasing spouse does not have a Social Security number, the fact that the non-purchasing spouse has no credit history and no public records against him or her must be verified by the credit reporting company.

Borrowers, Co-Borrowers, Co-Signers, and Non-Purchasing Spouses (continued)

Non-Purchasing Spouse (continued)

- Except for debt obligations specifically excluded by state law, the debts of the non-purchasing spouse must be considered in the qualifying ratios. See the Community Property States section below. Prior to or at closing, all defaulted federal debt, open judgments and liens, including those of the non-purchasing spouse, must be satisfied.
- Use the greater of the monthly payment amount or 5% of outstanding balance of all debts and include in the debt ratio calculation to calculate the monthly obligation of the non-purchasing spouse.
- Disputed debts of the non-purchasing spouse do not need to be counted with acceptable documentation of the dispute.
- The credit history of the non-purchasing spouse should not be the sole basis for declining the loan.

Community Property States-

The following states are community property states:

- Arizona
- California
- Idaho
- Louisiana
- Nevada
- New Mexico
- Texas
- Washington
- Wisconsin

Previous Financial Crimes

Policy

CMS will not make a loan to any individual who has ever been convicted of a felony or within the past five (5) years if convicted of a misdemeanor where money or property was taken or used in an illicit manner. Guilty or No Contest pleas are included in this restriction. Examples of such crimes include but are not limited to fraud, embezzlement, forgery or identity theft.

Transaction Types

Overview

CMS will accept loans made for the following purposes as defined in this section.

- Purchase Mortgages
- Rate/Term Refinance Mortgages

Purchase Mortgage

A purchase mortgage loan involves the purchase of a Mortgaged Premises, as defined by a sale and purchase agreement executed by the borrower and seller, which represents a first and/or second lien on the property. The seller must be the owner of record.

All purchase transactions must include a complete purchase agreement, including all addenda. All purchase agreement terms must be considered in the underwriting decision and any evidence of undisclosed elements of the transaction must be investigated. Examples of undisclosed elements are evidence of straw buyers (changes in purchaser on the purchase agreement) or possible undisclosed seller concessions, such as making mortgage payments on behalf of the borrower for the first few months of the loan.

In purchase transactions where the seller is a corporation, partnership, or any other business entity, the borrower must not be an owner of the business entity selling the subject property.

Loans where the purchase agreement has been assigned are not eligible.

The subject property may not be rented back to the seller for any period of time after the loan closing.

Proof that the property seller has owned the property for 12 months or a chain of title for the last 12 months is required. Acceptable sources for the chain of title include the following:

- Copies of recorded deeds
- Tax statements
- 12-month chain of title on the title commitment

If a property was previously sold within the last 12 months, ensure the transaction is legitimate. Some characteristics of fraudulent transactions include but are not limited to foreclosure bailouts, distressed sales, and inflated values due to stated improvements that are not supported.

Purchase transactions do not allow for cash back to the borrower at closing other than an amount representing the earnest money deposit paid by the borrower in advance.

If the borrower receives cash back for the earnest money deposit, the USDA Certified Underwriter must confirm that the minimum borrower contribution requirement associated with the selected mortgage product (if applicable) has been met.

Transaction Types (continued)

Purchase Mortgage (continued)

Identity of Interest Transactions (non-arm's length transaction)

An identity of interest transaction is a transaction for the purchase of a principal residence between one of the following:

- Parties with a familial or business relationship
- Business affiliates

Note: An identity of interest transaction does not include an employer/employee transaction when the employee is purchasing the seller's principal residence.

Refinance Mortgages

The maximum amount of financing is determined by the following:

- Occupancy
- Use of the loan proceeds
- How and when the property was purchased

CMS' investors will purchase the following refinance transaction types:

- Streamline Refinance - A credit qualifying streamline refinance of existing USDA insured mortgages, with or without an appraisal. A full review and evaluation of the borrower's income, assets and credit is performed.
- Streamlined Assist Refinance - A non-credit qualifying streamline refinance of existing USDA insured mortgages, with or without an appraisal.
- Rate Reduction Refinance - A no cash-out refinance of an existing USDA loan.

Net Tangible Benefit

It must be determined that there is a net tangible benefit to the borrower as a result of the refinance transaction. Encompass tests all rate/term and streamline refinances for net tangible benefit. Streamlined Assist refinances must meet the payment reduction NTB requirement stated below.

Streamline Refinance

A streamline refinance is intended to lower the monthly principal and interest payments of a current USDA guaranteed mortgage with no cash back to the borrower. Documentation requirements are significantly reduced under this refinance option. Streamline refinances require the borrower's to be credit qualified.

Streamline refinances can be completed with or without an appraisal. Except for health, safety, and lead-based paint related repairs, completion of repairs is not required on Streamline Refinance transactions. A termite certification is only required when a problem has been noted by the appraiser.

Transaction Types (continued)

Refinance Mortgages (continued)

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, eligible loan closing costs, funds necessary to establish a new tax and insurance escrow account, and the upfront 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 repayment ratio provisions.
- The existing loan must have closed 12 months prior to request for a refinance.
- The borrower is not required to meet all the credit requirements as outlined in Chapter 10 of the USDA Handbook. The existing mortgage must be paid as agreed for the 12 months prior to application for a streamlined-assist refinance. Lenders may verify mortgage payment history through a Verification of Mortgage obtained directly from the servicing lender or a credit report. If a credit report is ordered to determine timely mortgage payments, other credit accounts will not be reviewed.
- Borrowers may be added; however, only deceased borrowers may be removed from the loan.
- GUS is unavailable for this product and these loans must be manually underwritten.

Rate Reduction Refinance

A rate and term refinance mortgage represents a lien that is used to pay off the existing mortgage or lien with a new loan. Cash removal is not permitted.

A rate and term refinance transaction is a loan where proceeds are distributed for one or more of the following reasons:

- Pay off the outstanding principal balance of an existing first USDA lien plus any required per diem interest.
- Allowable closing costs and prepaid expenses.
- Finance the USDA Guarantee Fee.

Transaction Types (continued)

Refinance Mortgages (continued)

Restructured Loan/Short Payoff

A restructured loan or short payoff is a mortgage loan in which the terms of the original transaction have been changed resulting in either absolute forgiveness of debt or a restructure of debt through either a modification of the original loan or origination of a new loan that results in one of the following:

- Forgiveness of a portion of principal and/or interest on either the first or second mortgage.
- Application of a principal curtailment by or on behalf of the investor to simulate principal forgiveness.
- Conversion of any portion of the original mortgage debt to a soft subordinate mortgage.
- In many cases, a borrower may not disclose that their existing mortgage loan has been restructured. The credit report may show a restructured loan as settled for less than owed. If the credit report does not specify settled for less than owed, scrutinize the mortgage balance reported on the credit report versus the payoff balance. If the two balances do not match and the difference is more than unpaid interest or prepayment penalties, the loan may have been restructured.

Restructured loans/Short payoffs are eligible for financing as a rate/term refinance. The loan must comply with all USDA product guidelines and be paying off a USDA guaranteed loan. The loan may not currently be delinquent and there can be no late payments in the last 12 months.

Principal Curtailment

Principal curtailments are permitted in the following cases:

- **Lender Paid Transactions**—on transactions where the loan originator is paid by the lender, CMS permits a principal curtailment on purchase and refinance loans unless noted below as a result of excess premium rate credit. The excess premium must be identified on the HUD-1 Settlement Statement and is limited to the amount of the excess premium rate credit below. The premium rate credit is the amount associated with the lowest pricing rate option that allows for some or the entire borrower's closing costs to be paid so the borrower does not have to pay those closing costs out of pocket.
    - If the premium rate credit is less than or equal to $2,000 for loan amounts up to $350,000, or $4,000 for loan amounts exceeding $350,000, then no additional documentation is required.
    - For premium credits exceeding these thresholds, evidence that the next lower pricing option would require the borrower to pay closing costs out of pocket must be documented in the file (e.g., GFE, Pricing/Rate Sheet, etc.).

  If the borrower was not provided with the lowest possible rate while accommodating the customer request, the loan is not eligible.
- **Borrower Paid Transactions**—on transactions where the loan originator is paid by the consumer, principal curtailments are not permitted. The premium rate credit must not exceed the amount of the third-party costs.

Transaction Types (continued)

Refinance Transactions with Escrow Credits

CMS permits the netting of escrows on USDA loans.

Refer to the CMS Closing Policy and Netting Escrow Requirements for additional information.

Loans on Leasehold Estates

Overview

Loans to finance the purchase of dwellings located on leasehold estate may be guaranteed if the conditions described in this paragraph are met, and the applicant and the property otherwise meet the requirements outlined in this Handbook.

Definition

A leasehold estate is the right to use and occupy real estate for a stated term and under certain conditions that have been conveyed by a lease. In most cases, improvements to real estate are purchased in fee simple, subject to ground rent. Rent is paid for the right to use and occupy the land.

The lender's mortgage file must have documentation indicating that the appropriate legal documents have been reviewed for compliance with Agency regulations.

Lease Requirements

Mortgages subject to leasehold estates must meet the following conditions:

- The mortgage must cover both property improvements and the leasehold interest in the land.
- The leasehold estate must constitute real property, be subject to the mortgage lien, and be insured by a title policy.
- The estate's term runs fifteen or more years beyond the maturity date of the loan closing, except in the case of properties located on American Indian restricted land where the lease must have an unexpired term at least equal to the term of the loan. Leases on American Indian land for a period of 25 years which are renewable for a second 25 years are permissible.
- The leasehold estate must be assignable or transferable.
- The lease cannot be terminated except for nonpayment of lease rents.

The lease must:

- Provide for lender notification of any default by the borrower and the option to cure the default.
- Provide that the borrower will pay taxes, insurance, and association dues on the land and retain voting rights in the association.
- Provide that the leasehold can be transferred, mortgaged, and sublet without restriction.
- State rental increases in exact dollar amounts.
- Be recorded and constitute an interest in real estate.
- Permit mortgaging of the leasehold.
- Provide for written notice of default.
- • Provide renewal options for the leasehold mortgagee.

Maximum Mortgage Limits

Requirements

The maximum loan amount is determined by qualifying ratios and county maximum income limits. Maximum loan amount cannot exceed 100% of the appraised value. Maximum loan amount including financed guarantee fee cannot exceed 102% of the appraised value. On purchase transaction, if the sales price is lower than the appraised value, closing costs may be financed into the loan amount up to a maximum of 100% of the appraised value.

Loan-to-Values

Calculating Combined Loan-to-Value

Purchase Transactions

The maximum combined loan to value for a purchase transaction is calculated as follows:

Principal balance of the first mortgage (excluding financed Guarantee Fee)

Divided by

The lower of the appraised value or sales price

Rate/Term and Cash-out Transactions

The maximum combined loan to value for a Rate/Term refinance transaction is calculated as follows:

Principal balance of the first mortgage (Excluding financed Guarantee Fee)

Divided by

The appraised value

Minimum Borrower Investment

Overview

There is no minimum borrower cash investment required for USDA guarantee purchase loans.

Acquisition Cost

The acquisition cost is calculated as follows:

Sales price + Cost of any required repairs paid by the borrower + all borrower-paid closing costs

The difference between the total cost to acquire the property and the mortgage amount can be provided from any of the following sources:

- Borrower's own funds
- Seller concessions.

Any additional costs for prepaid expenses, MIP paid in cash, and discount points may be reduced by premium pricing.

Seller Contribution Limitations

Contributions/ Contributors

Contributions are any costs that are typically the responsibility of the borrower, but paid by another individual. Contributors may include direct participants such as the property seller, builder, developer or real estate agent.

Financing contributions subject to the maximum 6% contribution limitation include, but are not limited to, the following:

- Discount points
- Buy down funds
- Seller-paid closing costs
- Prepaid expenses
- Guarantee Fee

Inducements to Purchase

A downward adjustment to the property's sales price by the amount of the Inducement to Purchase must be made to reflect the amount of the lesser of the adjusted sales price or appraised value.

Inducements to Purchase include, but are not limited, to the following:

- Personal property items such as cars, boats, riding lawn mowers, furniture, televisions
- Moving costs
- Vacations
- Automobiles
- Other items considered giveaways
- Decorating allowances, repair allowances, and other costs as determined by the Home Ownership Center
- Excess rent credit
- The seller or builder paying a portion of the borrower's sales commission on the sale of the borrower's present home
- If the real estate broker is involved in both transactions and the seller paid a real estate commission exceeding the amount typical for the area and the borrower is not paying a sales commission on the sale of his or her present home. In this type of situation, the excess amount paid by the seller is considered an Inducement to Purchase.
- Contributions in excess of actual costs

Depending on local custom, certain costs may be considered part of the real estate transaction and their value will not be subtracted from the sales price. Examples include ranges, refrigerators, dryers, washers, carpeting, and window treatments.

Seller Contribution Limitations (continued)

Premium Pricing

To reduce the borrowers' required funds for closing, the funds received from premium pricing may be applied towards closing costs and prepaid expenses. Premium pricing may be considered as part of a borrower's own funds and does not need to be included as part of the 6% seller contribution limit. Premium pricing must never be used to pay any part of the borrower's required down payment or for payment of debts, collection accounts, escrow shortages, missed mortgage payments, judgments, etc.

The HUD-1 Uniform Settlement Statement and Good Faith Estimate of Closing Costs must itemize all charges being paid on the borrower's behalf. It is not acceptable to disclose a lump sum amount.

Any remaining funds due the borrower from a premium pricing agreement must be applied to the principal balance of the loan.

Secondary Financing—Down Payment Assistance

Must establish that a Government Entity provided the borrower's required minimum cash investment. The mortgage must document that the Government Entity incurred prior to or at closing an enforceable legal liability or obligation to fund the borrower's required minimum cash investment.

Acceptable forms of documentation are:

- Cancelled check, evidence of wire transfer or other draw request showing that prior to or at the time of closing the Government Entity had authorized a draw of funds, or
- Letter from the Government Entity, signed by an authorized official, establishing that the funds provided towards the borrower's required minimum cash investment were funds legally belonging to the Government Entity at or before closing.

RD will permit the secondary financing component to be made by a Government-approved mortgagee or Government-approved non-profit on behalf of the Government Entity provided the mortgagee or non-profit is not a prohibited source and the Government Entity holds the secondary financing prior to endorsement of the first mortgage.

Mortgagees must document that the secondary financing is held by the Government Entity prior to submission of the mortgage to RD.

Requests to review Down Payment Assistance Programs for use with CMS agency first mortgage programs may be submitted to DPAPrograms@Carringtonms.com.

All requests must include a completed Down Payment Assistance New Program Request Submission Form along with the required exhibits.

Allowable Borrower Paid Closing Costs

Requirements

Closing costs are the actual expenses related to the purchase or financing of the property that will be paid by the borrower. Costs necessary to close the loan may be charged to the borrower with the following restrictions:

- All costs must be disclosed on the Good Faith Estimate.
- Tax service fees may not be charged to the borrower.
- The borrower must agree in writing to the charge of courier service/express mail fee prior to settlement.

All state-specific requirements on the collection of fees and charges must be followed (e.g., New Jersey, Vermont).

Guarantee Fee

Overview

The USDA guarantee mortgage provides CMS with protection against losses as the result of homeowners defaulting on their mortgage loans. CMS bears less risk because USDA will pay a claim in the event of a homeowner's default. All loans require an Up-Front Guarantee Fee and/a Monthly Guarantee Fee.

Up-Front Mortgage Insurance Premiums

The Up-Front Guarantee Fee must be either financed into the loan amount or paid in cash at closing. The Up-Front fee cannot be split with part of the amount financed and the remainder paid at closing. On a purchase transaction, the total Up-Front Guarantee Fee cost must also be paid by either the borrower or by the seller. It cannot be a shared cost.

Examples

USDA's 2% guarantee fee can be financed into the maximum loan amount. Following are few examples of different scenarios to show how to correctly calculate this fee.

Example #1

Purchase Price $250,000
Appraised Value $258,000
Borrowers want to finance $8,000 in closing costs in the loan since the appraisal is higher than the purchase price. In addition, they will finance USDA's guarantee fee.
Loan Amount $258,000 divided by .98 = total loan amount of $263,265.30
Subtract total loan amount $263,265.30 from loan amount $258,000 = $5,265.30 USDA Guarantee Fee
Total Loan Amount $263,265 X 2% = $5,265.30 USDA Guarantee Fee

Example #2

Purchase Price $300,000
Appraised Value $300,000
There is no room to finance closing costs; however, the borrowers would like to finance the USDA guarantee fee.
Loan Amount $300,000 divided by .98 = Total loan amount of $306,122.44
Subtract total loan amount $306,122.44 from loan amount $300,000 = $6,122.44 USDA Guarantee fee
Total loan amount $306,122 X 2% = $6,122.44 USDA Guarantee Fee

Example #3

Purchase Price $175,000
Appraised Value $190,000
There is a $15,000 difference between the appraisal and the purchase price; however, the borrowers only want to finance $10,305 in closing costs plus the USDA fee.
Purchase Price $175,000 + $10,305 closing costs = Loan Amount $185,305
Loan Amount $185,305 divided by .98 = total loan amount $189,086.73
Subtract total loan amount $189,086.73 from loan amount $185,305 = $3,781.73
Total Loan Amount $189,086.73 X 2% = $3,781.73

Guarantee Fee (continued)

Monthly/Annual Premium

A monthly premium is paid in the monthly mortgage payment with the principal, interest, taxes, and insurance.

The monthly guarantee fee is calculated by multiplying average outstanding balance by the premium factor rate shown on the Up-Front and Annual Guarantee Fee chart on the CMS Product Matrix.

USDA Risk Management

Overview

This section discusses the requirements that must be followed to ensure the issuance of the USDA Loan Guarantee. This certificate is essential when offering the loan in the secondary market.

Requesting the Loan Guarantee Certificate

Requesting the Guarantee Certificate

CMS must submit a fully executed form RD 3555-21 to RD for the issuance of the Loan Guarantee Certificate. The document must be signed by the CMS authorized representative and all applicants that are a party to the note. An additional form must be utilized if more than two applicants are on the loan. Original signatures are not required. CMS must complete the entire form with accurate loan information and document the interest rate agreed to by the applicants (s).

In addition, Form RD 3555-21 “Request for Single Family Housing Loan Guarantee” must contain all pages from the currently published version on USDA LINC and include the Income Calculation worksheet completed with all income calculations fully documented. The top of page 4 “Worksheet For Documenting Eligible Household and Repayment Income” must list all Household Members regardless of age or income status.

Insuring an USDA Guarantee Loan

Requirements

The USDA Guarantee Program has been designed to give the lender certainty of the issuance of the Guarantee Certificate by requiring all files to be submitted to the local RD office for approval prior to closing.

The loan should not be delivered to RD for approval without meeting all the requirements necessary. Reasons that a loan may not be approved and guaranteed by USDA include, but are not limited to, the following:

- The loan amount exceeds the applicants qualifying ratios or the county maximum income limits.
- LDP and Procurement/Non-procurement search showed a default that was not cleared.
- CAIVRS showed a default that was not cleared.
- Fraud is detected.
- Loan churning is detected.

Risk Controls

Verifications Sent to Post Office Boxes

If a verification form is forwarded to a Post Office Box and the borrower indicates this is the necessary address, the information must be confirmed through additional follow-up. If it is determined that the information provided is the correct address for verifications, the file must contain a statement from the person that verified this information stating that he or she independently contacted the institution and verified this requirement. Documentation verifying this requirement must be provided in the loan package.

Fraud/Red Flags

Fraud is the intentional misrepresentation of facts that are material to the underwriting decision on a loan. Fraud may be committed for profit or simply to qualify an otherwise ineligible borrower for a loan. CMS has a Zero Tolerance Policy on fraud or misrepresentation. Examples of fraud or misrepresentation include, but are not limited to, the following:

- Forging signatures.
- Assisting in preparing income documentation/verifications.
- Falsifying bank statements and/or assets.
- Not disclosing borrower's liabilities.
- Misrepresenting occupancy of the property in question.
- Not disclosing or acting upon the known instances of fraud or misrepresentation.
- Colluding with the appraiser to inflate values.

To detect and avoid fraud, certain details in a loan package that signal caution, known as red flags, must be reviewed carefully. When evaluating a file, it is very important to check for consistency and perform cross checking. All related information in a file must be reviewed and compared. Any inconsistencies must be considered a red flag.

Risk Controls (continued)

Fraud/Red Flags (continued)

Red flags alert origination personnel to situations that warrant caution and may require some follow-up to ensure that the information is valid. The following are common red flags:

Loan Application

- There is a significant increase or unrealistic change in commuting distance.
- Significant or contradictory changes from handwritten to typed loan application.

Credit Report

- Pattern of delinquencies that are inconsistent with credit explanations.
- Undisclosed bankruptcies, foreclosures, or debts.
- Employment data and or residence data that significantly conflicts with the loan application.
- Multiple Social Security numbers associated with the borrower based on numerous possible non-applicant accounts or Social Security number variations. If this is found, determine whether the information is indicating the possibility that the borrower's Social Security number is inaccurate, invalid, or the borrower is using multiple Social Security numbers. If any of these issues are found, the file must be referred to Quality Control for further review and validation.
- Numerous Authorized User accounts.
- Credit report warning messages must be carefully reviewed. For example, if the warning message indicates that the borrower's Social Security number is related to a deceased individual, then further validation must be completed.
- Multiple names associated with the borrower and his/her Social Security number.
- Nicknames that is unrelated to the borrower's name.

  The above items may indicate inaccurate Social Security numbers; however, it is important to carefully review the borrower's Social Security number information throughout the file and determine whether a simple error occurred (e.g., typographical error, transposition of two numbers, etc.) before referring the file for further review and validation.

Risk Controls (continued)

Fraud/Red Flags (continued)

Victim of Identity Theft

A borrower who has been identified as a victim of identity theft may be denied credit for a reason other than the identity theft.

If the file contains information that contains inconsistent Social Security number information, the following must be reviewed:

- Verify that the credit report was run under the borrower's correct Social Security number. If the credit was run under an incorrect Social Security number, rerun credit using the accurate Social Security number.
- If documentation received during the processing and underwriting of the loan indicates a different Social Security number than the one being used on the loan application, a valid explanation and documentation must be provided by the borrower to address the discrepancy. A new credit report must also be run on the number discovered during the review.
- If the credit report includes comments that the borrower has used a different Social Security number, a valid explanation and documentation must be provided by the borrower regarding the additional Social Security number.
- If the credit report indicates that the Social Security number has not been issued, additional documentation and verification must be obtained to show that the number is valid. Invalid or impossible Social Security numbers:
    - three or more leading zeros
    - zeros in positions 4 and 5
    - four trailing zeros
    - leading numbers of 73 or 79
    - leading numbers of 8 or 9
    - Tax Identification numbers instead of Social Security numbers are used

Risk Controls (continued)

Fraud/Red Flags (continued)

Income

- The name or Social Security number does not match the borrowers.
- The income on the application is overstated.
- The borrower's address or profession does not agree with the information submitted on the loan application.
- The federal income tax return is incomplete (missing schedules, information, etc.).
- Schedule A shows unexplained real estate taxes paid for non-home owners.
- A borrower with substantial cash in the bank shows little or no related interest income shown on Schedule B.
- Schedule B does not reflect dividend income for borrower claiming stock investments.
- The gross income listed on Schedule C does not agree with the total income according to the 1099 Statements.
- Schedule E lists additional properties that are not on the loan application.

Financial statements on business prepared by someone other than the person that completed previous tax returns.

Pay Stubs

- A large employer has a handwritten or typed pay stub.
- Pay stub does not contain the name of the borrower or employer.
- The Social Security number of the borrower is not correct.
- No pay period.
- No check issue date.
- Does not include a current income breakdown or a year to date figure.
- Tax deduction not detailed including Social Security, Medicare, etc.
- The company address is a P.O. Box.
- The employer address is different than address provided by borrower.
- Subsequent pay stubs, year to date income, and withholdings do not total up correctly.
- Inconsistent name spelling and address of borrower.
- Inconsistent pay dates and/or pay days.
- Inconsistent payroll check numbers.
- Payroll deductions disclose additional liabilities not included on the loan application.

Risk Controls (continued)

Fraud/Red Flags (continued)

W-2 Forms

- A large employer has a handwritten or typed W-2 form.
- Rounded dollar amounts.
- Business identification number is the same as the borrower's Social Security number.
- Taxes paid are low compared to income stated on W-2 form.
- Inconsistencies in name spelling, address, employer's address, and Social Security number, etc.

Assets

- Regular payroll deposits that do not agree with reported income.
- There is no evidence that the earnest money deposit is debited to the checking account.
- Inconsistent name spelling and address of borrower.
- Bank statements reveal loans or deductions for liabilities not disclosed on the loan application.

Tax Returns

- Borrower's address or profession does not agree with the information submitted on the loan application.
- The federal income tax return is incomplete (missing schedules, etc.).
- Schedule A indicates there are real estate taxes or mortgage interest paid but does not list property owned.
- A borrower with substantial cash in the bank shows little or no related interest income shown on Schedule B.
- Schedule B does not reflect dividend income for borrower claiming stock investments.
- Gross income listed on Schedule C does not agree with the total income according to form 1099.
- Schedule E lists additional properties that are not listed on the loan application.

Verification of Employment

- There is evidence of white out or other alterations. Any alterations must be confirmed with the employer to verify that the information is valid.
- The VOE is completed by an inappropriate verification source such as a secretary or a relative. This could be an indication that the borrower is self-employed. The accountant for the business must verify that the borrower does not have any ownership interest in the business and all income information must be verified by pay stubs and W2 forms.

Risk Controls (continued)

Fraud/Red Flags (continued)

Verification of Deposit

- Borrower's funds are security for a loan.
- The bank account is not in the borrower's name or is a joint account with another party.

Appraisal

- An interested party to the transaction (seller, buyer, broker, etc.) orders the appraisal.
- Tenant shown as contact on a refinance of an owner-occupied property.
- Appraisal dated prior to date of application.
- For sale or rent sign in the subject property photos.
- Presence of construction permits in subject photograph where no repairs are mentioned by the appraiser or borrower.
- The owner listed on the appraisal report and is not the seller listed on the sales contract.
- Owner-occupied refinance transaction when the borrower is not listed as the occupant.
- Ownership information on the appraisal report does not match owner of record on the title report.

Collateral Valuation Practices and Declining Value

- A market may experience a decline in property values. One of the potential problems in a declining market is the overstatement of property values in appraisal reports. This may result in the borrower not having an accurate property valuation, and overvaluation of a property could increase loan losses should the mortgage loan subsequently default.

Ownership Validation

- Carefully review and analyze the sale or transfer history of the subject property.
- Identify the current owner.
- Confirm that the owner of record is the seller of the property listed on the sales contract for purchase transactions and/or the borrower for refinance transactions.
- Discrepancies in during the ownership validation process should be reviewed by the Direct Endorsement USDA Certified Underwriter.

Risk Controls (continued)

Fraud/Red Flags (continued)

Loan Churning

Loan churning is defined as the practice of lenders encouraging multiple refinances during a short period of time. CMS prohibits the churning of loans. The following are examples of loan churning:

- Applicant purchasing and/or refinancing multiple owner-occupied properties within a 12-month period.
- Funding a refinance or home equity transaction then applying for a subsequent purchase transaction.
- Solicitation by a Loan Officer to refinance a six-month ARM every six months.
- Solicitation of the refinance of a home equity loan multiple times.

Property Flipping

It remains the lenders responsibility to ensure any recently sold property’s value is strongly supported when a significant increase between sales occur. CMS must perform a thorough review of the appraisal report to validate and support the property’s value and protect the applicants from possible predatory real estate lending.

- Foreclosure Sales

  If the seller purchased the property at a foreclosure sale, but the deed transferring the property was not recorded until several months later, the date of the warranty deed conveying subject property to seller must be used as the acquisition date and the file must be documented with an explanation as in the following example:

  - Date of foreclosure sale is April
  - Date deed recorded is July
  - Acquisition date is April

  A copy of the seller's winning bid for the property and the other documents from the Sheriff showing the property was sold to the seller at the auction must be obtained.

Risk Controls (continued)

Fraud/Red Flags (continued)

- Restrictions on Property Re-Sales

  The seller must be the owner of record. The sale or assignment of the sales contract is not permitted.

  - Documenting the Owner of Record

    It is mandatory to obtain documentation to show that the seller is the owner of record and to include this documentation in the file. Documentation may include the following:

    - Property sales history report.
    - Copy of the recorded deed from the seller.
    - Copy of the property tax bill.
    - Preliminary Title Report, which must be checked to ensure that the seller is the owner of record on the subject property as indicated on the sales contract and the date the property was acquired.
      - If the appraisal shows that the most recent sale of the subject property occurred at least one year ago, and documentation is obtained to show the seller is the current owner (documentation must include the actual date of acquisition and sales price), no additional documentation is required to support the time period restriction. If conflicting information exists, it must be resolved and documented in the loan file.
      - If the loan file does not contain documentation regarding the owner of record and the purchase date at the time of the underwriting review the following condition should be added: **"Ownership *information must meet all USDA requirements regarding property flipping.*"** Final approval should not be given without receipt of acceptable ownership documentation. Acceptable evidence may include a copy of the deed, AVM report, or copy of a tax bill evidencing ownership information in order to proceed with a final approval status.

        At the time of final approval, the following condition should be added: ***Evidence* ____________ *(seller's name) is noted on the title report as the. Owner of record on or before* __________. (Date)**

        [1] Seller's Name – Fill in seller's name from sales agreement
        [2] Fill in the date 6 months prior to the new sales agreement contract date

Appraisal Transfer

Appraisal Transfer

An appraisal ordered by one lender may be assigned to another lender. If the borrower changes lenders the transfer may be necessary.

- The USDA Certified Underwriter is required to determine whether the borrower was denied credit and the reason for the denial (if applicable). If the appraisal has already been completed, the lender must also assign the appraisal to the requesting lender. The borrower must provide written authorization and this must be provided to the transferring lender.
- The appraisal must be completed by an FHA approved appraiser. A copy of the FHA Connection Screen confirming the FHA appraiser's approval status must be included in the file.
- The appraisal must have been independently ordered (i.e. through an AMC) to be acceptable to CMS.

If the FHA appraisal has already been completed, this must be included in the file and the USDA Certified Underwriter performs the standard appraisal review to determine compliance with minimum property standards.

Appraisal Assignment

If an USDA loan is in process with another lender and it is assigned to a Client after the appraisal has been completed:

- A written request permitting the transfer request must be obtained from the borrower. A copy of the appraisal report with all applicable addenda must be requested from the transferring lender.

  Note: The appraisal does not need to be retyped to reflect the Client as the lender.

- The Client may order a second appraisal to facilitate the continued loan processing and eliminate or reduce delays, only in the following situations:
  - The first appraisal contains material deficient as determined by the USDA Certified Underwriter.
  - The appraiser that completed the first appraisal is on CMS' exclusionary list of appraisers.
  - The initial lender failed to provide a copy of the appraisal to the Client in a timely manner causing a closing delay, thus posing potential harm to the borrower (events that are outside the borrower's control, such as loss of interest rate lock, purchase contract deadline, foreclosure proceedings and late fees).

  If a second appraisal is ordered:
  - The explanation for why the second appraisal was ordered must be documented by the USDA Certified Underwriter and retained in the loan file.
  - Both appraisals must be retained in the loan file.

USDA DOCUMENTATION

Overview

This section describes the following information:

- The required documentation for each loan submitted for mortgage underwriting and issuance of the USDA Guarantee.
- The specific requirements for processing and underwriting USDA Guarantee mortgages.

Minimum Documentation Requirements

Documentation Requirements to Close an USDA Loan

The following describes the minimum documentation required in order to close an USDA Guarantee Loan:

- GUS Automated Underwriting Findings
- Good Faith Estimate of Closing Costs and Addendum
- Final Uniform Residential Loan Application (URLA)
- Original signed USDA Certified Underwriter Transmittal Summary (1008)
- Original Fully executed Uniform Residential Loan Application (URLA)
- Screen prints of the following request/searches:
  - CAIVRS Search
  - LDP/Procurement/Non-Procurement Search
- Credit report
- Credit documentation
- Source of Funds Statement
- Asset documentation
- Gift Letter and supporting documentation, if applicable
- Proof of down payment, if applicable
- Escrow letter, if applicable
- Income documentation
- Recent pay stub
- W-2 forms

Minimum Documentation Requirements (continued)

Documentation Requirements to Close an FHA Loan (continued)

- Evidence of a valid social security number
- Proof of Citizenship or Qualified Alien Status
- Complete, fully executed sales contract
- Fully executed Amendatory Language Form and Real Estate Certification (Truth Statement), if not included in sales contract
- Copy of “For Your Protection: Get a Home Inspection” Disclosure for purchase transactions
- Executed Notice to Homeowner/Assumption of Insured Mortgage
- Executed Important Notice to Homebuyer (Verify the updated version of the form is being used by the 9/30/2007 expiration date)
- Complete original FHA appraisal with all exhibits
- Re-inspection report, termite certifications and all other property certifications, if applicable
- New construction exhibits, if applicable
- IRS form 4506-C
- Notice Regarding Refinance Transactions, if applicable
- Executed Informed Consumer Choice Disclosure
- Evidence of borrower's identity

Compliance Documentation

- Borrowers Signature Authorization
- Truth In Lending Disclosure Statement
- State/Product Disclosure Statements
- General Loan Application Acknowledgement-Disclosure Booklet
- Affiliated Business Arrangement Disclosure
- Servicing Disclosures

Minimum Documentation Requirements (continued)

Documentation Requirements to be Eligible for Underwriting

Credit Documents:

The following list describes the minimum documentation required for a loan to be considered complete and eligible for underwriting:

- **Approve/Accept Loans**
  - Complete Uniform Residential Loan Application (URLA)
  - Complete HUD/VA Addendum to URLA – Part IV must be signed by the borrower indicating consent to Social Security number validation)
  - GUS USDA Certified Underwriter Modified TOTAL Scorecard Findings
  - Three Merge In-file Credit Report
    - Credit reconciled and entered accurately in the applicable origination system
  - Income documentation as required by GUS USDA Certified Underwriter
    - Completed Self-employed Income Analysis (if applicable)
  - IRS form 4506-C/Tax Transcripts
  - Asset documentation as required by GUS USDA Certified Underwriter
  - Appraisal, if required
  - Complete and accurate Good Faith Estimate of Closing Costs
  - Truth-in-Lending, indicating date mailed for all purchase Loans
  - Disclosure booklet pages 3 and 4 completed and signed
  - Signature Authorization form completed and signed
  - Product specific disclosures completed and signed
  - State specific disclosures completed and signed

Document Images

CMS permits the use of any available technology to produce copies of the documents in the mortgage loan file, such as a photocopier, facsimile machine, document scanner, or camera. Copies of documents provided by the borrower may be photos or scanned versions of the original documents and can be delivered to CMS in hardcopy or via email or other electronic means.

Document images must be typical of what the actual document would look like and must have good image quality, be legible, and not have borders showing phone/mobile background content.

Electronic Signatures

Requirements

Electronic signatures are permitted on documents that are not included as part of the Uniform Residential Appraisal Report and third-party documents such as the sales contract and contract addenda, FHA Real Estate Certification, which may be signed with an electronic signature. CMS is responsible for ensuring the security and authenticity of the electronic signature in conformity with all applicable federal laws.

The following table contains the documents, as applicable to the loan transaction, which may not contain an electronic signature:

Note: The exceptions are noted with "Electronic signature permitted."

FHA Insurance Case Binder Document Requirements	

• Uniform Residential Loan Application (URLA)
• Credit history documentation
• Asset Verification documentation (including gift letters and relevant documents)
• Income verification documentation
• Amendatory Clause executed by all parties ***(Electronic signature permitted)***
• Real Estate Certification executed by all parties (Electronic signature permitted)
• All other contract addenda ***(Electronic signature permitted)***
• Automated Underwriting Feedback Certificate/Findings Report (if applicable)
• Supporting documents, such as:
  o Secondary lien exhibits
  o Buy down agreements
  o Attachments, memos and clarifications, if applicable
• Copy of the Mortgage Note and all applicable riders and allonges
	• Evidence of satisfaction of valuation conditions (if applicable)
	• Form NPCA-1, Wood Destroying Insect Infestation Report , or State mandated infestation report, if applicable
	• Local Health Authority's Approval for individual water and sewer systems (if applicable)
	• Evidence of 10-Year Warranty Plan Coverage, if applicable

Electronic Signatures (continued)

Requirements (continued)

FHA Insurance Case Binder Document Requirements	
• Copy of the Security Instrument (Mortgage or Deed of Trust) with all applicable riders • HUD-1 Uniform Settlement Statement/Good Faith Estimate for pre-closing • HUD-1 Addendum for purchases • Escrow Instructions, if applicable • Evidence of Social Security Number (such as on a printed pay stub, W-2, 1099, SS card, Medicare card, etc.) • Evidence of Tax Identification Number for non-profit borrowers • Uniform Residential Appraisal Report (URAR) (***Electronic signature permitted)*** • Location map, and photographs of properties, building sketch	• Inspection Report(s) • VA-26-1839 for the Department of Veteran Affairs (VA), Certificate of Reasonable Value (CRV) • VA 26-1843a, Master Certificate of Reasonable Value (MCRV) • HUD-approved local building authority inspection, if applicable • NPCA-99a and NPCA-99b, Subterranean Termite Treatment Report • VA CRV-VA-26-1841 and MCRV- VA-26-1843a, including all attachments and endorsements (if applicable)

USDA AUTOMATED UNDERWRITING

Overview

This section discusses the USDA Guaranteed Underwriting System (GUS) automated underwriting. The Originator and CMS remain accountable for compliance with USDA guidelines, as well as for any USDA eligibility requirements, credit, capacity, and documentation requirements.

The Originator and CMS are reminded that system updates to Modified Total Scorecard may lag behind changes to USDA product eligibility and underwriting policy. This may cause inaccurate messages related to obtaining RD approval and issuance of the USDA Guarantee, and other product eligibility elements of the loan. The Originator and CMS, however, are responsible for compliance with current USDA guidelines.

Eligibility Requirements

The following are loan programs that are eligible for submission to through the GUS automated underwriting system.

- 30 year Fixed Rate Purchase #502 Program
- 30 year Fixed Rate No Cash Out Refinance #502 Program
- 30 year Fixed Rate Streamline Refinance #502 Program

USDA TOTAL Mortgage Scorecard

USDA Rural Development created the USDA TOTAL Scorecard, a credit assessment engine, to assess the credit worthiness of USDA borrowers and to predict the default probability for the applicants. This automated underwriting system works together with FHA TOTAL Mortgage Scorecard to analyze USDA loans. The Underwriting Findings Report shows the recommended level of underwriting and documentation required in determining loan eligibility. Any manual downgrades from the automated underwriting decision require compliance with standard documentation requirements. Refer to the CMS Product Matrices for additional information.

The entire Underwriting Findings Report must be placed in the file when submitting to the local RD office for approval and issuance of the Guarantee Certificate.

Eligible Loan Types

Eligible Loan Types

The following loan types are eligible for the USDA Guarantee Program:

- Purchase Transactions
- Rate and Term Refinance
- Streamline Refinance

Ineligible Loan Types

The following loan types are not eligible:

- Second Home
- Investment Property
- Cash out Refinances

Automated Underwriting Decisions

Overview

GUS is an automated underwriting system developed by the USDA Rural Development to help USDA Certified Underwriters make informed credit decisions on Guaranteed Rural Housing loans. There are four components that make up GUS:

- Modified Total Scorecard
- Rules Based Engine
- Interface that occurs through Fannie Mae's Credit Interface System (CIS)
- Application Pages

Modified TOTAL Scorecard evaluates the borrower's credit history, income, cash reserves, and other components of credit worthiness to determine whether the borrower is acceptable as a mortgage credit risk and may be processed with reduced documentation or if the loan application should be referred to the USDA Certified Underwriter for review and evaluation.

The Rules Based Engine applies the GRH regulation 7 CFR 3555 and Technical Handbook HB-1-3555 to determine if the mortgage loan request meets all other USDA Rural Development requirements.

Obtaining Access to GUS

Each CMS underwriter must be certified to underwrite USDA loans and have access to GUS. To become certified the underwriter must complete mandatory training offered by RD. This training is to assure compliance with and understanding of Agency regulations and provide an overview of the expectations of mortgage loans input into GUS.

Approve/ "Accept"

A recommendation of "Accept" indicates that the loan is considered to have acceptable credit characteristics and that the loan meets USDA loan program eligibility requirements. Loans with a "Refer" or "Refer with Caution" require manual underwriting.

All GUS Underwriting Findings Report conditions must be followed and the loan file must be documented accordingly. The credit report must also be reviewed to confirm that the data evaluated by GUS with respect to the borrower's credit history is accurate and that the loan meets USDA requirements.

Using GUS

Using GUS

Rural Development is committed to serving the credit needs of rural communities by issuing Loan Note Guarantees on loans that meet eligibility requirements. We rely on lenders to use a thorough examination of primary and contributory risk factors in a mortgage application to reach an underwriting recommendation. The responsibility of loan data integrity remains with the lender. The loan level data used to render a risk assessment and underwriting recommendation in GUS must match the data provided for a loan guarantee request. Accurate loan data is the responsibility of the approved lender.

The approved lender's underwriter must review the credit, qualifying ratios and appraisal to ensure the applicant's credit and capacity meets the standards of the SFHGLP. The underwriter must ensure all loan level data is valid prior to final submission to the Agency when requesting a commitment for loan note guarantee. Adverse modifications of data must be communicated with RD prior to loan closing to ensure issuance of a Loan Note Guarantee.

Final Underwriting Submission to RD

The Underwriter must read all findings provided in the Final GUS Underwriting and Findings Report. Findings obtained with a preliminary submission may differ from the final report obtained when the authorized user submits the application file to RD for commitment of a loan note guarantee.

GUS has been built with a quality control feature that randomly selects some ACCEPT files for full documentation submittal. Lenders print the final underwriting report and retain it as permanent documentation in the case file. This information will be required when the Agency conducts a compliance review.

Property Tax and Insurance

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 for Conditional Commitment. Care must be taken to assure a realistic estimate is used for computing the monthly escrowed amount. The escrowed amount for real estate taxes is based on the assessed value of improved land (i.e. value of both the property and completed dwelling) for new construction and the actual taxes

Assessed for existing properties. The Underwriter should contact the taxing authority which has jurisdiction over the property to obtain an estimate of the taxes to be assessed for newly constructed dwellings.

Minor changes to the escrow portion of the monthly housing expense do not require the mortgage application to be reconsidered. It is not necessary to perform an updated underwriting analysis when monthly tax and insurance estimates do not increase the payment-to-income principal, interest, taxes and insurance (PITI) and debt-to income

Total debt (TD) ratios by more than two-percentage points at loan closing.

A small increase to monthly tax and insurance payments would not typically cause a substantial change in risk classification of the proposed real estate loan. This tolerance only applies to situations where tax and insurance data provided on the loan application at the time of commitment differs from the amount recorded at loan closing.

This threshold policy should not be construed to allow lender manipulation of escrow variables to obtain approvals.

Using GUS (continued)

Hazard Insurance Deductible

The maximum allowable deductible for policy types for USDA transactions must not exceed the greater of $1,000.00 or 1% of the coverage amount.

Other Data Tolerances

Both Fannie Mae and Freddie Mac allow specific data tolerances for repayment income, debt-to-income (DTI) ratios, assets, reserves, etc. RD does not allow these types of tolerances of data for a loan note guarantee, other than property tax and insurance discussed above.

If the loan data changes once a Conditional Commitment for Loan Note Guarantee is issued by RD, the underwriter must ensure that the loan continues to meet all SFHGLP requirements. If the loan data is adversely affected, the lender must follow the re-submission policy noted below.

Loan Resubmission Requirements

The Underwriter is responsible for the integrity of the data used to obtain an underwriting evaluation in GUS. Data entered in GUS must correspond to documentation retained in the case file. If data changes during the Loan application stage, after Conditional Commitment or prior to loan closing, the GUS underwriting recommendation could be compromised. The underwriter is responsible for resubmitting the loan to GUS when material changes are discovered. Material changes should be known prior to loan closing. Under the following conditions, the underwriter must resubmit the loan through GUS for an updated evaluation. Failure to follow the guidelines provided could jeopardize issuance of a Loan Note Guarantee:

- Borrowers were either added or deleted from the loan application or critical information has changed.
- A decrease in the borrower’s 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 borrower’s ability to repay the mortgage.
- Information regarding the property changes – such as a change in sales price or value.

The underwriter must request the loan be released from Rural Development. The underwriter will then 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. Loan data changes that do not represent an adverse effect on the underwriting recommendation do not require resubmission and/or modification. Once a 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

Using GUS (continued)

Credit Documentation

The lender's permanent case file will include documentation verifying:

- Credit history
- Annual Income – determined for program eligibility in accordance with Chapter 9 of HB-1-3555.
- Stable and Dependable Income – determined for repayment and qualifying purposes in accordance with Chapter 9 of HB-1-3555. GUS does not determine stable and dependable income. It remains the responsibility of the approved lender to determine stable and dependable income outside of the GUS evaluation.
- Assets
- Collateral requirements
- Any other documentation supporting the mortgage loan request.

Requesting the "Conditional Commitment for Guarantee"

Underwriting Recommendation: "Accept"

Minimal documentation provisions apply to GUS underwriting recommendations that receive an "ACCEPT". The lender must submit the following three completed documents to obtain a Conditional Commitment, when the GUS underwriting recommendation is ACCEPT upon final submission:

- "Uniform Residential Appraisal Report" (URAR) for single family dwelling units or its equivalent, or condominiums or manufactured homes [FNMA Form 1004 or Freddie Mac Form 70].
- "Standard Flood Hazard Determination Form" [FEMA Form 81-93].
- "Request for Single Family Housing Loan Guarantee" [Form RD 3555-21]. This form must be fully executed by the lender or their representative, and all applicants. The form must represent the request of the lender. If an interest rate is floating at commitment request, the lender should include the lock in date for confirmation by Rural Development. The data on this form must match the data entered into GUS.

If the loan applicant is a qualified alien, a buy down is involved, or there is a non-purchasing spouse located in community property state additional documents may be required. During the review process, should data appear to be questionable, RD reserves the right to request further supportive information. Files may be selected for full file review.

When receiving an underwriting recommendation of ACCEPT the loan may be selected by GUS requiring full documentation of a file in lieu of minimal documentation noted above. This random and targeted 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. Ratio or credit waiver documentation is not required when the file is selected for quality control review. The quality control review is to ensure the lender's loan level data in GUS matches that verified in the lender's permanent file.

Using GUS (continued)

Requesting the "Conditional Commitment for Guarantee" (continued)

Underwriting Recommendation: "Refer" or "Refer with Caution"

Full documentation provisions, as required for manually underwritten mortgage loan applications, apply to GUS underwriting recommendations of "REFER" or "REFER WITH CAUTION". GUS loans receiving an underwriting recommendation of REFER or REFER WITH CAUTION will require further review by the lender.

Risk factors have been identified based upon the data entered into GUS. The underwriter must perform a manual underwriting evaluation of the mortgage loan application to determine if the borrower is creditworthy in accordance with RD standard credit policies and guidelines found at Technical Handbook HB-1-3555.

Credit documentation, mitigating circumstances, and compensating factors considered in the manual underwriting analysis should be recorded in the permanent case file. Compensating factors considered in the evaluation of the mortgage loan application must 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 denied solely on the basis of a risk evaluation generated by GUS. Mitigating circumstances according to RD standard guidelines may be considered.

GUS Ratio Requirements

Ratios:

FICO's under 640

- All loans are manually underwritten
- Max ratios are 29/41, ratio waivers do not apply

FICO's 640 through 679

- With GUS Approve/Eligible, ratios are not limited
- With GUS Refer/Eligible or downgraded loans, max ratios are 29.41, ratio waivers do not apply

FICO's 680 and higher

- With GUS Approve/Eligible, ratios are not limited
- With GUS Refer/Eligible or downgraded loans, max ratios are:
    - 29/41 without a ratio waiver, or
    - 32/44 with a ratio waiver, which requires one of the following compensating factors:
        - Proposed PITI is equal to or less than the applicant's verified housing expense for the 12 month period preceding loan application, or
        - Three months PITIA reserves, or
        - All employed applicants have been continuously employed with their current primary employer for a minimum of 2 years (cannot be used for self-employed)

GUS Ineligible findings are not permitted. GUS Refer w/Caution (this is subject to lender discretion) should be done as an exception only with management review.

Using GUS (continued)

Credit Exceptions

Credit history problems do not always reflect an unwillingness to meet financial obligations. If the lender believes that the applicant is creditworthy, the lender should document on the underwriter's analysis the reasons that an exception is justified. Exceptions should be made only in the following types of situations.

- **Temporary situation.** The circumstances that caused the credit problems were temporary in nature, beyond the applicant's control, and the circumstances have been removed and resolved for the 12 months prior to application. Examples include a temporary loss of job, delay or reduction in benefits, illness, or dispute over payment for defective goods or services.
- **Reduced housing expenses.** The loan will significantly reduce the applicant's housing expenses, which will result in improved debt repayment ability. A significant reduction in housing expenses would be 50 percent or more.

It remains the lender's responsibility to underwrite the mortgage application request. The individual loan file should contain clear evidence that the lender evaluated the credit information for each applicant and arrived at a conclusion that the applicant's credit history (even if brief or non-traditional) demonstrates an ability to handle financial obligations successfully. No Agency-granted waiver or concurrence is required for credit exceptions. Applicants must provide supporting documentation that meets these requirements to ensure the lender's permanent loan file is well documented and supported. The lender must retain the underwriter's documentation as part of the case file that supports the decision to waive derogatory credit. . For all loans that do not have a GUS approval, documentation will also be noted on the underwriting transmittal summary to include the supporting documentation provided by the applicant(s) to explain the reason(s) for derogatory information (e.g. undisclosed debts, judgments, bankruptcies, etc.). The lender must determine if the explanation and supportive documentation makes sense and whether it is consistent with other information in the credit report. The applicant(s) documentation should confirm the nature of the event that led to the derogatory credit deficiencies and illustrate that they had no reasonable options other than to default on their financial obligations. The event, the severity of the resulting hardship, and the extent of the applicant(s) efforts to resolve the situation should be taken into consideration when making an underwriting decision. Documentation provided by the applicant(s) may open new questions. The lender's underwriter must use careful underwriting judgment in evaluating loan requests involving derogatory credit.

The lender is not authorized to make an exception in the case of an applicant with a delinquency on a Federal debt, or with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court. Evidence of payment arrangements is acceptable for IRS Federal tax judgments. The approved lender's underwriter must determine if the elapsed portion of the repayment period is of appropriate duration. An applicant(s) who has been delinquent during the repayment period is ineligible for a guaranteed loan.

Debt Ratio Waivers

RD allows applicant's with principal, interest, taxes and insurance (PITI) and total debt (TD) ratios that exceed 29/41 to request RD concurrence to allow higher ratios based on acceptable compensating factors. The underwriter must document their request for a debt ratio waiver and acceptable compensating factors to support their request on the underwriting analysis.

Exception: Lenders are not required to submit a debt ratio waiver request for GUS "Accept" loan files.

Using GUS (continued)

Appraisal Waivers

RD does not allow appraisal waivers.

GUS Resubmission Requirements

GUS Resubmission Requirements

Mortgage loan documents should be delivered electronically through the USDA's automated system of receiving documents. This is the preferred method. In cases when the system may be unavailable or a transition to the system is occurring, documents may be photocopied, scanned, emailed, faxed or delivered by regular or express mail through the state general email delivery box. CMS should utilize the automated method available. It is not necessary to collect an original Form 3555-21. A photocopy, scanned, emailed or faxed Form 3555-21 is acceptable.

Some data changes do not affect the outcome of an underwriting recommendation. Once a mortgage loan has been sent to the Agency as "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 closing) after a "Final Submit" has occurred by CMS 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. CMS must retain the updated credit report in the permanent lender's case file.

Establishing Borrower Credit Reputation

Overview

An applicant’s credit score may be validated with at least **two** eligible trade lines. Such trade lines consist of credit accounts (revolving, installment, etc.) with at least twelve months of repayment history reported on the credit report.

At least one applicant whose income or assets are used for qualification must have a valid credit report score or have at least **two** historical trade line references that have existed for at least 12 months to establish a credit reputation.

For applicants without an established credit history and unable to establish the required number of eligible trade lines to validate the credit score, alternative methods may be used to evidence an applicant's willingness to pay, such as a non-traditional mortgage credit report or multiple independent verifications of trade references.

Non-traditional credit may not be used to enhance poor payment records or low credit scores. GUS applications receiving an “Accept” underwriting recommendation, but which fail to meet the credit score validation test using a traditional credit report, must be downgraded to a “Refer” by the lender. In these instances the use of a non-traditional credit history will be required in order to proceed. Refer to Non Traditional Credit for additional information.

USDA Credit

Overview

This section contains standards that apply to all CMS loan programs. The requirements outlined in this section represent USDA core requirements for manually underwritten Loans. Waivers do not apply to state specific compliance restrictions.

Requirements

- The loan file must contain one of the following types of credit reports for each borrower:
  - A three repository, merged in-file report from an independent credit-reporting agency. However, a two-repository merged in-file report will be accepted if that is the extent of the information that is available. If a merged in-file report is upgraded to a Residential Mortgage Credit Report (RMCR), the original merged in-file report must remain in the file.
  - Full Residential Mortgage credit Report (RMCR), which conforms to all applicable Fannie Mae, Freddie Mac, VA and FHA requirements.
- If a retyped credit report is provided, all prior credit reports must be included in the loan file. The retyped credit report/supplement must indicate the reason and authorization for any changes, additions, and/or deletions.
- All credit reports must include FACT Act messages and at least one repository fraud alert product (Hawk, FACS+, or SafeScan).
- When the credit report shows a victim statement under the FACT Act, the steps taken to validate that the loan application is not the result of identity theft must be documented in writing. The actions must be reasonable and compliant with applicable laws.
- Credit report alerts must be reasonably resolved and all supporting documentation must be included in the loan file.

  Note: Although due diligence is required, it does not release the Broker from responsibility regarding misrepresentation.

Credit Report Red Flags

The borrower's credit use and limits must be reviewed to ensure consistency with the reported income, assets, and application information when analyzing a credit report. The borrower's address history must be reviewed for consistency with other file documentation. All discrepancies must be adequately explained and questionable explanations must be researched.

Age of Credit Report

The following documentation age limitations apply:

- 120 days at note date for existing properties.
- 180 days at note date for new construction.

USDA Credit (continued)

Three Repository Merged In-File Credit Report (Trimerge)

All data in the credit report must follow the below requirements:

- The credit data must be obtained from or verified by sources other than the borrower.
- The credit data must be in an easy-to-read format that is understandable without the need for code translations.

The credit report must contain the following information:

- Information gathered from three national repositories covering each area the borrower has resided during the past two years must be included and identified. In the event that three repositories are not available, it must be stated in the report.
- All available public records information and their source, including judgments, foreclosures, tax liens, and bankruptcies must be included in the report.
- The person/company who ordered the report and the person/company who was billed for it must be identified.
- The dates the accounts were last updated with the creditor must be indicated. If the account has a balance, the date that it was last updated must be within 60 days of the report.
- For each debt listed, the creditor's name, date opened, amount of highest credit, current status, required payment, unpaid balance, and payment history must be provided. The historical status must be in a “number of times past due” format. The preferred format used is “0x30, 0x60, 0x90” days late. Statements such as “current”, “as agreed”, or “satisfactory” are not acceptable by themselves.
- All inquiries made within the last 90 days must be listed in the report.
- When co-borrowers have individually obtained credit, separate repository inquiries are necessary.

USDA Credit (continued)

Residential Mortgage Credit Report (RMCR)

All data in the credit report must follow the below requirements:

- The credit data must be obtained from or verified by sources other than the borrower.
- The credit data must be in an easy-to-read format that is understandable without the need for code translations.

The credit report must contain the following information:

- Two national repositories covering each area in which the borrower has resided during the past two years must be contacted by the reporting agency.
- The full name, address, and telephone number of the consumer-reporting agency must be identified.
- The person/company who ordered the report and the person/company who was billed for it must be identified.
- The names of the repositories used must be shown and must include a certification that the standards prescribed by Fannie Mae, Freddie Mac, VA and HUD for a "Residential Mortgage Credit Report" has been met.
- Verification of the borrower's current employment and, if possible, income must be provided by the reporting agency The borrower's previous employment and income must be described if it has changed in the past two years. If any information was not verified by an employer interview, the report must indicate the reason for the lack of verification.
- All credit and legal activity that has occurred in the last seven years must be contained in the report.
- All available public records information and their source, including judgments, foreclosures, tax liens and bankruptcies must be included in the report.
- The dates that the accounts were last updated with the creditor must be indicated. If the account has a balance, the date that the last update must be within 60 days of the report.
- For each debt listed, the creditor's name, date opened, high credit amount, current status, required payment, unpaid balance, and payment history must be provided. The historical status must be in a "number of times past due" format. Statements such as "current", "as agreed", or "satisfactory" are not acceptable by themselves. Preferably the format to be used is "0x30, 0x60, 0x90" days late.
- All inquiries made within the last 90 days must be listed in the report.
- If there is incomplete information or if the agency discovers information that indicates the possibility of undisclosed credit or public records, the agency must interview the borrower.
- When co-borrowers have individually obtained credit, separate repository inquiries are necessary.
- Must include FACT Act messages and at least one repository fraud alert product.

USDA Credit (continued)

Non-Traditional Credit

Some applicants may not have an established credit history, but credit verified through alternative sources may indicate a willingness to pay recurring debts. Neither the lack of a credit history nor the applicant's decision to not use traditional credit can be used as a basis for rejection. For these applicants, CMS may develop a Non-Traditional Mortgage Credit Report (NTMCR). A NTMCR may be used as a substitute for a Residential Mortgage Credit Report (RMCR) or Multi-Merged Credit Report (MMCR) or Three-Repository Merged Credit Report (TRMCR). An NTMCR may not be used to offset derogatory references found in the applicant's RMCR or MMCR/TRMCR; it should not be utilized to enhance the credit history of an applicant with a poor payment record or to manufacture a credit report for an applicant without a verifiable credit history.

When utilizing non-traditional credit, the Underwriter is responsible to enter a "0" as the credit score in the loan origination system (LOS).

Nontraditional credit references be verified by a credit bureau and reported back to CMS as a nontraditional mortgage credit report in the same manner as traditional credit references. Three trade references are required when at least one of the trade references includes verification of rental housing payments or mortgage loan payments. If unavailable, at least four trade references must be used to determine if an applicant has a sufficient credit history.

Acceptable forms of documentation for a NTMCR include:

- Rental rating, if present, must be on a standard VOR form;
- Non-traditional credit report for the following non-traditional credit sources that include the creditor's name, date the account was opened, account balance, monthly payment due, and payment history reported in 0x30, 0x60, 0x90 format. Subjective statements such as "satisfactory" or "acceptable" are not an acceptable format for repayment history confirmation. Rural Development will accept reports by providers who develop bill payment histories.

Acceptable trade-line sources include an **open** and recent 12-month payment record of the following:

- Rent payments;
- Utility payment records (if utilities were not included in any rent payments) such as gas, electricity, water, land-line home telephone service or cable TV;
- Insurance payments (excluding those paid through payroll deductions) such as medical, automobile, life and household, or renter's insurance;
- Payments to child care providers – made to a business providing such a service;
- School tuition;
- Payments to local stores (department, furniture, appliance and specialty stores);
- Payments for the uninsured portions of any medical bills;
- Internet/cell phone services;

USDA Credit (continued)

Non-Traditional Credit (continued)

- Automobile leases;
- A personal loan from an individual (other than a family member) with repayment terms in writing and supported by cancelled checks or money order receipts to document repayment;
- A documented 12-month history of saving by regular deposits (at least quarterly/non-payroll deducted/no NSF checks reflected), resulting in a reserve account equal to three months of proposed mortgage payments (PITI) as a cash reserve post-closing; or
- Any other reference which gives insight into the applicant's willingness to make periodic payments on a regular basis for credit obligations.

Payments made to relatives for credit sources are ineligible as a non-traditional trade reference.

Exercise caution when evaluating applicants with non-traditional credit histories. Generally these applicants may be considered a higher risk than applicants who have credit scores meeting the criteria in these guidelines.

- Applicants may only have one 30 day delinquency on any non-traditional trade line within the last 12 months.
- 60 and 90 day delinquencies, as well as reports of disconnection notices or collection accounts/court records (other than medical) filed in the past 12 months are unacceptable.
- Ratios for housing expense and debt-to-income expense should be minimal.

Qualifying Borrowers with Non-Traditional Credit

Manual underwriting requirements apply to borrowers with non-traditional credit. The maximum debt ratios are 29% / 41% which may be exceeded for refinance transactions with a ratio waiver approved by Rural Development. Refer to the Liabilities and Debt Ratios section.

Note: For additional non-traditional credit requirements please see the CMS USDA Product Matrix.

Insufficient Credit

Insufficient credit refers to applicants who do not have credit scores and do not meet the minimum tradelines required for non-traditional credit, which is not acceptable for USDA.

USDA Credit (continued)

Thin Credit

Qualifying Borrowers with Thin credit:

Thin credit applies to borrowers with a credit score. CMS allows thin credit to be used for borrowers with the following GUS results:

GUS Accept OR Refer – Validate FICO score(s) by verifying at least one (1) borrower has three (3) trade lines on credit report with 12 month history. Otherwise, downgrade to Refer and follow the Non-Traditional Credit guidelines.

Undisclosed Debt

When a debt or obligation (other than a mortgage) is revealed during the application process that was not disclosed on the loan application and/or the credit report and was not considered by automated underwriting, the following must be met:

- The monthly payment amount of the debt must be verified.
- Direct verification of the debt is not required.
- Any funds borrowed are not being used for the borrowers cash investment into the transaction must be determined.

If debt accounts are listed on the borrower's application, but not reported on the credit report, all account information must be manually entered and the loan must be resubmitted to GUS. Any automated verification messages relating to these additional debt accounts must be followed. Verify all accounts listed on the application by the borrower with a credit reference if the loan is manually underwritten.

Credit Scores

Overview

A credit score represents a comprehensive view of a borrower's credit history risk factors. All of the credit information that is stored in the borrower's credit file is taken into consideration when assigning a credit score. While some of the information in the credit file may be more predictive of default risk than other information, the relationship, or interaction of the various factors that are present are considered. This approach is more predictive of default risk than an evaluation of each of the factors in isolation.

The majority of merged in-files will include a credit score for each borrower, which can range from 300 to 950. There are minimum requirements that must be met in order to score a person's credit profile. If these requirements are not available, a score will not be provided.

The higher the credit score, the lower the risk of default. For example, a score of 725 indicates that this credit profile was a better than average risk and therefore a detailed review of the credit report should not be necessary. In addition, the score in combination with the dates and severity of late payments should be considered before requesting a credit explanation letter from a borrower. The score can always be used as a measure for determining the reasonableness of the request.

Fair Isaac Co. developed the Credit Bureau Score models. There are many characteristics that are a part of the scoring model and a person's repayment habit is only one component of this model.

While the models are very similar, each repository uses a different name.

- Experian FICO V2
- Equifax Beacon 5.0
- Trans Union FICO Risk Score Classic 04

Credit Score Risk Factors

The following factors are considered when assigning a credit score to a borrower:

Number and Age of Accounts

The credit history that consists of older, established accounts is considered a lower risk. However, do not automatically consider a newly established credit history as a higher risk since other lower risk factors in the borrower's credit report may offset the risk of the less established credit history.

Payment History

The borrower's payment history is a significant factor in determining the credit score. The following types of information that are evaluated includes:

- Data on late or missed payments.
- Public record and collection items.
- Frequency, recency, and severity of any delinquent payments (including recurring or isolated instances).
- Presence of bankruptcies, foreclosures, and outstanding liens or judgments.

Credit Scores (continued)

Credit Score Risk Factors (continue)

Credit Utilization

The amount the borrower owes on all accounts is evaluated, taking into consideration the following factors:

- The balance on each account.
- The number of accounts with balances.
- Each balance in relation to the amount originally owed.
- The relationship of the account balance to the total available credit line.

Recent Attempts to Obtain New Credit

While evaluating the attempts to obtain new credit, the number of new accounts, the length of time since an account was opened, the number of recent inquires, and the length of time since the inquiries were made must be considered.

Credit Score Reason Codes

Credit scores are usually accompanied by reason codes identifying various risk factors affecting the borrower's credit score. The use of reason codes aids in the evaluation of a borrower's credit history.

Equifax	TransUnion	Experian	Reason Statement
01	01	A/01	Amount owned on accounts is too high
02	02	B/02	Level of delinquency on accounts
—	—	C/03	Proportion of loan balances to loan amounts is too high
33	03	I/33	Too many bank national revolving accounts
04	—	D/04	Lack of recent installment loan information
32	04	Y/32	Too many accounts with balances
05	05	E/05	Too many consumer finance company accounts
06	06	F/06	Account payment history is too new to rate
07	07	G/07	Too many inquiries last 12 months
08	08	H/08	Too many accounts recently opened
09	09	J/09	Proportion of balance to credit limits is too high on bank revolving and other revolving accounts
10	10	K/10	Amount owed on revolving accounts is too high
11	11	L/11	Length of time revolving accounts have been established
12	12	M/12	Time since delinquency too recent or unknown
13	13	N/13	Length of time accounts have been established
14	14	O/14	Lack of recent bank revolving information
15	15	P/15	Lack of recent revolving account information
16	16	Q/16	No recent non-mortgage balance information
17	17	R/17	Number of accounts with delinquency
18	18	S/18	Number of accounts with delinquency

Credit Scores (continued)

Credit Score Risk Factors (continue)

Equifax	TransUnion	Experian	Reason Statement
19	27	T/19	Too few accounts currently paid as agreed
—	19	—	Date of last inquiry too recent
20	20	V/20	Time since derogatory public record or collection too short
21	21	W/I	Amount past due on accounts
22	22	X/22	Amount past due on accounts
23	—	23	Serious delinquency, derogatory public record or collection
24	24	U/I	Number of bank or national revolving accounts with balances
—	—	I/O	No recent revolving balances
I/O	—	I/O	Length of time installment loans have been established
I/O	—	I/O	Number of revolving accounts
I/O	27	T/27	Too few accounts currently paid as agreed
19	28	I/O	Number of established accounts
28	29	29	No recent bankcard balances
—	19	—	Date of last inquiry too recent
30	30	Z/30	Time since most recent account opening is too short
31	—	I/O	Too few account with recent payment information
34	I/O	34	Amount owed on delinquent accounts
32	04	Y32	Lack of recent installment loan information
33	03	I/33	Proportion of loan balances to loan amounts is too high
34	31	I/O	Amount owed on delinquent accounts
—	—	45	Payment due on accounts
—	—	I/O	Length of time open installment loans have been established
—	—	I/O	Number of consumer finance company established relative to length of consumer finance history
38	38	38	Serious delinquency and public record or collection filed
39	39	39	Serious delinquency
40	40	40	Derogatory public record or collection filed
—	I/O	98	Lack of recent auto loan information
—	98	—	Length of time consumer finance company loans have established
—	97	—	Lack of recent auto loan information
I/O	—	—	Lack of recent auto finance loan information
I/O	I/O	I/O	Lack of recent consumer finance company account information

Credit Scores (continued)

Credit Score Risk Factors (continue)

Credit Report ECOA Codes

ECOA codes are identified on the credit report. The ECOA codes are identified by a letter. This letter will be next to the account when viewing an instant merge report.

ECOA CODES		
U	Undesignated	Not designated by the Creditor
I	Individual	Individual account
J	Joint	Joint account
A	Authorized User[1,2]	Authorized user to someone else's account
S	Shared	Joint account
C	Co-Maker	Joint responsibility for the account
B	Co-Signer	Responsibility only in case of default on account
M	Maker	Individual account
T	Terminated	Closed account
X	Deceased[,2]	Deceased individual
1	Status used to identify an account that an applicant/co-applicant is not responsible for. Authorized user accounts cannot be used to satisfy Minimum Credit Standards.	
2	Is considered a red flag. Additional information may be needed.	

Credit Score Requirements

A Fair Isaac credit score for all borrowers must be included in each traditional credit report. The credit score is used as a component in evaluating the credit quality of the loan.

Credit vendors periodically update the credit score models. The credit report vendor must use the most current version of their credit score model in their report.

A traditional credit history review must be completed for the file.

Note: For minimum credit scores see the CMS USDA Product Matrix.

Credit Scores (continued)

Selecting Credit Score

The credit score selected for loan qualification must follow the steps below:

1. Select the credit score for each individual borrower.
2. Select the credit score used for loan qualification.

Selection

The credit score must be selected for each borrower by using one of the following methods:

- The lower score of two repositories.
- The middle score of three repositories.

If more than one credit score is supplied from the same repository, the lowest score must be used in all cases.

Number of Available Repository Scores	Score Used
3	Middle score
2	Lower of the two
1	See Product Matrices for eligibility
If two repositories report identical scores, that score will be used for qualification	

Loan Qualification Score

Always use the lowest selected credit score among all borrowers. All borrowers must meet the minimum credit score and all other credit evaluation requirements.

Credit History Evaluation

Overview

The manner in which the borrower has managed his or her previous credit can be used as an indicator of future performance. Many factors are considered when performing a subjective evaluation of a borrower's credit history. More significance should be given to the borrower's payment experience within the past two years. An acceptable credit history of one borrower does not offset the unacceptable credit history of another borrower.

An acceptable credit history is not considered a compensating factor. An acceptable credit report is a requirement and critical in making an investment quality loan. Insufficient credit history cannot be offset by capacity or collateral strengths.

All credit reports, regardless of the manner of underwriting (manual or automated) must be reviewed by the USDA Certified Underwriter. The credit report must be reviewed to confirm that all data is accurate, complete, and properly documented.

An Accept decision must be downgraded to a Refer if serious inaccuracies are discovered during the review. The USDA Certified Underwriter must review the credit report to verify compliance with all requirements.

If derogatory credit or delinquent credit items are discovered during the loan process that are not reflected on the credit report, and therefore not considered by automated underwriting, the loan must be downgraded to a Refer and manually underwritten. Refer to the CMS Product Matrices for eligibility.

Derogatory credit items that may not appear on a credit report, but may be discovered in the credit evaluation process that would result in a downgrade could include bankruptcies, foreclosures, collection accounts, charge-offs, tax liens, or judgments.

If a loan receives a Refer recommendation or is manually underwritten, standard underwriting requirements apply. The borrower's credit risk must be assessed by reviewing the credit factors below:

Note: These characteristics must be evaluated in combination with one another, not in isolation.

- Credit repayment history
- Line utilization
- Proportion of balances to limits on revolving accounts
- Patterns of debt consolidation
- Recent inquiries and newly opened accounts
- Number of open accounts and length of credit history
- Public record information

There is compelling evidence that the credit score of the borrower, based on empirically-derived statistical models, provides an accurate objective evaluation of these same factors. The credit score, along with other credit information such as previous mortgage/rental payment, bankruptcy, foreclosure, and major adverse credit history can properly classify the credit quality of the loan.

Credit History Evaluation (continued)

Number and Age of Accounts

The credit report must be reviewed to determine the following:

- Whether the borrower has an older or newly established credit history.
- Whether there are a significant number of recently opened accounts or a mix of new and older accounts.

Credit histories that include older established accounts typically represent lower credit risk. However, an older, established credit history that includes a significant number of recently opened accounts may indicate that the borrower is overextended, and therefore represents a higher credit risk. A newly established credit history does not automatically represent a higher credit risk, since making payments as agreed on newly opened accounts represents less of a risk than not making payments as agreed on older, established accounts.

The purpose of any recently acquired debts must be ascertained as the indebtedness may have been incurred to obtain part of the required cash investment on the property being purchased.

Payment Histories

- Credit histories that include no late payments, collections, or charged-off accounts, foreclosures, deeds-in-lieu, bankruptcies, or other public records information represent a lower credit risk.
- Credit histories that include recent late payments represent a higher credit risk than those with late payments that occurred more than 24 months ago. If there are payments that were 30-, 60-, or 90-days (or longer) past due, it must be determined whether the late payments represent isolated incidences or frequent occurrences. Delinquent payments must be evaluated in the context of the borrower's overall credit history, including the number and age of accounts, credit utilization, and recent attempts to obtain new credit.
- Credit histories that include foreclosures, deeds-in-lieu, and public records information represent a higher credit risk. The greater the number of such incidences and the more recently they occurred, the higher the credit risk.
- The presence of significant derogatory credit information, bankruptcies, judgments, liens, collection accounts, foreclosures, deeds-on-lieu, or a consistent pattern of delinquent accounts, dramatically increases the likelihood of a future default and represents a high credit risk. However, this does not mean that the borrower's credit will not be acceptable, rather it is an indication that the cause and significance of the derogatory information, verification that sufficient time has elapsed, and confirmation that the borrower has since re-established an acceptable credit history must be determined.

Collections and Charge-Offs Paid through Closing Transaction

If collection or charge-off accounts are being paid off through our closing transaction, a payoff demand or credit report or supplement will be required. The credit report or supplement must list the same information as a payoff demand (e.g. per diem amount, balance, rate, mailing address.)

The amount reflected on the credit report or supplement can be used UNLESS:

- The account is listed on the Title report
- The reporting date on the credit report is older than 90 days
- Underwriter discretion for layered risk

  Example: The account is not recently rated, large balance owed and the borrower is short to close

Credit History Evaluation (continued)

Credit Utilization

The credit report must be reviewed to evaluate the borrower's use of revolving credit by comparing the current balance on each account to the amount of credit that is available to determine whether the borrower has a pattern of using revolving accounts up to (or approaching) the credit limit. Revolving credit spending patterns indicate a credit risk.

Credit histories that include revolving accounts with a low balances-to-limits ratio typically represent a lower credit risk, while those that include accounts with a high balances-to-limits ratio represent a higher credit risk.

Inquiries

Depending on the automated underwriting assessment, written explanations for credit inquiries may or may not be required. If the automated underwriting system does not require a written explanation, CMS will not require a written explanation; however, all borrowers must complete an Undisclosed Debt Certification at closing.

If a loan is run through GUS, the USDA Certified Underwriter is still responsible for verifying that no new recent significant debts have been incurred and also that no new debts were incurred for the purpose of obtaining any part of the required cash investment for the property being purchased. Any new debt payments found resulting from these inquiries must be verified and included in the qualifying ratios.

When a loan is manually underwritten, the borrower must explain in writing all inquiries shown on the credit report in the last 90 days.

Note: Review the CMS Product Matrices for availability of manually underwritten loans.

Disputed Trade lines

When an applicant's credit report indicates a trade line or public record is in dispute, a GUS underwriting recommendation of "Accept" may need to be downgraded by The lender to a "Refer." A downgrade is not required if any of the following conditions are met in regards to the disputed item listed on the credit report:

- The trade line has a zero dollar balance,
- The trade line is marked "paid in full" or "resolved," or
- The trade line has a balance owed of less than $500 and is more than 24 months old.

In the event a GUS underwriting recommendation is downgraded to a "Refer" the lender must remit a fully underwritten case file to the Agency. For manually underwritten loan files all disputed trade lines with outstanding balances/payments that have been excluded from the debt ratios must have evidence in the permanent loan file to support a justifiable dispute. Evidence may include correspondence from the applicant/their attorney to the creditor.

Credit Components

Verification of Credit Requirements

The payment history of the borrower's housing obligation holds significant importance in evaluating credit. The automated underwriting assessment of the loan determines the documentation that is required.

The following must be verified directly by a credit reference or verified on the credit report:

- All accounts, revolving and installment, reported by the borrower on the application.
- The balance, rating, and terms of the account.

If the account has not been updated on the credit report within 60 days of the date of the credit report, a supplement to the credit report or a separate written verification from (canceled checks for most recent 12 months, verification of mortgage) must be obtained.

Written verifications of mortgage, rent, or credit must be sent directly to the creditors. The return address on the verification must be the Client address. The hand carrying of verifications is strictly prohibited.

Student Loans

Student loans. CMS must include the payment as follows:

- **Fixed payment loans**: A permanent amortized, fixed payment may be used in the debt ratio when CMS retains documentation to verify the payment is fixed, the interest rate is fixed, and the repayment term is fixed.
- **Non-Fixed payment loans**: Payments for deferred loans, Income Based Repayment (IBR), Graduated, Adjustable, and other types of repayment agreements which are not fixed cannot be used in the total debt ratio calculation. The higher of one half percent (.50%) of the loan balance or the actual payment reflected on the credit report must be used as the monthly payment in the underwriter decision. No additional documentation is required.

Rent History

Manually underwritten loans. Some first time homebuyers do not have a verifiable housing or rental payment history (e.g. borrower lives with parents and pays no rent). In such cases, a rent history is not required.

A signed rent-free letter is required from the property owner who provides the borrowers' housing, including the address and time period of residency.

Credit Components (continued)

Income Based Repayment

IBR payments of $0 are not eligible to be used in the debt ratio. The applicant must provide documentation of the IBR payment plan from the loan servicer. The following apply:

- If the IBR payment is less than $100 and 1 percent of the total loan balance
- Is more than $100, a minimum payment of $100 must be included in the debt ratios.
- If the IBR payment is less than $100, and 1 percent of the total loan balance is less than $100, a minimum payment of 1% of the loan balance must be included in the debt ratios.
- If the current IBR payment is over $100, use that payment amount in the debt ratios.

Installment Accounts

Accounts that will be paid in full through a specified number of fixed payments such as auto, personal, secured/unsecured, etc. must have the monthly payment included. Installment debt may be paid down to ten months or less of remaining debt. If ten or less months of repayment remains per the credit report, creditor verification, etc., the monthly debt may be excluded if the payment does not exceed five percent of the monthly repayment income.

Revolving Accounts

Credit cards, lines of credit, secured/unsecured, etc. must include the minimum monthly payment documented on the credit report or other creditor verification in the total debts. If the credit report shows an outstanding balance, but no minimum monthly payment, the payment must be calculated as five percent of the balance reported on the credit report. A current account statement or creditor verification may be obtained to document the actual monthly payment and include that amount in the monthly debts.

30 Day Accounts

30-day accounts require the applicant to pay off the outstanding balance on the account each month. UW must verify the outstanding balance is paid in full on every 30-day account each month for the past 12 months. 30-day accounts that are paid monthly in full are not included in the applicant's long term debt ratio. If the credit report reflects any late payments in the last 12 months, a long term monthly payment will be included. CMS will utilize 5% of the outstanding balance as the applicant's monthly debt. CMS will utilize the credit report to document the applicant paid the balance on the account monthly for the previous 12 months.

Credit Components (continued)

Housing Payment History

Mortgage:

If the mortgage history does not appear on the credit report for the most recent 12 months and the applicant's credit score is 680 or below, it must be verified. Acceptable sources of verification include a VOM or canceled checks. The current balance, current status, monthly payment amount and payment history for the last 12 months must be obtained. If the applicants credit score is 680 and above no rental or mortgage verification is required.

A mortgage is considered current as long as it is paid within the month due along with any late charges assessed for payments made beyond the 15-day grace period. If mortgage payments are made beyond the month due (30-day delinquencies, a letter of explanation and supporting documentation must be provided. Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.

If the mortgage trade line is more than 45 days old from the date of the credit report, a mortgage reference must be updated.

If a mortgage has any 30, 60, or 90 days late within the past 12 months, the loan may receive an Ineligible recommendation requiring manual underwriting. The circumstances of the excessive late payments must be documented. The late payments should be the result of extenuating circumstances and a similar recurrence on a mortgage is not likely to happen again in the future.

Payment history on any property (regardless of occupancy) is considered mortgage credit.

Landlord:

- **GUS Accept:** Comply with all of the verification messages for approved conditions listed on the findings. Automated underwriting will waive the requirements for a landlord reference based upon the overall risk assessment. **GUS Refer or Refer with Caution:** Comply with underwriting guidelines and documentation for manually underwritten loans. Determine the borrower's most recent 12-month payment history for his/her current housing obligation by verification of one of the following:
  - Canceled checks covering the most recent 12-month period plus copy of the lease to verify due date.
  - Credit report reference with complete information covering the last 12 months.
  - Written Verification of Rent (VOR) from a management company is acceptable in lieu of cancelled checks, a private party VOR is unacceptable.

Business Loans

Business debts (e.g., car loan) reported on the applicant's personal credit report may be excluded from the debt ratio if this debt is paid through a business account. Acceptable evidence to confirm includes 12 months of canceled business checks or bank statements from the business account.

Credit Components (continued)

Bankruptcy/ Foreclosure/ Deed-in-Lieu

GUS Accept: Comply with all of the verification messages for approved conditions on the findings report.

Bankruptcies:

- A bankruptcy requires a minimum of three years must have elapsed since the date of discharge.
- A Chapter 13 bankruptcy in progress requires a 12 month paid as agreed history and approval in writing from the court.
- The Credit Report must document the date of the discharge or a copy of the discharge papers is required.
- Must have re-established acceptable credit or chosen not to incur new credit obligations.

Foreclosures or Deeds in Lieu:

- A minimum of three years must have elapsed since the date of foreclosure completion. The seasoning time is measured from the recording date finalizing the foreclosure.
- Evidence of completion of the foreclosure must be in the loan file. The Credit Report verifying the foreclosure is not acceptable.
- If the foreclosure was on a property guaranteed by USDA, the borrower is not eligible for new financing.
- Borrower(s) with a prior CMS Foreclosure or Deed in Lieu are not permitted.

Note: If an applicant has a real estate mortgage discharged in a Chapter 7 bankruptcy, but the lender has yet to conclude their foreclosure action, the applicant is still in ownership of the property. The title must be quit claimed to the lender in order to relieve the applicant from ownership of the property, as well as remove responsibility for real estate taxes and homeowner association dues.

Until the title is transferred out of the applicant's name, they may not meet the requirements in order to be eligible for a guaranteed loan.

Credit Components (continued)

Short Sales

A borrower is not eligible for a new USDA guaranteed mortgage if he/she pursued a short sale agreement on his/her principal residence simply to:

- Take advantage of declining market conditions.
- Purchase a similar or superior property within a reasonable commuting distance at a reduced price as compared to current market value.

Borrower Current at the time of Short Sale

A borrower is considered eligible for a new USDA guaranteed mortgage if, from the date of loan application for the new mortgage, all:

- Mortgage payments on the prior mortgage were made within the month due for the 12-month period preceding the short sale.
- Installment debt payments for the same time period were also made within the month due.

Borrower in Default at the time of Short Sale:

A borrower in default on his/her mortgage at the time of the short sale (or pre-foreclosure sale) is not eligible for a new USDA guaranteed mortgage for three years from the date of the pre-foreclosure sale.

Borrower(s) with a prior CMS Short Sale are not permitted.

Direct Verification of Other Debts

The underwriter must verify the previous 12 months repayment history of additional debts disclosed by the applicant that do not appear on a credit report. Debts open for less than 12 months must still be verified.

Written third party verifications that meet stated guidelines and/or canceled checks or money order receipts are acceptable. The underwriter must apply due diligence to every GUS loan file regardless of the underwriting recommendation. The GUS underwriting Findings Report requires lenders to include all liabilities listed on the credit report or verified outside of the credit report in GUS. If installment and/or revolving debts not listed on the credit report were manually entered into GUS by the lender, an “Accept” recommendation must be downgraded to a “Refer.” A “Refer” must be downgraded to a “Refer with Caution.” A manual underwrite must be completed for loan files with these characteristics.

Note: Obligations such as NPS debts, court ordered payments for child support/ alimony/ garnishments/etc., or business debts do not require a manual downgrade in GUS. These debts would not appear on a credit report and therefore are not considered in the credit score calculation.

Short Sales

CMS may make an exception for a borrower in default on his/her mortgage at the time of the short sale if the:

- Default was due to circumstances beyond the borrower’s control, such as death of primary wage earner, long-term uninsured illness, or an economic event. Refer to the Extenuating Circumstances section for additional information.
- A review of the Credit Report indicates satisfactory credit prior to the circumstances beyond the borrower’s control that caused the default.

Credit Components (continued)

Consumer Credit Counseling Services (CCCS)

Borrowers who have gone through credit counseling or who are still in credit counseling must meet all underwriting requirements. The requirements below must be followed:

- One year of the payout period has elapsed under the plan.
- The borrower’s payment performance has been satisfactory and all payments have been made on time.
- The borrower has received written permission from the Counseling Agency to enter into the mortgage transaction.

Note: GUS “Accept” loans are not subject to additional documentation because the credit scores already reflect degradation in the applicant’s credit history. The underwriter must ensure all liabilities are accurately reflected in GUS.

Extenuating Circumstances

Exceptions to the recovery time for a bankruptcy, foreclosure, or pre-foreclosure/short sale may be granted if it was the result of extenuating circumstances that were beyond the borrower’s control. Death of a wage earner, a serious illness, and experiencing an Economic Event that resulted in a signification income reduction are examples of extenuating circumstances. Divorce is not considered an extenuating circumstance.

Major Adverse Credit

GUS “Accept”

All verification messages for approved conditions listed on the findings must be followed. Automated underwriting may waive certain requirements. If no message is provided, follow Manual Underwrite guidelines.

GUS “Refer” or “Refer with Caution”

Comply with underwriting guidelines and documentation for manually underwritten loans. Past due, collections liens, and charge-off accounts can indicate a borrower's disregard for credit obligations and must be considered in the underwriting analysis.

All manual underwrites require an AUS to be run and “refer eligible” findings uploaded into the LOS. The AUS findings must be uploaded even when the Underwriter knows the loan will be manually underwritten upfront or the loan will be downgraded to a manual underwrite.

A written letter of explanation for the reasons for major adverse credit, as well as any minor derogatory credit within the past two years must be provided by the borrower. The reasons for a loan approval when the borrower has major adverse credit must be documented in the loan file. Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter’s content.

Major Adverse Credit (continued)

Unacceptable Credit

Regardless of GUS findings, indicators of unacceptable credit per Chapter 10 of Technical Handbook HB-1-3555are not permitted without acceptable resolution. This includes:

- Charge offs within 36 months, which includes foreclosure or Chapter 7 bankruptcy
- Outstanding tax liens or delinquent government debts (regardless of age)
- Accounts converted to collection within 12 months (regardless of whether paid)
- Outstanding collections, regardless of age (note – collections over 12 months may be paid off or in a repayment plan and will no longer be considered unacceptable)
- Judgments (including Federal judgments or liens) that are currently outstanding or were paid off within the last 12 months
- More than 1x30 on all accounts in the last 12 months
- More than 1x30 rental late in the last 36 months

Acceptable resolution may only be met by one of the following:

- Credit waiver – Documentation must be provided to prove that the circumstances surrounding each adverse credit item were (1) temporary in nature, (2) beyond the applicant's control, and (3) have been removed. All three must be addressed. Explanation alone is not acceptable, and USDA concurrence of the credit waiver is required.
- Dispute – The applicant must document a justifiable dispute because of defective goods or services. Explanation or disputing the tradeline with the bureaus alone is not acceptable.

Major Adverse Credit (continued)

Economic Event

An Economic Event is defined as an occurrence beyond the borrower's control that results in a Loss of Employment, Loss of Income, or a combination of both, As a result, the borrower was unable to make his monthly mortgage payments and ultimately lost his home through short sale, foreclosure or filed bankruptcy.

Borrowers who experienced an Economic Event and receive a "Refer" or "Refer with Caution" finding from Modified Total Scorecard due to foreclosure, short sale, bankruptcy or other negative impact on their credit may be eligible to purchase a property with a USDA guaranteed mortgage. In addition to meeting standard USDA requirements, the following supporting documentation is required:

- Certain credit impairments were the result of a Loss of Employment or a significant loss of Household Income beyond the borrower's control,
- The borrower has demonstrated a full recovery from the event, and
- The borrower has completed housing counseling.

The onset of the Economic Event is the month of the Loss of Employment/Income.

The recovery from the Economic Event is the re-establishment of satisfactory credit for a minimum of 12 months.

Credit

CMS will evaluate the borrower's credit to determine whether the derogatory credit was the result of an Economic Event or an inability to manage debt or a disregard for managing financial obligations. Borrowers with an inability to manage debt or a disregard for their financial obligations are not eligible for extenuating circumstances due to an Economic Event and must follow standard USDA guidelines.

A borrower who experienced an Economic Event is deemed to have satisfactory credit when the following are present:

- There are no late payments on housing, installment debt or major derogatory credit issues on revolving accounts,
- Any open mortgage is current and has been paid as agreed for the previous 12 months. If the mortgage was brought current through a temporary or permanent loan modification, all payments must be documented supporting timely receipt in accordance with the modification agreement,
- The borrower exhibited a satisfactory credit history prior to the onset of the Economic Event,
- The borrower's derogatory credit occurred after the onset of the Economic Event, and
- The borrower has re-established credit with a minimum of 12 month history paid as agreed after the Economic Event.

Borrowers with non-traditional credit may be eligible to purchase a property with a USDA guaranteed mortgage when the following exits:

- No housing or rental history delinquencies,
- Maximum 1x30 day late payment due to other creditors, and
- No collection accounts/court records reporting with the exception of medical collections and/or identity theft.

Major Adverse Credit (continued)

Payment Shock

Payment shock is a risk layer for underwriters to consider in their loan analysis when the PITI ratio exceeds 29% and the proposed mortgage payment is 100% or greater than the applicant's current housing expense or the applicant has no history of rent or housing expense.

Calculation: Proposed PITI ÷ Current Housing Expense - 1 =_____ x 100 = Payment

Shock percent Payment shock is not a risk layer for any loan if the PITI ratio is 29 percent or below.

Disputed Trade lines

When an applicant's credit report indicates a trade line or public record is in dispute, a GUS underwriting recommendation of "Accept" may need to be downgraded by The lender to a "Refer." A downgrade is not required if any of the following conditions are met in regards to the disputed item listed on the credit report:

- The trade line has a zero dollar balance,
- the trade line is marked "paid in full" or "resolved," or
- The trade line has a balance owed of less than $500 and is more than 24 months old.

In the event a GUS underwriting recommendation is downgraded to a "Refer" the lender must remit a fully underwritten case file to the Agency. For manually underwritten loan files all disputed trade lines with outstanding balances/payments that have been excluded from the debt ratios must have evidence in the permanent loan file to support a justifiable dispute. Evidence may include correspondence from the applicant/their attorney to the creditor.

Credit Report – Non-Purchasing Spouse

When an applicant resides or the property is located in a community property state, a credit report for the NPS must be obtained. The debts of the NPS must be included in the applicant's debt ratio, except for those specifically excluded by state law. The NPS's credit history is not a reason to deny the loan application.

GUS will only retrieve credit reports for applicants. Lenders must obtain a credit report outside of GUS for the NPS. On the "Asset and Liabilities" application page the underwriter must enter the debt obligations (except those excluded by state law) of the NPS. In the "Notes" data field lenders must identify the debt as "spousal debt" or "NPS debt." Lender must retain the NPS credit report in their permanent loan case file and submit a copy of the report to the Agency. The manual entry of NPS debts by the lender will not require an underwriting recommendation of "Accept" to be downgraded to a "Refer."

Community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin. Puerto Rico allows property to be owned as community property as do several Indian jurisdictions. Alaska is an opt-in community property state; property is separate unless both parties agree to make it community property through a community property agreement or a community property trust.

Major Adverse Credit (continued)

Rural Development Loans

If the Agency has incurred a loss on a Section 502 or 504 guaranteed loan for the applicant, the Agency must determine if the loss was beyond the applicant's control. A previous loss may be noted on the credit report, identified by the applicant as part of the loan application, and/or by the Agency when performing an internal cross preference prior to the issuance of a conditional commitment or loan note guarantee.

Delinquent Federal Debt

If a borrower is currently delinquent on any federal debt (e.g., VA guaranteed mortgage, Title I loan, federal student loan, etc.), or has a lien secured by his or her property for any federal debt owed, as revealed by public records, credit information or HUD's Credit Alert Interactive Voice Response System (CAIVRS), regardless of the automated underwriting recommendation, one of the following must be met:

- The account must be brought current.
- The account is paid off.
- A satisfactory repayment plan is made between the borrower and the federal agency.

Federal Taxes

Federal taxes are due each year on the date determined by the Internal Revenue Service (IRS). Taxpayers who owe taxes and do not pay in full by the filing date are determined delinquent by the IRS.

Repayment Plans:

An applicant with delinquent Federal tax debt is ineligible unless they have a repayment plan approved by the IRS. A minimum of three timely payments must have been made. Timely is defined as payments that coincide with the approved IRS repayment agreement. The applicant may not prepay a lump sum at one time to equal three monthly payments to meet this requirement. The lender must retain evidence of the repayment agreement and payment history in their permanent file. No credit exception is required.

Approved Extension:

An IRS approved extension to file a tax return does not grant the applicant additional time to pay their taxes due. Applicants must pay their estimated income tax due by the IRS filing date or they are determined delinquent by the IRS. An applicant that has owed taxes on previous filed return(s) exhibits a pattern of taxes due, therefore an estimated tax payment must be made to the IRS by the specified deadline. The applicant may file their return at a later date and remain eligible for a guaranteed loan.

An applicant that has received tax refunds for previous filed return(s) may remain eligible with no estimated tax payment due to the IRS because they would not be determined delinquent. The applicant will remain eligible for a guaranteed loan.

Major Adverse Credit (continued)

Judgments and Tax Liens

All tax liens and court ordered judgments (including Federal judgments or liens) must be satisfied prior to closing, regardless of the automated underwriting recommendation. If the borrower has been making regular and timely payments on the judgment or tax lien and the creditor is willing to subordinate to CMS' loan, the judgment or tax lien can remain open. A subordination agreement must be provided. The loan should be processed with the monthly payment included in the borrower's debt-to-income ratio. A letter of explanation must be provided if the credit report shows federal or state tax liens. Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.

A court ordered judgment is not required to be paid off if the borrower has an agreement with the creditor to make regular timely payments. Documentation of the agreement and evidence of timely payments are required.

Child Care Expenses

Child care expenses are not required to be considered as a recurring liability when calculating debt-to-income ratios. Child care expenses are utilized to calculate the adjusted gross income in determining program eligibility.

401 (k) Loans/Personal Asset Loans

Loans against personal assets such as 401(k) accounts, retirement funds, or other liquid assets are not considered in the debt ratio.

Child Support, Alimony, Garnishments

Applicants obligated to pay child support, alimony, garnishments, or other court ordered debts must have these payments included in the debt ratio. If the applicant has a release of liability from the court/creditor, the debt can be excluded. The underwriter may use select pages from the applicable agreement/court order to document the required monthly payment due and the duration of the debt. The manual entry of these obligations in GUS will not require an underwriting recommendation of "Accept" to be downgraded to a "Refer."

USDA EMPLOYMENT AND INCOME EVALUATION AND DOCUMENTATION

Overview

This section provides standards that apply to all CMS loan programs.

The requirements outlined in this section represent USDA core requirements for manually underwritten loans. Debt Ratio Waivers do not apply to state specific compliance restrictions.

Documentation Age

Requirements

The following documentation age limitations apply:

- 120 days prior to the note date for existing properties.
- 180 days prior to the note date for new construction.

Stability of Income and Employment

Requirements

CMS requires the following:

- A minimum of two years employment history.
- Continuance of income for three years.
- Income used to qualify a borrower must come from a stable source.

CMS considers both the length of time a borrower is employed with any one employer and the stability and reliable flow of income. If documentation of a consistent level and type of income is provided by the borrower and the ability to pay his/her obligations despite changes in the source of that income, it can be presumed that the borrower's income level is stable.

The amount of income claimed by the borrower must be reasonable for the borrower's job title, education, age, assets, and geographic location. Special attention must be paid to the income feasibility by reviewing the credit report, credit profile, and examining the bank statement for income/deposit patterns.

A level or upward trend in earnings must be established. Any decreases or significant increases could affect the stability of the borrower's income and require an acceptable explanation. If an acceptable explanation cannot be provided, the income must be considered questionable and must not be used to qualify the borrower.

Borrowers who change jobs for advancement and maintain a stable earning capacity and good credit history, as well as borrowers with demonstrated job stability, will be eligible. Education or training to enhance job opportunities and income will receive favorable consideration. If a borrower does not meet the employment history requirement for two full years prior to the date of application and was previously in school or the military, a copy of his or her diploma/transcripts or discharge papers must be obtained.

Stability of Income and Employment (continued)

Annual Income Limits

USDA limits the amount of annual income an applicant(s) when determining eligibility for the program. Annual income is the basis for determining adjusted income. Annual income includes the total gross income of the borrower, co-borrower, and any other adult (age 18 and up) household members, any amount anticipated to be received from a source outside of the family during the 12-month period, and all amounts derived during the 12-month period from assets to which any member of the family has access.

If a cost of living allowance or a proposed increase in income has been estimated to be in effect on or before the Conditional Commitment issuance date, this amount must be included as income. The underwriter is to count only the first $480 of earned income from adult full time students who are not the borrower, co-borrower, or spouse.

The income from an applicant's spouse, unless the spouse has been living apart from the applicant for at least three (3) months (for reasons other than military or work assignment), or court proceedings for divorce or legal separation have been commenced will be included in the calculation of annual income.

Rental income is included regardless of duration. Include total rental real estate income reported on most recent IRS form 1040 Schedule E for previous 12 months. If no schedule E, cancelled checks, money order receipts, bank statements, or other documents may be used to support rent amounts received.

Business Losses are counted as $0 for the annual income calculation and may not be deducted from household income.

Foster Care Income received for the care of foster children or foster adults who live in the household is considered a "Special-Purpose Payment" intended to defray specific expenses related to the foster care and should not be considered as income.

The full amount of periodic payments received from Social Security (including Social Security received by adults on behalf of minors or by minors intended for their own support), annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts. However, deferred periodic amounts from supplemental income and social security benefits that are received in a lump sum amount or in prospective monthly amounts are not counted.

Adjusted Income

The adjusted income is used to determine if the household income is within the maximum income limits for the program. The adjusted income allows for deductions associated with varying household expenses such as disability assistance, medical expenses, and childcare expenses. Medical expenses are not an allowable deduction with nonelderly households. The income for all household members is considered when calculating the adjusted income. This includes the applicant, co-applicant, spouse, other adult, dependents (children under 18), and full time students over 18.

Notes:

1. For additional requirements see the CMS USDA Product matrix.
2. Income limits are published for each county and can be accessed on line at: http://eligibility.sc.egov.usda/eligibility/welcomeAction.do

Stability of Income and Employment (continued)

Repayment Income

Repayment income is determined by the stable and dependable income of the borrowers only. The repayment income is used to calculate the DTI. Borrower must have a history of receiving the income and there must be a reasonable expectation the income will continue. Foster care for children or adults and supplemental Nutrition Assistance Program payments are ineligible for repayment consideration. Refer to Chapter 9 of Technical Handbook HB-1-3555 for additional requirements and allowable repayment income sources. Business losses must be deducted from repayment income.

Requirements

CMS may consider reasonable allowances for applicants with less than 12 months job time with their current employer under the following circumstances:

- the applicant has recently changed jobs but remains in the same line of work,
- the applicant frequently changes jobs but demonstrates income continuity,
- the applicant is a recent graduate, as evidenced by college transcripts, or a recent member of the military, as evidenced by discharge papers, entering the civilian workforce,
- the applicant has recently re-entered the workforce after an absence to care for a family member or minor child, extended medical illness, or other circumstance reasonable to the lender; and
- the applicant will begin a new job with a guaranteed, irrevocable contract from the employer indicating a start date within 60 days of loan closing (CMS must verify the applicant will have sufficient income, or cash reserves, to support mortgage payments and other obligations during the time between loan closing and the start of employment), this type of allowance is commonly represented by an applicant entering a teaching position with a contract from the school district.

Tax Information Authorization IRS Form 4506-C/Tax Transcripts

Requirements

All borrowers whose income is used to qualify must sign and date a completed and unexpired Tax Information Authorization form (IRS form 4506-C) at closing, authorizing CMS or its assigns, to obtain income information.

The IRS form 4506-C must be processed and tax transcripts obtained to validate against the borrower's tax returns and/or W-2s. The 4506-C must be processed by CMS through a CMS approved vendor. CMS does not accept tax returns stamped by the IRS. The information provided by the IRS on Form 4506-C must be evaluated during the underwriting process and must be included in the loan package. Significant differences must be reviewed, resolved, and detailed comments regarding the resolution documented on the Transmittal Summary (Fannie Mae form 1008/Freddie Mac form 1077) by the USDA Certified Underwriter.

Validated tax transcripts must be included in the initial submission package when submitting the loan to CMS.

In some cases and after reviewing the loan, CMS may require that a signed IRS form 4506-C with Box 8 checked to obtain Form W-2 or Form 1099 series transcripts. This may be required when the borrower was not required to file tax returns.

IRS FORM 4506-C	
Loans Underwritten or Submitted to CMS' Investors for Underwriting	**GUS Accept**
Tax Return Filed Before April 15	Borrower has filed last year's tax return; however, the tax transcript is not available. • Provide a copy of last year's tax transcript showing, *No Record of Return Filed.*
Tax Return Filed On or After April 15	• Provide last year's tax transcript. • If the borrower has filed for an extension, the following must be provided: o Evidence that the extension was filed. o A copy of the cancelled check payable to the IRS for any monies owed o A copy of last year's tax transcript showing, *No Record of Return Filed.*

Documentation Requirements and Standards

Documentation Requirements

All loans require the completion of one of the following options to satisfy the minimum documentation requirements:

- **Option 1:**
  - Most recent paystub
  - Written Verification of Employment
  - IRS form 4506-C/Tax transcripts
- **Option 2:**
  - Most recent paystub
  - Original W-2 forms for the past two years
  - IRS form 4506-C/Tax transcripts
  - Verbal Verification of Employment

Documentation Standards

The following is the minimum required income documentation:

- Paystubs
- W-2 forms
- Written Verification of Employment
- Verbal Verification of Employment (Verbal VOE)
- Income Tax Returns
- Income Calculation Worksheet

Paystub

The borrower's most recent paystub is required for all loans, regardless if underwritten through automated underwriting or if manually underwritten.

- Most recent paystub must indicate the following:
  - 30 days year-to-date income. If the employer does not provide paystubs with year-to-date income, the loan must be downgraded to a manual underwrite. A copy of 12 month paychecks and bank statements supporting the payroll deposits are required in addition to a copy of employer’s ledger for the previous 12 months.
  - Borrower as the employee.
  - Time period covered.
  - Borrower's gross earnings for the pay period and year-to-date.
  - If the borrower is paid hourly, the number of hours must be noted on the paystub.

Documentation Requirements and Standards (continued)

Documentation Standards (continued)

- Paystubs must be computer generated, not handwritten. If the employer does not provide an acceptable computer-generated paystub, the most recent year's income tax returns are required with a written Verification of Employment completed in entirety and an IRS form 4506-C. Additionally, loans with handwritten paystubs require a downgrade to manual underwrite. Copies of 12 month paychecks and bank statements supporting deposits are required in addition to a copy of employer's ledger for the previous 12 months.
- Paystubs that are issued electronically, via e-mail, or downloaded from the Internet are acceptable and must include the following information:
  - Internet Uniform Resource Locator (URL Internet address) identifying the source of the information.
  - Date and time printed.
  - Verbal verification of employment.
  - Information identifying the place of origin and/or the author of the documentation, all of which must be confirmed on the verbal verification.
  - Documents downloaded directly from the Internet to a Word document or Excel spreadsheets are not acceptable.

Written Verification of Employment:

Written verification of employment must contain the following information:

- Dates of employment.
- Position.
- Prospect of continued employment, when available.
  - Probability of continued employment must be verified as good or better and evaluated based on the following:
    - Past employment record.
    - Qualifications for the position.
    - Previous training and education.
    - Employer's confirmation of continued employment.
- Base pay amount and frequency: for employees paid on an hourly basis, the verification must state the hourly wages, including the number of hours worked each week.
- Additional salary information, which includes itemized bonus, overtime, tip, gratuity, or commission income, if applicable. If the commission income represents 25% or more of the borrower's income, personal income tax returns with all schedules are required.
- A paystub and W-2 form must support all written verifications of employment. Written verifications of employment are not acceptable as standalone documentation to substantiate the borrower's current employment/income regardless of the automated underwriting requirements.

Documentation Requirements and Standards (continued)

Documentation Standards (continued)

- A written verification of employment must be mailed directly to the employer to the attention of the personnel department. Verifications of employment must never be mailed to a Post Office Box or to a particular person's attention. If the borrower indicates this is necessary, the file must contain verification that the employer was independently contacted and verified this requirement. The hand carrying of verifications is strictly prohibited.
- Electronic verification systems are acceptable however the information received must contain the same level of information, per standard USDA guidelines.

Verbal Verification of Employment:

Verbal verification of employment must contain the following information:

- Date of verification
- Borrower's date of employment
- Borrower's employment status and job title
- Name, phone number and title of verifier
- Name and title of associate making the call

To comply with a verbal verification of employment (or telephone confirmation) requirement, the phone number and address for the borrower's employer must independently be obtained via a telephone book, directory assistance, or by contacting the applicable licensing bureau.

The employer must be contacted within 10 Business Days of the closing date to confirm the borrower's current employment status.

If using a third party service to verify employment (e.g., The Work Number, Quick Confirm, etc.), the date of request shown on the form must be within 10 business days of the Note date (or funding date for escrow states). The date that the employment was verified must be within 35 calendar days of the Note date.

Income Tax Returns:

The following standards apply with using Income Tax Returns to verify income.

CMS may request additional information such as business licenses, business tax returns, profit and loss statements, and/or balance sheets if it is necessary to further support the determination of the stability of the borrower's income.

Documentation Requirements and Standards (continued)

Documentation Standards (continued)

- Personal Income Tax Returns must be:
  - Complete with all schedules and W-2 forms, IRS Forms 1099, K-1 schedules, etc.
  - Signed and dated
  - Borrower's copy filed with the IRS
    - Year-to-date Profit and Loss and Balance Sheet must be:
      - Prepared by an accountant
      - Required if the loan application is taken beyond 90 days of the end of the business tax year
    - Business Income Tax Returns must be:
      - Complete with all schedules
      - Signed and dated
      - Borrower's copy filed with the IRS
    - Income Tax Returns not filed for prior year:
      - Borrowers that do not have the prior year's tax returns and have filed an extension must have the following:
        - Copy of the filing extension
        - Year-end profit and loss for last year
        - Year-to-date profit and loss for the current year
        - Prior two year's income tax returns
        - W-2 forms
        - Prior two year's business tax returns, if applicable
        - Cancelled check for estimated taxes due
        - A 4506-C must be processed confirming no returns filed

Amended Tax Returns

- Tax Returns Filed Prior to the Loan Application Date
  - Tax returns filed prior to application are acceptable for underwriting purposes. Both the original filed return and the amended return are required. If the file was amended 60 days or less prior to the application, evidence of payment must also be provided.

Documentation Requirements and Standards (continued)

Documentation Standards (continued)

- Tax Returns Filed After the Loan Application Date
  - Tax returns filed after the application date may be acceptable when accompanied by the following:
  - A letter of explanation regarding the reason for the re-file. Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.
  - Evidence of filing
  - Payment and the ability to pay the tax if the check has not cancelled

  The original tax return and the amended tax return must be closely reviewed for consistency with previous filings to determine whether the use of the amended return is warranted. In addition, if the borrower requires the amended income for qualification, an exception must be submitted and approved for the use of the amended income. A copy of the original and amended tax returns must be submitted with the exception. When using an amended return after application the USDA Certified Underwriter must provide justification and commentary on the Transmittal Summary (form 1008) regarding its use.

Preliminary Title Report/Title Commitment

A preliminary report/title commitment is a report prepared prior to issuing a policy of title insurance that shows the ownership of a specific parcel of land, together with the liens and encumbrances.

The following are the minimum requirements for the preliminary report/title commitment:

- Effective Date: Not to exceed 90 days at time of funding
- Complete name and address of the Title Agent
- Preliminary report/title commitment file number
- Proposed Insured: Carrington Mortgage Services, LLC
- Proposed Coverage: Equal to the Note loan amount
- Policy Type: Full or Short Form ALTA policy (Short form policies that are not ALTA policies, such as Limited policies, are not acceptable)
- Vested Interest: To be reviewed for accuracy
- Property Address & Legal Description: To be reviewed for accuracy
- Estate of Interest: Fee Simple or Fee
- Exceptions: Liens, restrictions and interests of others are to be cleared and/or paid through the closing
- Property Taxes: Paid current or paid through the closing

Income Types

Overview

Income types are defined as follows:

- Wage Earners
- Self Employed Income
- Rental Income
- Non-Taxable Income
- Other Income
- Special Considerations

Wage Earner

Wage earners receive a wage or salaries from an employer in return for a service rendered and have less than 25% ownership interest in the business. Compensation may be based on an hourly, weekly, bi-weekly, monthly, or semi-monthly basis. CMS requires a minimum of two years employment history and likelihood of continuance of income for three years.

If the borrower's earnings are regular, use the monthly gross income to qualify. If a borrower's hours fluctuate, average the past two years plus year-to-date earnings.

Bonus or Overtime

Bonus or overtime income is compensation in addition to any employee's straight salary or hourly wage.

CMS accepts bonus or overtime income if both regular and continuous with a two-year history. This amount must be averaged. If the income has been received less than two years, but is likely to continue, overtime/bonus income may be considered. The use of the income must be justified and documented.

Income Types (continued)

Commission

Commission income is defined as a fee or percentage paid to an employee for performing a service. CMS accepts stable commission income with a two-year history.

If commission income represents 25% or more of the borrower's income, the most recent two years' personal income tax returns deducting non-reimbursed business expenses as reported on IRS Form 2106 are required. This amount must be averaged over the most recent two years.

A current paystub or 1099 statement must be obtained and it must be confirmed that the current earnings support the income on the tax return.

A borrower with less than a two-year history of commission income may be considered provided the USDA Certified Underwriter is able to make a sound rationalization for acceptance and can document the likelihood of the income to continue. Commission income received less than one year is not considered effective income. Exceptions may be made on a case-by-case basis in situations in with sufficient documentation to support its use (i.e., salary changed to commission with a similar position with the same employer).

A borrower may also qualify when the portion of a borrower's earnings not attributed to commission is sufficient to qualify the borrower for the mortgage.

Employment by a Relative

A borrower employed by a family member or employed by a family held business is eligible provided that the following documentation requirements are met:

- Written Verification of Employment completed by the business accountant. The accountant must verify that the borrower is not self-employed by indicating the percentage of interest in the business. The accountant must be a disinterested third party.
- Personal income tax returns for the most recent two years with all W-2 forms.
- Most recent, computer-generated paystub. If the pays stub is not computer generated, a signed payroll ledger must be provided by the accountant.

Part Time and Secondary Employment

Part time and secondary employment must be included in the annual income calculation when the income will be received in the ensuing 12 months. Evidence of resignation, termination, retirement, or relocation from these positions may result in the exclusion of this income. To include part time or secondary employment as repayment income, verify the borrower has received the income for a minimum of 12 months. Obtain a current pay stub, W2s, written VOE, and IRS tax returns/transcripts with all schedules.

Self-Employed Income

Overview

CMS defines a self-employed borrower as an individual who has 25% or greater ownership interest in a business or receives an IRS form 1099 to document his or her income. Examples of self-employed individuals include contract workers, real estate agents, individuals relying on investments as their primary source of income etc.

Income Documentation and Evaluation by Tax Returns

The following evidence is required for borrower's self-employment income:

- At least two consecutive years of self-employment in the same business entity in the same location.
- Ongoing, stable income.
- A level or upward trend in earnings must be established.

Any decreases or significant increases could affect the stability of the borrower's income and would require a satisfactory explanation. If a satisfactory explanation cannot be provided, the income will be considered questionable and should not be used to qualify the borrower.

Self-employment of less than two years may be considered on a case-by-case basis. To be considered, a borrower with less than two years of self-employment must meet the following qualifications:

- Been employed in the same occupation or related field prior to becoming self-employed.
- Must demonstrate at least two years of previous experience in this field. Also acceptable is one year of experience and one year of professional training/education in an area related to the occupation. Self-employment of less than one year will not be considered for qualifying purposes.

The borrower's earning trend over the previous two years must be established.

- If the borrower can provide additional quarterly tax returns, the analysis can also include income through the period covered by the quarterly tax filings.
- If the borrower does not file quarterly taxes, the income shown on the profit & loss statements may be included in the analysis, provided the income stream based on the profit & loss statement is consistent with the previous years' earnings. If the profit & loss statements submitted for the current year show an income stream considerably greater than what is supported by the previous years' tax returns, the analysis of income must be predicted solely on the income verified through the tax returns.

To determine if the business can be expected to continue to generate sufficient income for the borrower's needs, the business's financial strength, sources of income and the general economic outlook for similar businesses in the area must be carefully analyzed. Annual earnings that are stable or increasing are acceptable; however, if a business shows a significant decline in income, this would not be acceptable, even if current income and debt ratios meet guidelines.

Tax Information Authorization (IRS form 4506-C) signed by the borrowers is required for all loans.

Self-Employed Income (continued)

Meal Deductions

The maximum permitted meal deduction regardless of job type is 50%.

Documentation Requirements

The following documentation is required:

- Most recent two year's personal tax returns with all schedules
- Income Analysis Worksheet
- Most recent two years business tax returns with all schedules (except for sole proprietorships)
- Year-to-date Profit & Loss if the application is taken after 90 days of the business year-end
- Quarterly tax filings (if filed)

Depending on when the Personal Tax Return was filed, the documentation above is required with the following for all loan applications:

Application Date	Documentation
January 1—March 31	• Most recent, available two years tax transcripts. • Most recent two years personal tax returns. • Most recent two years business tax returns, if applicable. • Year-end profit and loss and balance sheet for the last year.
April 1—June 15	• Most recent, available two years tax transcripts. • Most recent two years personal tax returns. • Most recent two years business tax returns, if applicable. • Year-end profit and loss and balance sheet for the last year. • Year-to-date profit and loss and balance sheet for the current year.
June 16—October 15	• Most recent, available two years tax transcripts. • Copy of the filing extension with any tax payments made. • Current year profit and lost. • Year-end profit and loss and balance sheet for the last year. • Year-to-date profit and loss and balance sheet for the current year. • Most recent two years personal tax returns. • Most recent two years business tax returns, if applicable. • W-2s for corporations. • 1009s for commission. • Canceled checks for estimated taxes due.
After October 15	• Most recent two years personal tax returns. • Most recent year(s) available tax transcripts for the number of years required. • Most recent years personal tax return (year-end profit and loss statement will not be accepted). • Most recent two years business tax returns, if applicable. • Year-to-date profit and loss and balance sheet for the current year.

Rental Income

Overview

The section describes acceptable rental income from each source. Rental income for qualification purposes may be derived from one of the following sources:

- Owner-occupied property two- to four-unit
- Other real estate owned

Calculation of Rental Income

A retained dwelling must meet the requirements of section 7 CFR 3555.151(e). Manufactured homes that are not on permanent foundations are considered functionally inadequate housing. Monthly gross rent received must be reduced by a vacancy factor of 25 percent before subtracting the monthly principal, interest, taxes, insurance, and homeowner association dues, etc. for annual income.

Repayment Income for rents received 24 months or more:

- Positive net rental income received may be considered as stable and dependable by the underwriter and included in the repayment income.
- Negative net rental income determined to be stable and dependable is treated as a recurring liability.
- Mortgage liabilities associated with the property may be omitted from the debt ratios.

Repayment Income for rents received less than 24 months:

- No rental income may be included for repayment purposes.
- Corresponding mortgage liabilities must be included in the debt ratios.

Annual Income:

- Positive net rental income must be included in annual income.
- Negative net rental income is treated as $0. Rental income for repayment purposes may be verified by 24 months of canceled checks, money order receipts, or bank statements. For rental amounts received for 24 months or greater, the actual average income reported on the applicant's income tax IRS Form 1040 Schedule E (depreciation may be added back into calculation) for the past two years may be used in lieu of net rental income that is subject to a vacancy factor.

Other Income

Overview

This section describes other sources of income. If any of the following types of income are used to qualify the borrower, a history of regular receipt and the probability of continuance for at least three years must be documented:

- Alimony Child Support and Maintenance Payments
- Auto Allowances and Expense Account Payments
- Dependent Deduction
- Disability Income
- Employer Differential Payments
- Employment Gaps
- Family Assets over $5,000
- Future Employment
- Interest and Dividend Income
- Leave of Absence Military Income
- Non-Taxable Income
- Note Income
- Public Assistance Income
- Retirement, Pension, Annuity and IRA Distributions
- Seasonal Income
- Social Security Income
- Teachers
- Trust Income
- Union Members
- VA Benefits

Other Income (continued)

Alimony, Child Support and Maintenance Payments

Alimony and separate maintenance income will be considered, when based on a divorce decree, court ordered separation agreement, court decree, or another legal agreement providing the payment terms confirming that the income will continue for the first three years of the mortgage. Additional confirmation must be obtained to document the age of the child and the income continuance if the age of the child is not clearly defined.

The following documentation must be provided:

- Copy of divorce decree or court order.
- Satisfactory proof of regular receipt of monthly payments that include one of the following for the most recent 12 months:
  - Signed federal income tax returns
  - Legal Separation Agreement
  - Voluntary Payment Agreement
  - Canceled checks
  - Bank statements or deposit slips showing the regular deposit of these funds
  - Payment history from the court

Auto Allowances and Expense Account Payments

If a borrower has been receiving automobile allowances for the past two years, this income will be considered stable income, provided all associated business expenditures are included in the calculation of the borrower's total Debt-to-Income Ratio. The employer must provide verification that these payments will continue. The most recent two years personal income tax returns with all schedules are required to document income.

When the borrower files an IRS form 2106, any funds in excess of the borrower's monthly expenses are added to the borrower's monthly income. The borrower's monthly car payment must be included in the borrower' total monthly obligations. The car payment may not be offset by the auto allowance.

When the borrower does not report the allowance on IRS form 2106, the full amount of the allowance is added to the borrower's monthly income. The full amount of the lease or financing expenditure for the automobile must be added to the borrower's total monthly obligations. A copy of the most recent year's W-2 form and current paystub must be provided.

For qualifying purposes, an average of the income over the two years should be developed. If the calculations reveal a loss, it must be treated as a recurring debt.

Other Income (continued)

Child Care Expenses

Child care expenses for the care of minor children age 12 and under must have documentation to support the amounts paid. Third party verifications provided by a licensed childcare facility or provider on official letterhead are acceptable when they include the name of the child enrolled, the date of enrollment, the monthly payment due, and payment history. Letters prepared by relatives or private individuals must include the same information as a third party verification along with evidence of payments made (e.g., canceled checks, money order receipts, bank statements, etc.). The underwriter may calculate the annual amount paid for eligible childcare. Applicants that have not yet placed their child into care or have no evidence to support payments made will be unable to qualify for this deduction. Before and After school care programs that enable the applicant or a member of their household to be employed or attend school to complete their education are an eligible deduction. Child support payments or private school tuition paid by an applicant are not eligible child care expenses.

Disability Income

Long-Term Disability (Not disability income received from the Social Security Administration):

Include all disability income in the annual income calculation. To include in the repayment income, document the applicant is currently receiving the income at the time of the application, the amount of the income received each month, and if there is a contract termination or modification date. Income must be confirmed to continue a minimum of three years into the mortgage. No history of receipt is required. Long-term disability may be documented with:

1. Account statements to support amount of income utilized for repayment purposes, including the balance, rate of interest, and payment amounts/continuance, or
2. Federal income tax returns or IRS tax transcripts with all schedules

Disability Income received from the Social Security Administration:

Obtain the benefit statement from the Social Security Office. Income must be confirmed to continue a minimum of three years into the mortgage, however benefit letters that do not include an expiration date will be presumed to continue. Benefits received by the applicant on behalf of minors may be utilized for repayment income. Benefits received by the applicant on behalf of an adult household member may be used for repayment income when there is evidence they are the legal guardian for the non-applicant adult household member. Tax exempt income may be grossed up by 25%.

Temporary Disability or Workman's Compensation:

- Benefits that have a defined expiration date must have a remaining term of at least three years from the date of the mortgage application in order to be used for qualifying the borrower.
- If a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the long-term benefits must be used as qualifying income.

Other Income (continued)

Disability Income (continued)	• If a borrower is currently on temporary disability (including maternal/parental leave), the borrower must provide a letter of intent to return to work and the employer must provide a letter or other communication of the borrower's right to return to work and a description of the employment terms (same as prior to leave). The temporary disability benefits must be used for loan qualification and must not terminate prior to the borrower returning to work, unless the borrower(s) has liquid reserves sufficient to offset reduced income, covering the gap between the benefits expiration and the return to work dates. • A copy of the borrower's disability policy or benefits statement is required to document income. • For automated underwriting, if a loan receives an Ineligible decision due to debt-to-income ratio, the loan may be Manually Underwritten. The borrower(s) must have liquid reserves sufficient to offset reduced income, covering the gap between the benefits expiration and the return to work dates.
Employer Differential Payments	Repayment Income: The amount of these payments may be considered in repayment income when the lender verifies from the employer they are likely to continue into the first three years of the mortgage. Do not offset the mortgage payment with this amount. Annual Income: The amount of these payments should be included as gross income when calculating the annual income.
Employment Gaps	The stability of income must be assessed for gaps of employment and the likelihood of continuance should be factored into the underwriting decision Employment gaps over 30 days in the last two years must have written explanations provided by the borrower. Borrower(s) must write, sign, and date all Letters of Explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.
VA Benefits, Scholarships, Tuition	Repayment Income: Direct compensation from the U.S. Department of Veterans Affairs (VA), (i.e., regular payments for a service related disability), can be included as repayment income upon VA verification. Education benefits paid to a Veteran for use in meeting the costs of tuition, fees, books and equipment may be considered for repayment income. Annual Income: Direct compensation payments and the remainder of educational grants, scholarships or VA benefits available for subsistence after deducting expenses for tuition, fees, books and equipment must be considered as annual income.
Family Size - Dependent Deduction	If it is unclear if an applicant may claim a minor child as a household member for the purpose of the adjusted household income calculation, Internal Revenue Service (IRS) Publication No. 501 considers the custodial parent as the one authorized to claim the dependent on a Federal income tax return. Lenders may provide a divorce decree, custody agreement and/or Federal income tax returns as evidence the applicant is authorized to claim the dependent.

Other Income (continued)

Future Employment

Income from future employment may be used in certain cases. A borrower who will be starting a new job must be on the job within 60 days after closing. The borrower must have a guaranteed non-revocable contract for employment with a guaranteed start date. The following documentation is required:

- Fully executed contract with the employer.
- Written Verification of Employment from the new employer verifying all terms of the employment and the start date.
- Sufficient income or cash reserves to support the mortgage payments and any other obligations during the interim between loan closing and the start of employment.

Household Assets

Section 7 CFR 3555.152(d) requires net family assets with a cumulative total of $5,000 or greater to be considered in the annual income calculation. The greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate must be considered when calculating annual income. Verification documents must coincide with the type of asset identified for income purposes. Net family assets are defined as the value of equity in real property, savings, IRA's, demand deposits, the market value of stocks, bonds, other forms of capital investments and business or household assets disposed of for less than fair market value for two years preceding the date of loan application (disposition of a trust considered but not inclusion in a foreclosure or bankruptcy). 401ks are not considered in net family assets.

Interest and Dividend Income

A two-year average of the interest and dividend income may be used to qualify if supported by the borrower's assets after settlement. The asset providing the interest and dividend income may not be liquidated for cash to close unless that portion used is deducted and the interest and/or dividend amount is recalculated based on the unused portion of the asset. Interest and dividend income is eligible after deducting that portion listed on Schedule B of IRS form 1040, which is derived from a partnership or S corporation.

The following documentation is required:

- Most recent two years personal income tax returns with all schedules or most recent 24 months personal bank statements, or most recent two years' IRS form 1099.
- Proof of assets to support the interest or dividend income will continue for at least three years.

Military Income

Military personnel may be entitled to other types of pay in addition to their base pay. Hazard and proficiency pay, rations, and clothing and quarters allowance may be counted as income if it is verified as regular and continuous.

If a letter from the commanding officer is obtained indicating that on base housing will not be provided and quarters pay will continue is provided, this income may be included as qualifying income.

Other Income (continued)

Non-Taxable Income

Income is typically taxable unless it is specifically exempted by law. Non-taxable income may be shown on the borrower's tax return, but is not taxed. The amount by which the income is "grossed-up" must be documented and supported. The non-taxable status of the income must be likely to continue for three years.

The borrower's current tax rate based on last year's tax return should be used to calculate the current tax rate. Depending on the borrower's tax rate, 15% or 25% percent must be used.

See the IRS website for details on filing requirements. If the borrower is not required to file a federal income tax return, 15% percent should be used as the tax rate.

Note Income

Ongoing revenue received from note income is recognized by CMS as eligible for loan qualification. A copy of the Note must document the amount, frequency, and duration of payments and will continue for three years.

One of the following must be provided for the most recent 12 months:

- Personal income tax returns with all schedules
- Bank statements or deposit slips showing note income deposited
- Cancelled checks

Public Assistance Programs

If income received from government assistance programs can be properly documented that the income has been received for the past two years and will continue for three years, it may be considered as acceptable income.

A copy of the letter from the government agency providing the income amount, frequency, and duration and continuance must be provided.

Income received from government assistance programs must be grossed up by 125%. See the Seasonal Unemployment section for details regarding the use of unemployment income.

Section 8 Housing Vouchers

Repayment Income: The monthly subsidy may be treated in one of the following manners for repayment income:

1. If the subsidy is paid directly to the applicant it may be “grossed up” by 25 percent to compensate for its nontaxable status , or
2. If the subsidy is paid directly to the loan servicer, it may be deducted from the monthly PITI payment to determine the debt-to-income ratio.

Lenders who utilize GUS for this type of repayment income must use option (1) above.

Annual Income: Do not include this subsidy in annual income.

Other Income (continued)

Retirement, Pension, Annuity Income and IRA Distributions

Retirement and pension income may be used to qualify provided the source of the income, including payment amount, receipt of the income, and evidence of three years continuance of the monthly annuity payment, 401k or IRA monthly distributions are documented. Evidence of continuance of corporate, government, or military retirement/pension need not be documented.

All forms of retirement or pension income require a direct verification from the source of the income. This can include one of the following:

- Letter from the organization providing the income
- Copy of retirement award letter

In addition, one of the following is required for the most recent 12 months:

- Personal income tax returns with all schedules
- W-2P forms or IRS form 1099
- Copy of bank statement showing the deposit
- Copy of most recently received retirement, pension and/or social security check

Seasonal Income

Seasonal Employment

A borrower's income may fluctuate from year to year because his or her ability to work may be dependent upon weather conditions. Due to these fluctuations, income will be averaged over the past two years based on the following income documentation:

- Written Verification of Employment
- Paystubs for the most recent 30-day period worked
- W-2 forms for the most recent two years
- Personal income tax returns with all schedules for most recent two years

Seasonal Unemployment

Unemployment benefits, such as those received by seasonal workers, must have been received for the past two years, and are predictable and likely to continue. Due fluctuations in income, this amount will be averaged over the past two years based on the following income documentation:

- Personal income tax returns with all schedules for the most recent two years

Other Income (continued)

Seasonal Income (continued)

Seasonal Part-time or Seasonal Second Job

Seasonal part-time or second job employment may be acceptable if the borrower has worked at the job uninterrupted for two years. Due to fluctuations in income, this amount will be averaged over the past two years based on the following income documentation:

- Written Verification of Employment
- Paystubs for the most recent 30-day period worked
- W-2 forms for the most recent two years
- Personal income tax returns with all schedules for most recent two years
- Letter from employer confirming that borrower will be re-hired for the next season (seasonal part-time)

If income received cannot meet this requirement, it should only be considered a compensating factor.

Social Security Income

Evidence of continuance of Social Security retirement income does not need to be documented; however, evidence of three years continuance of Supplemental Social Security income (children or surviving spouse) must be documented.

A copy of the Social Security Administration award letter must be provided to document income.

Social Security income received by the borrower on behalf of another household member may only be included in repayment income if the household member is a minor.

Teachers

When a borrower is employed as a teacher, the annual salary must be verified. If monthly or weekly base pay is provided, the employer must verify the number of pay periods per year. Stipends or supplemental income must be documented as regular and continuous.

For teacher income paid over a 10-month period and if financing is obtained during the summer months when income is not received, the following documentation is required:

- Final year-end paystub from school
- Written Verification of Employment
- Verbal Verification of Employment
- Copy of guaranteed contract indicating that borrower is paid over a 10-month period

Other Income (continued)

Trust Income

If constant trust income payments will continue for at least three years, this income may be considered for qualification. A copy of the Trust Agreement must be provided to document the following:

- Total amount of designated trust funds
- Terms of payment
- Duration of trust
- What portion, if any, of income to borrower is not taxable

Union Members

Union members may hold several jobs during a year. Union members must be employed at the time of closing. Verification of income for a union member requires the following documentation:

- Written Verification of Employment from Union confirming the following:
  - Borrower is in good standing with union.
  - Borrower employed by same employer and income used for qualification. If union cannot provide confirmation, a written Verification of Employment with present employer is required.
- Current paystub from present employer. If there have been more than one employer in the current year, the last paystub from each employer will be required to adequately reflect year-to-date earnings.
- Complete personal income tax returns with all schedules and all W-2 forms for the last two years.

Due to fluctuations in income, income must be averaged over the past 24 months, unless income has declined and then the most recent 12 months will be averaged.

VA Benefits

VA Benefits income may be used to qualify provided evidence of regular receipt and continuance for three years. A letter or Distribution form from the Department of Veteran Affairs evidencing VA Benefits and continuance for at least three years must be provided.

Unacceptable Sources of Income

Sources of Unacceptable Income

The following income sources are not acceptable for purposes of qualifying the borrower:

- Any unverified source of income
- Foster Care income
- Income determined to be temporary or one-time in nature
- Rental income received from the borrower's single family primary residence or second home
- Retained earnings in a company
- Stock options
- Trailing spouse income
- Unverifiable income
- Income derived from State approved marijuana dispensary, even if W2 wages

USDA LIABILITIES AND DEBT RATIOS

Overview

The Liabilities and Debt Ratios standards apply to all CMS loan programs.

This section outlines the requirements that represent USDA core requirements for manually underwritten loans. Waivers do not apply to state specific compliance restrictions.

Ratios are used to compare the borrower's anticipated monthly housing expense and total monthly obligations to stable monthly gross income. These ratios indicate limitations on the borrower's ability to meet expenses involved in home ownership.

Mortgage ratio requirements are discussed under the following topics:

- Monthly Housing Expenses
- Debt Obligations
- Compensating Factors

Debt Ratio Waivers

RD allows applicant's with principal, interest, taxes and insurance (PITI) and total debt (TD) ratios that exceed 29/41 to request RD concurrence to allow higher ratios based on acceptable compensating factors. Lenders must document their request for a debt ratio waiver and acceptable compensating factors to support their request on the underwriting analysis.

Exception: The underwriter is not required to submit a debt ratio waiver request for GUS "Accept" loan files.

Monthly Housing Expenses

Monthly housing expenses are required to calculate the anticipated total monthly housing expense-to-income ratio. Housing expense-to-income ratios compare monthly housing expenses to stable gross monthly income. The following are monthly housing expenses:

- Interest payments for loans with Interest Only feature
- Principal and Interest payment on the first mortgage
- Hazard insurance premiums
- Real estate taxes
- Mortgage insurance premium
- Homeowners' association dues
- Documented payments on subordinate financing
- Leasehold payments
- Ground rent
- Special assessments

USDA Liabilities and Debt Ratios (continued)

Total Qualifying Primary Housing Expense-to-Income Ratio

Primary housing expense-to-income ratios compare monthly housing expenses to monthly stable income.

For loans underwritten by automated underwriting and receiving an Accept decision or when significant compensating factors exist and can be documented, the first mortgage qualification ratios may exceed program requirements.

Primary Housing Expense-to-Income Ratio Limits		
Type	**Loan to Value**	**Limitations**
Fixed Rate	All	29% gross monthly income
Temporary Buy down	All	29% gross monthly income (qualify at the full note rate)
ARM	All	29% gross monthly income

Note: Temporary buy down funds may come from the seller, lender or other third party. Temporary buy down funds may not come from the borrower.

Payment Shock Calculation

Payment shock is the percentage of payment increase of the proposed payment compared to the existing payment. Payment shock is calculated by dividing the difference between the proposed payment and the existing payment by the existing payment.

Example:

Existing Payment - $1250

Proposed Payment - $3000

Difference - $1750

Calculation: $3000 - $1250 = $1750 / $1250 = 1.40 or 140%

USDA Liabilities and Debt Ratios (continued)

Monthly Debt Obligations

The borrower's ability to repay mortgage debt is critical in evaluating the overall quality of the loan. CMS assess the borrower's liabilities relating to the number of active accounts, usage, and repayment history. Evaluation of the borrower's capacity includes an assessment of the borrower's financial obligations in relation to income.

The total monthly debt obligations considered is the sum of all housing expenses plus any other monthly expenses incurred by the borrower. Any additional debt obtained as a result of a recent inquiry on the credit report must be included in the monthly debt obligation. See the Debt Payoff/Pay Down section for information on paying off or paying down debt to qualify.

Monthly Debt Obligations

Expenses include the following:

- Monthly primary housing expense.
- Installment debt with six months or more remaining.
- All revolving debt regardless of outstanding balance (in the absence of a stated payment, use 5% of the outstanding balance or a minimum $10 payment).
- Installment debt with less than six months remaining where the monthly payment will have a significant impact on the borrower's ability to repay the mortgage debt in its initial months.
- Auto lease payments, regardless of the number of remaining monthly payments.
- Principal and/or interest on short term notes.
- Principal and/or interest payments on balloon notes.
- Mortgage payments and related expenses on any non-income producing real estate.
- Aggregate net negative rental income for, all rental properties.
- Alimony, child support and maintenance payments with ten months or more remaining. Voluntary payment need not be included.
- Unreimbursed Employee Expenses that exceed the actual amount of the allowance or expense payments (income) will be treated as recurring debt.

Note: See the Non-Purchasing Spouse section for information on the inclusion of a non-purchasing spouses' monthly debt in the monthly debt obligations and debt-to-income ratio calculation.

USDA Liabilities and Debt Ratios (continued)

Debt Pay Off/Pay Down

For qualification purposes, the pay off or pay down of installment debt is permitted. If debts are being paid off or paid down to qualify the borrower, the payoff must be documented and the source of funds verified with sufficient funds remaining for closing costs and reserves.

Significant installment debt (i.e., debt with high balances or large monthly payments) may be included in the debt-to-income ratio at the discretion of the USDA Certified Underwriter.

If an account is paid in full prior to closing, the payoff of revolving accounts is permitted for qualification purposes. The pay off and zero balance must be documented directly from the creditor. The payoff **must not** be reflected on the HUD-1 Settlement Statement.

Projected Obligations

Debt payments, such as a student loan or balloon note scheduled to begin or come due within 12 months of the mortgage loan closing must be included in the monthly debt obligations for qualification.

Debt payments do not have to be included in the monthly debt obligations if the borrower provides written evidence that the debt will be deferred (not forbearance) to a period beyond 12 months of the mortgage loan closing.

Balloon notes that come due within 12 months of the mortgage loan closing must be considered in the underwriting analysis.

Total Qualifying Debt-to-Income Ratios

Debt-to-income ratios compare all monthly obligations/debt payments to monthly stable income. In evaluating the total debt-to-income ratio, the degree and frequency of credit usage and its impact on the borrower's ability to repay the loan must be considered.

Housing Expense Ratio Limits		
Type	**Loan to Value**	**Limitations**
Fixed Rate	All	41% gross monthly income
Temporary Buy down	All	41% gross monthly income
ARM	All	41% gross monthly income

USDA Liabilities and Debt Ratios (continued)

Contingent Liabilities

When an individual is held responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment, this is considered a contingent liability. Not all contingent liabilities will have to be taken into consideration when determining the amount of the borrower's recurring monthly debt obligations. The most common types of contingent liabilities are described below:

Mortgage Assumptions: No Release of Liability

- Mortgage liabilities disposed of through a sale, trade or transfer without a release of liability (i.e., borrower remains on the promissory note) must be included in the total debt ratio unless evidence can be obtained to confirm the remaining party/new owner has successfully made the payment for the previous 12 months prior to loan application.
- Evidence may be reported through the credit report or verification from the creditor/servicer to document the payment history has been current for the 12 months prior to loan application.
- If there are late payments in the previous 12 months prior to loan application, the full mortgage obligation must be included in the monthly debt.

Contingent Liability on Co-signed Obligations

If an individual is a co-signer/co-obligor on a car loan, student loan, mortgage, or any other obligation, continent liability applies and the debt must be included in the underwriting analysis. The borrower and the individual making the payments must both be liable for the debt repayment.

If written evidence is provided documenting that the primary obligor has been making regular payments during the previous 12 months, and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the borrower's monthly obligations.

If joint obligations are listed in the final divorce decree and/or separation agreement as being the responsibility of the ex-spouse then they can be omitted from the qualifying DTI calculation. The divorce decree or separation agreement must be finalized by the court and recorded. A divorce decree alone does not allow for the exclusion of debt awarded to the ex-spouse.

Borrower is still liable for any adverse payment history or outstanding debt associated with these joint accounts that are dated prior to the divorce or separation agreement.

Liabilities Paid by the Business

When the borrower indicates on the loan application that certain liabilities are paid by the business (does not include sole proprietor Schedule C), it must be confirmed that the obligation was paid from company funds and meets the following requirements:

- Accountant verifies that the loans are paid by the business.
- Minimum of 12 months of canceled checks is required documenting the debt is paid by the business.

USDA Liabilities and Debt Ratios (continued)

Other Considerations

Condominium Fees:

The portion of the condominium fee that is clearly attributable to utilities may be subtracted from the mortgage payment before calculating ratios as long as proper documentation is provided.

New Construction Tax Escrow:

In supplemental tax states, taxes are based on the reasonable estimate of the improvement value, not the existing tax based on the unimproved or land value. This reduces the payment shock to borrowers when taxes are adjusted upon completion of the improvement.

Compensating Factors

CMS recognizes that there may be justification for exceeding the qualifying ratios limits. For manually underwritten loans, higher housing expense and total obligations-to-income ratios may be considered as long as there are sufficient compensating factors and rationale that justify their use. Less flexibility is warranted for transactions involving layering of risk.

Compensating Factor	Guideline Description
Housing Expense Payments	The borrower has successfully demonstrated the ability to pay housing expenses greater than or equal to the proposed monthly housing expenses for the new mortgage over the past 12-24 months.
Down Payment	The borrower makes a large down payment of 10% or higher toward the purchase of the property.
Accumulated Savings	The borrower has demonstrated; • An ability to accumulate savings, and • A conservative attitude toward using credit.
Previous Credit History	A borrower's previous credit history shows that he/she has the ability to devote a greater portion of income to housing expenses.
Minimal Housing Expense Increase	There is only a minimal increase in the borrower's housing expense.
Substantial Non-Taxable Income	The borrower has substantial non-taxable income. Note: This applies if no adjustment was previously made when computing ratios.
Potential for Increased Earnings	The borrower has a potential for increased earnings, as indicated by job training or education in his/her profession.

USDA Liabilities and Debt Ratios (continued)

Compensating Factors (continued)

Compensating Factor	Guideline Description
Primary Wage-Earner Relocation	The home is being purchased because the primary wage-earner is relocating, and the secondary wage-earner has an established employment history, is expected to return to work, and has reasonable prospects for securing employment in a similar occupation in the new area. **Note:** The USDA Certified Underwriter must document the availability of the potential employment.
Substantial Cash Reserves	The borrower has substantial documented cash reserves (at least three months' worth) after closing. The lender must judge if the substantial cash reserve asset is liquid or readily convertible to cash, and can be done so absent retirement or job termination, when determining if the asset can be included as cash reserves, or cash to close. Funds and/or "assets" that are not to be considered as cash reserves include equity in other properties, and proceeds from a cash-out refinance. The lender may use a portion of a borrower's retirement account, subject to the following conditions. To account for withdrawal penalties and taxes, only 60% of the vested amount of the account may be used. The lender must document the existence of the account with the most recent depository or brokerage account statement. In addition, evidence must be provided that the retirement account allows for withdrawals under conditions other than in connection with the borrower's employment termination, retirement, or death. If withdrawals can only be made under these circumstances, the retirement account may not be included as cash reserves. If any of these funds are also to be used for loan settlement, that amount must be subtracted from the amount included as cash reserves. Similarly, any gift funds that remain in the borrower's account following loan closing, subject to proper documentation, may be considered as cash. **Note**: Reserves from retirement accounts and gifts as described above may be considered as cash reserves when scoring the mortgage application through Modified TOTAL Scorecard.

USDA Liabilities and Debt Ratios (continued)

Compensating Factors for Refinance Transactions

For manually underwritten refinance loans, CMS must thoroughly document the compensating factors that justify an exception. Higher repayment ratio exceptions are feasible when an applicant demonstrates compensating factors indicating the capacity, willingness and ability to pay mortgage payments in a timely manner. The presence of compensating factors does not strengthen a ratio exception when multiple layers of risk, such as marginal credit history, are present in an application. The following are examples of compensating factors:

Compensating Factor	Guideline Description
Previous Credit Score	The borrower has credit score of 680 or higher. Credit scores of 680 and higher can be documented as a standalone compensating factor for a debt ratio waiver request, if no additional risk layers are present (e.g., adverse credit, or payment shock, etc.).
Housing Expense Payments	The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new mortgage over the past 12 months.
Previous Credit History	The borrower has demonstrated a conservative attitude toward the use of credit.
Accumulated Savings	The borrower has demonstrated an ability to accumulate savings comparable to the difference between current housing costs and projected costs.
Cash Reserves	Cash reserves post-closing. The use of retirement accounts as compensating factors and as cash reserves is limited to 60% of the vested amount of the retirement asset to offset potential withdrawals by the applicant(s). Retirement accounts that restrict withdrawals to circumstances involving the borrower's employment separation, retirement or death should not be considered as a compensating factor or as cash reserves.
Previous Employment History	The borrower has continuous employment with the current primary employer.

Co-Borrowers

Additional qualifying criteria are not imposed on transactions with non-occupying co-borrowers. All borrowers' income, credit and assets are used in the loan qualification.

USDA ASSETS

Overview

This section provides standards that apply to all CMS loan programs. Generally, requirements that vary from one loan program to another are described in the product matrices.

The requirements outlined in this section represent USDA core requirements for manually underwritten loans. USDA Modified TOTAL Scorecard decision and recommendations for reduced documentation may be followed unless otherwise noted in this document or on the product matrices. Waivers do not apply to state specific compliance restrictions.

Documentation Age

Requirements

The following documentation age limitations apply:

- 120 days prior to the note date for existing properties.
- 180 days prior to the note date for new construction.

Minimum Down Payment and Cash to Close

Requirements

There is no minimum cash investment required from a borrower on a USDA guaranteed mortgage.

All cash to close must be documented and verified, unless specifically waived by the loan program or automated underwriting.

Asset Sources

Overview

Every borrower must complete the Source of Funds Statement, which provides direction to determine and verify acceptable sources of equity. The following is a list of acceptable sources:

- Bank Accounts
  - Individual Accounts
  - Joint Accounts
  - Trust Accounts
- Earnest money Deposits
- Employer Assistance Plans
- Employer's Guarantee Plans
- Equity from Other Assets
  - Loans Secured by Other Assets
  - Proceeds from 1031 Tax deferred Exchange
  - Sale of Other Assets
  - Sale of Real Estate
- Foreign Assets
- Gifts
  - Gifts of Equity
  - Wedding Gifts
- Income Tax Refund
- Life Insurance
- Premium Pricing
- Real estate commissions
- Rent credits
- Retirement Accounts
- Stocks/Bonds
- Secured loans
- Sweat equity
- Systematic Savings
- Trade equity

Asset Sources (continued)

Bank Accounts

To document the borrower's assets, one of the following items must be provided:

- The two most recent consecutive monthly bank statements.
- Bank Statements must be dated within 45 days of the initial loan application.

  Note: The previous month's balance must be reflected on the bank statements. This applies to all assets.

Bank accounts include funds on deposit in savings accounts, checking accounts, certificates of deposit, money market accounts, and individual retirement accounts (IRAs).

- **Individual Accounts:** Funds in the borrower's own individual bank account are acceptable.
- **Joint Accounts:** Funds held in a joint checking or joint savings account are acceptable since the borrower has access to all funds in the account at all times. A 100% Access Letter is required from the joint account holder not on the loan.
- **Trust Accounts:** Funds disbursed from a trust account where the borrower is the beneficiary are acceptable if the borrower has immediate access to the funds. The trust manager or trustee must verify the value of the trust account and confirm the conditions under which the borrower has access to the funds. When using the trust income for qualifying, effect of the withdrawal must be documented.

Any accounts that cannot be immediately accessed by the borrower, including accounts where the borrower is not the beneficiary (e.g., custodial accounts or “In Trust For” accounts) are not considered acceptable assets.

Bank Statements:

Bank statements must clearly identify the following:

- Name and address of the depository or investment institution.
- Name of account holders.
- Account number.
- Time period covered by the statement.
- For depository account, all deposit and withdrawal transactions.
- For a financial portfolio account, all purchase and sale transactions.
- Ending account balance.

Asset Sources (continued)

Bank Accounts (continued)

Borrowers can submit bank statements obtained from the Internet as long as the following information is included:

- Internet Uniform Resource Locator (URL) addresses identifying the source of the information.
- Name of the depository or investment institution.
- Account number.
- Time period covered by the statement.
- For depository account, all deposit and withdrawal transactions.
- For a financial portfolio account, all purchase and sale transactions.
- Ending account balance.

The statements can be e-mailed from the Internet or printed and faxed to CMS. Statements that have been downloaded into a Word document or Excel spreadsheet are not acceptable.

Review of Account Statements:

Any indications of borrowed funds must be investigated. Indications of Borrowed funds include:

- A recently opened account
- A recently received large deposit
- An account balance that is considerably greater than the average balance over the previous few months.

When there is a recently opened account or a large increase in an existing account (within six months of contract signing), the source of funds must be explained by the borrower and verified. Unverified funds are not acceptable sources for the down payment, closing costs and / or reserves.

Examine asset documentation for signs of fabrication or alteration. Analyzing the documentation to calculate interest, and reviewing deposits against income levels and sources are necessary to validate the documents.

Earnest Money Deposits

Earnest money deposit on the sales contract can be considered an asset if the deposit Is not already reflected in a liquid asset account. If the funds have cleared the applicant’s account, place the amount as an “Other Credit” in Section VII of the loan application.

For GUS transactions, lenders should only enter the earnest money once; on the “Asset and Liabilities” or “Transaction Details” page.

Asset Sources (continued)

Employer Assistance Plans

If the employer pays the following to attract or retain valuable employees, the payment is considered employee compensation and an adjustment to the maximum mortgage amount is not required.

- Employee's closing costs
- Mortgage Insurance Premiums
- Any portion of the cash investment

If the employer provides this benefit after loan settlement, the borrower must provide evidence of sufficient cash for closing.

Note: A salary advance cannot be considered as assets to close since it represents an unsecured loan.

Equity from Other Assets

Loans Secured by Other Assets:

Borrowed funds secured by an asset owned by the borrower are an acceptable source of equity. Examples that may be used to secure funds include certificates of deposit, savings plans, stocks, bonds, real estate owned by the borrower, and life insurance policies.

The following documentation is required:

- The terms of the loan
- Verification that the party providing the secured loan is not a party to the sale or financing of the property (other than a financial institution)
- Confirmation that the funds have been transferred to the borrower
- Evidence that the loan is secured by an asset owned by the borrower
- Value of the asset (e.g., copy of the appraisal, copy of Blue Book value)

  Monthly payment for the loan must be included in the debt-to-income ratio. When the loan does not require monthly payments, a reasonable monthly payment must be calculated and considered as a debt.

  Loans secured by the borrower's own financial assets such as deposit funds, investment or retirement accounts or life insurance policies in which repayment may be obtained through extinguishing the asset do not require consideration of repayment for qualifying purposes. However, in such circumstances, the asset securing the loan may not be included with borrower assets for closing or otherwise considered available to the borrower.

Asset Sources (continued)

Equity from Other Assets (continued)

Sale of Other Assets:

If funds are derived from the sale of assets other than real estate, they must be verified by the following documentation based on the lesser of the sales price or value:

- Proof of ownership
- Support for the value of the asset (published value estimates, appraisal (If the sale was an auto, an appraisal from an auto dealer is required to support the value; Kelly Blue Book is not an acceptable source.)
- Evidence of transfer of ownership (e.g., a copy of the bill of sale)
- Evidence of receipt of the purchase proceeds (e.g., deposit slip or bank statement)
- Evidence that a party to the property sale or the mortgage financing transaction did not purchase the asset

Sale of Real Estate:

The net proceeds that will be generated from the sale of an existing property must be established. The transaction must be an arm's length transaction.

Both the actual sale and the sufficiency of net proceeds must be documented with the following information:

- A copy of the executed contract of sale for the property
- A fully executed HUD-1 Uniform Settlement Statement evidencing the net proceeds received by the borrower
- If the borrower is being transferred by his or her company under a guaranteed sales plan, obtain an executed buyout agreement and accompanying settlement statement indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt

If the actual fees for the sale of the home are known, use the following formula to calculate the equity in the property:

Sales Price minus (sales costs plus payoff of all outstanding liens) = equity

If the actual fees involved in the home sale are not known, an estimate of the equity in a property can be determined, using the following formula:

Sales Price minus (10% of sales price (for costs / broker fees) plus payoff of all outstanding liens) = equity

If a sales price has not been established, anticipated equity may be calculated with the following formula:

Listing Price minus (10% of listing price plus payoff of all outstanding liens) = equity

The 10% adjustment factor may need to be changed depending on market conditions in the area of the sale. True net equity (proceeds) must be verified upon sale of the property regardless of the adjustment factor used.

Asset Sources (continued)

Foreign Assets

Foreign assets being used for down payment, closing costs and reserves must be held in a United States account prior to closing. If the assets are derived from a sale of a foreign asset or from assets held in a foreign bank account, the assets must be professionally translated by an independent, certified third party and placed in a United States banking institution. Evidence of certification may be requested if not provided. The sale of the foreign asset and conversion of foreign currency must be fully documented and verified.

Gift Funds

Documentation:

- Gift funds are considered the applicant's own funds therefore they are eligible to be returned to the applicant at loan closing as applicable.
- Gift funds may not be contributed from any source that has an interest in the sale of the property (seller, builder, real estate agent, etc.).
- Gift funds must be properly sourced: Gift letter to state the funds do not have to be repaid, evidence of funds from the party providing the gift, and evidence the funds were deposited into the applicant's account.
- Cash on hand is not an acceptable explanation for the source of funds.
- Gift funds that will be used for funds to close may be entered in the "Other Credits" section of the "Transaction Details" GUS application page. The amount entered should not exceed the actual amount of funds required to close. Remaining gift funds not used for closing assistance may be entered in the "Asset and Liabilities" application page as "gift funds". If cash back is received at loan closing, it cannot exceed monies advanced by the borrower minus utilized gift funds.

Reserves:

Ineligible

Funds to Close:

Eligible

Income Tax Refund

An income tax refund not yet received may be used as funds for down payment or closing costs. The borrower must provide a copy of the actual signed tax return to verify the anticipated refund. Verification of receipt of the refund is required and must be documented by a copy of the refund check or electronic deposit.

Life Insurance – Cash Value

When a borrower uses the cash value of a life insurance policy as funds for down payment and/or closing costs, the value must be verified by a written statement from the life insurance company. The statement must specify the amount of net cash value currently available to the borrower. Verification of receipt of the funds is required.

Note: Borrowers cannot receive a loan for closing costs and prepaids.

Asset Sources (continued)

Loan From A Relative

Family members may lend the borrower up to 100% of the cash investment on a secured or unsecured basis. The loan payment must be included in the debt –to-income ratio. The following documentation is required:

- An executed copy of the loan document verifying the loan terms
- Transfer and receipt of the funds as part of the borrower's assets verification

If the relative borrowed the funds, documentation must be provided by the bank verifying the source of funds was financed with a bank loan. If the bank cannot provide verification of the loan, other evidence must be provided that the funds were borrowed from an acceptable source.

- Unacceptable sources of donor's borrowed funds
  - Any party to the transaction, including the lender
  - Cash received from any source
  - A loan in which the borrower is a co-obligor with the donor for the borrowed gift funds

All FHA guidelines must be followed regarding the loan, borrower qualification and second mortgage limitations (if applicable). The USDA Certified Underwriter must condition the loan to be recorded as a second lien, when applicable and must comply with CLTV limitations for product.

Real Estate Commission from Sale of Subject Property

The borrower is a licensed real estate agent entitled to a real estate commission from the sale of the property being purchased, and then he/she may use that amount for the cash investment, with no adjustment to the maximum mortgage required.

A family member entitled to commission may also provide it as gift funds to the borrower.

Rent Credits

Rent credits should be applied as a reduction to the purchase price of the dwelling.

CMS should ensure the appraiser is aware of the rent credit. This will allow them to properly complete their appraisal report, note the reduction, and support the appraised value compared to the purchase price if applicable.

The Borrower may not receive cash back at loan closing for the rent credit.

Refer to Inducements to Purchase for additional information regarding how to apply the rent credit.

Repayment Of A Personal Loan

When funds are obtained from repayment of a personal loan made by the borrower, the following documentation is required:

- A written agreement between the borrower and the recipient of the loan
- Verification evidencing the borrower's ability to lend the funds
- Evidence the funds were withdrawn from their account
- Verification that repayment has been made
  - Provide statements verifying the funds being withdrawn from the recipient's account and deposited into the borrower's account

Asset Sources (continued)

Retirement Accounts

Funds from individual retirement accounts (IRA, 401K, Keogh accounts) may be used as a source of funds for the down payment, closing costs or reserves.

A 401(k) account may only be used to the extent the borrower is vested in the account. The account balance and the vested amount must be verified. When retirement accounts only allow for withdrawal in connection with the borrower's employment termination, retirement or death, the vested funds should not be considered as reserves.

A copy of the most recent depository or brokerage account statement must be provided. When funds from these sources are being liquidated for the loan transaction, the funds must be withdrawn and proof of withdrawal must be provided. Subtract 40% from the vested amount (after the reduction of any personal loans) to account for any applicable withdrawal penalties or income tax so that the "net" withdrawal is counted (the portion of the account secured by a personal loan may not be considered available to the borrower for reserves). The loan proceeds received from a loan secured against a retirement account may be considered liquid funds available for the transaction.

When funds from these sources are used to support the cash reserve requirement, it is not required that the funds actually be withdrawn from the account but the 40% deduction rule still applies when calculating the amount of cash reserves. A higher amount may be used with documentation that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.

Stocks / Bonds

The value of stocks, bonds and other securities must be documented with one of the following:

- Most recent monthly statements for the past three months
- A quarterly statement
- Photo-copy of the stock certification accompanied by a dated newspaper stock list

Government savings bonds should be valued at their purchase price unless redemption value can be verified.

Verification of liquidation and receipt is required when the funds from the sale of stocks/bonds are used for down payment, closing costs or other costs.

Sweat Equity

Sweat equity is labor performed or materials furnished by the borrower before closing takes place for the property being purchased. Sweat equity may be considered the equivalent of a cash investment to the extent of the estimated cost of the work or materials and as long as all USDA requirements are met.

Asset Sources (continued)

Systematic Savings

Borrowers should have the funds needed to close the transaction. However, a loan to a borrower who does not have sufficient assets to close may be submitted to Underwriting subject to the following parameters:

- 80% of the required assets must be documented
- The ability of the borrower to save based on his or her income and debts must be documented
- The required assets must be documented and verified in the borrower's account prior to closing
- Completed and executed Notice to borrowers form and the Systematic Savings Worksheet

Upon receipt of the above documentation, re-submit the loan for review by the USDA Certified Underwriter to determine that all asset requirements have been satisfactorily met.

Trade Equity

The property seller may take a property owned by the borrower as part of the down payment on the property being sold to the borrower. The borrower's equity contribution must be a true value consideration supported by a current appraisal.

The following documentation must be provided:

- Copy of the current appraisal on the property being traded
- A copy of the trade-in contract
- Title search proving that the borrower owns the real estate and verifying any liens associated with the property

To calculate borrower's equity, use the following formula:

(lesser of current appraised value or trade-in price)

minus

(outstanding liens plus transfer fees and real estate commission) = borrower's equity

The property seller must provide proof of title transfer in addition to verification that either all liens have been satisfied or the borrower is released of liability by an approved assumption. The transfer deed must be recorded.

The above rules apply to all trade-in transactions, including those evidenced with two separate contracts in which buyer and seller reverse roles.

If the property being traded has an FHA insured mortgage, assumption processing requirements and restrictions apply.

Cash Reserves

Minimum Reserve Requirements

None. Reserves can be used as a compensating factor but must be the borrower's own funds. Reserves are calculated as the two-month average balance of depository accounts less funds to close. Retirement assets may be considered at 60% of the vested account value less all loans, provided terms of withdrawal show the asset can be readily converted to cash without retirement or job termination. Gift funds and proceeds from secured loans may not be counted towards reserves.

Unacceptable Sources of Assets

Requirements

Sources of funds considered ineligible for asset evaluation include the following:

- Donated funds in any form, such as cash or bonds donated by the seller, builder, or selling agent
- Proceeds of a personal or unsecured loan unless provided by a family member
- Cash advances on a revolving charge account or unsecured line of credit
- A gift that must be repaid in full or in part
- A gift that was received from an unacceptable donor
- Materials furnished by the borrower that are not part of a pre-closing agreement with a builder
- The proceeds from an IRS Tax Code 1031 Exchange on an owner occupied transaction
- Salary advances
- Cash for which the source cannot be verified (e.g., garage sales)
- Cryptocurrency (digital assets such as bitcoins)
- Funds in a Custodial or “In Trust For” Account

USDA PROPERTY TYPES AND APPRAISAL DOCUMENTATION AND REVIEW

Overview

This section provides standards that apply to all USDA loan programs. Generally, requirements that vary from one standard loan program to another are described in the individual product matrices.

USDA Appraisal and Property Conditions Assessment

Requirements

The appraisal and property condition assessment is used to determine the market value and acceptability of the property for a USDA guaranteed mortgage. The value serves as a basis for determining the maximum guaranteed loan amount. The appraisal is performed for the use and benefit of USDA, and the lender financing the transaction. In addition to providing an estimate of value, the appraisal provides an examination of the property for any visible, obvious and/or apparent deficiencies that may affect the livability of that property in terms of basic needs, health and safety of the property's occupants.

USDA makes no warranties as to the value and/or condition of any property appraised for USDA financing. Buyers/borrowers must determine for themselves that the price of the property is "reasonable" and that its condition is "acceptable". The appraisal is not a home inspection and buyers are encouraged to obtain a detailed Home Inspection of the property. It is important that borrowers, sellers, and real estate agents understand that the appraisal is an estimate of value and an acceptance of the condition of the property for USDA guarantee purposes. Issuance of an appraisal does not guarantee that the house is free from defects. USDA will not assist financially in any repairs.

An appraisal cannot be used for any transaction other than for the current mortgage transaction (i.e., the appraisal from a purchase cannot be used for a refinance of the property).

Appraisal Independence

Overview

USDA requires each property considered for a USDA guarantee to have a FHA appraisal included with the loan package. The FHA Appraiser Independence requirements ensure and safeguard appraiser independence and enhance the overall appraisal process to provide a greater level of integrity to the appraisal ordering process and appraiser contact. Correspondent Clients must comply with the FHA Appraiser Independence requirements.

FHA-approved lenders are prohibited from accepting appraisals prepared by FHA Roster appraisers who are selected, retained or compensated in any manner by a mortgage broker or any member of a lender's staff who is compensated on a commission basis tied to the successful completion of a loan.

Appraisal and Appraisal Management Company (AMC) Third Party Organization Fees

All appraisal orders must ensure that:

- FHA Appraisers are not prohibited by the lender, AMC or other third party, from recording the fee the appraiser was paid for the performance of the appraisal in the appraisal report
- FHA Roster appraisers are compensated at a rate that is customary and reasonable for appraisal services performed in the market area of the property being appraised
- The fee for the actual completion of an FHA appraisal may not include a fee for management of the appraisal process or any activity other than the performance of the appraisal
- Any management fees charged by an AMC or other third party must be for actual services related to ordering, processing or reviewing of appraisals performed for FHA financing
- AMC and other third party fees must not exceed what is customary and reasonable for such services provided in the market area of the property being appraised

Appraisal Documentation

Age of Appraisal

The appraisal must have been completed within 150 days of loan closing.

CMS may extend the validity period of an appraisal with an appraisal update report (Fannie Mae Form 1004D/Freddie Mac Form 442, Appraisal Update and/or Completion Report") that will be no greater than 240 days from the effective date of the initial appraisal report at loan closing (150 days for the original appraisal plus 90 days for the Appraisal Update Report). An original appraisal report can be updated one time with an Appraisal Update Report. The appraisal may be expired at the time the appraisal update is requested. The purpose of an appraisal update request is to determine if the property has declined in value since the effective date of the original appraisal. An update is not eligible to support a higher appraised value of the property.

Required Appraisal Forms

The appraisal forms that must be used for loan origination purposes are as follows:

- Uniform Residential Appraisal Report (URAR): FNMA 1004/FHMLC 70 for one unit single family dwellings
- Manufactured Home Appraisal Report and Addendum: FNMA 1004C/FHLMC 70B for all manufactured homes
- Individual Condominium Unit Appraisal Report: FNMA 1073/FHLMC 465 for all individual condominium units

Appraisals must be completed by a FHA Roster Appraiser. There is no approved appraiser list for RD loan programs. The appraiser will determine if the cost approach is required. For example, the property is unique, or has specialized improvements, or is new manufactured housing, or if the client requests the cost approach to be completed, then the appraiser will identify the source of the cost estimates and will comment on the methodology used to estimate depreciation, effective age and remaining economic life. Appraisals are valid for 150 days, effective from the date of the appraisal, and must be valid at the time of loan closing.

All completed appraisal reviews should include, but not be limited to the following:

- Clearly legible photographs of the subject property front and rear scene
- Clearly legible photographs of each sales comparables front scene
- Location map showing the subject property and the sales comparables
- Diagram of the floor plan detailing room layout
- Exterior Building Sketch
- Lead-based Paint Certification
- Termite Certification
- Any other certifications, if applicable (roof, water, etc.)
- Certificate of Occupancy, if applicable
- Any state specific forms relating to property

Other Fannie Mae appraisal forms, which are used for streamlined appraisal or a qualitative sales comparison analysis, such as Fannie Mae forms 2055 or 2065, are not acceptable.

Appraisal Documentation (continued)

Photographs

Photographs in the appraisal report must be clear and descriptive to be able to identify the property's condition and quality. Acceptable photographs include color original images from photographs or electronic images. Photographs must clearly represent the improvements, any physical deterioration of the property, amenities, conditions and external influences that may have a material effect on the market value or marketability of the subject property. Lenders who utilize the Agency's automated underwriting system, GUS, will upload the appraisal report at the *Lender Upload Document(s)* page as an individual document. An appraisal report with interior and exterior inspection of the subject property must include at least the following:

- A front view of the subject property.
- A rear view of the subject property.
- A street scene identifying the location of the subject property and showing neighboring improvements.
- The kitchen, main living area, bathrooms, bedrooms.
- Any other rooms representing overall condition, recent updates, such as restoration, remodeling and renovation.
- Basement, attic and crawl space.
- Comparable Sales, listings, and/or pending sales utilized in the valuation analysis must include at least a front view of each comparable utilized.
- Condominium projects should include additional photographs of the common areas and shared amenities.

Changes in Purchase Price

If the purchase price changes after the appraisal is performed, an addendum is required that indicates any changes, updates or corrections.

For Your Protection Get a Home Inspection

The FHA Comprehensive Valuation Package (CVP) Requirements include the appropriate appraisal; attachments and HUD form 92564.CN For Your Protection: Get a Home Inspection. See chart below outlining when For Your Protection Get a Home Inspection is required:

Property Type	For Your Protection: Get a Home Inspection form HUD -92564.CN)
Proposed/Under Construction	No
Existing Construction Less than 1 Year Old	Yes , if previously occupied
Existing Property	Yes
Rate/Term & Cash-Out Refinancing	No
Streamline Refinancing With Appraisal	No
HUD Real Estate Owned (REO)	Yes

Selecting an Appraiser

Overview

Selected appraisers must be properly licensed and certified and in good standing in the jurisdiction/state where the property is located or by a nationally recognized professional appraisal organization and have demonstrated verifiable education in the appraisal requirements established by FHA. An appraiser cannot perform an appraisal in an area where he or she is not licensed or certified or while his or her appraisal license is suspended or expired. Trainee appraisers are unacceptable to CMS.

The appraiser must be provided with a complete copy of the ratified sales contract, including all addenda, for all real estate purchase transactions.

Appraisal Transfer

Overview

If an appraisal was ordered by one lender for an applicant, but a different lender will complete the purchase transaction, it is acceptable for the appraisal to be transferred to the new lender. The original lender must agree to the transfer. A letter from the original lender that ordered the appraisal must be retained in the permanent loan file as evidence they have transferred this document to the new lender. The appraisal report must have been completed within six months of the date the request for a conditional commitment is submitted to RD. The appraisal must have been independently ordered (i.e. through an AMC) to be acceptable to CMS.

Second Appraisal

The Client may order a second appraisal in the circumstances below:

- The first appraisal contains material deficiencies as determined by the USDA Certified Underwriter.
- Appraiser performing the first appraisal is on CMS' exclusionary list of appraisers.
- Failure of the initial lender to provide a copy of the appraisal to the Client in a timely manner causing a closing delay, thus posing potential harm to the Borrower (events that are outside the Borrower's control, such as loss of interest rate lock, purchase contract deadline, foreclosure proceedings and late fees).

If a second appraisal is ordered:

- The USDA Certified Underwriter must document and retain in the loan file the explanation for why the second appraisal was ordered.

Both appraisals must be retained in the loan file.

REO Appraisal

An appraisal that has been prepared for REO purposes is not acceptable for a guaranteed purchase loan transaction. A new appraisal with the intent to arrive at an opinion of value for a purchase transaction (not a servicing action/distressed sale) must be obtained.

Appraisal Transfer (continued)

Appraisals in Remote Areas/New Construction

Remote rural areas, identified by State Directors, can make it difficult to appraise a new construction property. If the sales comparison approach is not necessary to develop a credible opinion or conclusion regarding value, the lender's appraiser may decide to use the Scope of Work Rule of the Uniform Standards of Professional Appraisal Practice (USPAP) and perform an appraisal without completing the Sales Comparison approach to value. Appraisers must explain the exclusion of the Sales Comparison approach to value and document their efforts to obtain comparable market data (i.e., complete Form 1007 "Marshall and Swift Square Foot Appraisal," document the cost analysis, not consider external depreciation based on the remoteness of the site, and consider factors that impact the site such as immediate proximity to a feedlot, factory, or similar considerations).

After a market is established in the remote rural areas, appraisers should no longer invoke either the Departure Rule or the Scope of Work rule in lieu of the Sales Comparison approach. The cost approach section must be completed when the dwelling is less than one year old. For dwellings more than one year old, the cost approach must be completed only to the extent necessary to comply with the site value analysis and requirements of section 3555.201(b). A Marshall and Swift cost approach analysis is not required in such cases.

Appraisal Fees

Overview

Appraisal fees and their payment due dates are negotiated between CMS and the appraiser. This includes fees for canceled assignments, missed appointments, etc. FHA does not establish fees and due dates. FHA expects appraisal fees to be reasonable and customary for the area.

Setting Property Related Conditions

All property related documents required as a condition of loan approval must be reflected on the Conditional Commitment.

In an effort to provide clear closing instructions to the Closing Agent (Title/Escrow Company or Attorney), when any of these conditions are required, the full name of the condition item should be entered into the origination system.

Uniform Appraisal Dataset (UAD)

Overview

USDA has adopted the Uniform Appraisal Dataset (UAD) standard and requires UAD compliant appraisal reports. UAD standardization does not change existing FHA policy on Minimum Property Requirements (MPR), property eligibility or appraisal inspection requirements.

The appraisal report must contain an accurate description of the improvements and any factors that may affect the market value or marketability of the subject property. The appraiser must incorporate the UAD quality rating (Q1, Q2, Q3, Q4, Q5, or Q6) that best describes the overall quality of the subject property and each comparable property. Additionally, the appraiser must incorporate the UAD condition rating (C1, C2, C3, C4, C5 or C6) that best describes the overall condition of the property.

Condition

The appraiser must consider and describe the overall condition of the property improvements. The appraiser should be specific about needed repairs, additional features, modernization, etc., and should provide supporting addenda, if necessary.

The property must receive a condition rating. The condition rating must reflect a holistic view of the condition of the property improvements. If a property has deficiencies or defects that are severe enough to affect the safety, soundness or structural integrity of the improvements, then the property's condition must be rated C6. The appraisal report must contain additional commentary, descriptions, and explanations as required, to understand the property condition.

Properties with a condition rating of C1, C2, C3, C4, or C5 are acceptable in "as is" condition. Properties with a condition rating of C6 or C6 in "as is" condition or "subject to repairs" are not acceptable.

It is acceptable for an appraisal to be completed subject to repairs or alterations required for the subject property to be rated C5 (or better). If the appraisal is completed subject to repairs or alterations, the UAD condition rating must reflect the overall condition of the subject property as if the repairs or alterations have been completed (C5 or better).

Properties with a C6 condition at time of inspection should be appraised subject to all repairs and alterations necessary to bring the property into C5 (or better) condition. The condition rating on the appraisal report must show C5 (or better) as if the repairs or alterations have been completed.

Uniform Appraisal Dataset (UAD) (continued)

Condition (continued)

A Fannie Mae Form 1004D/Freddie Mac Form 442 Appraisal update must be completed prior to closing or loan purchase for any appraisal report "subject to repairs" prior to closing or purchase.

Rating	Description
C1	The improvements have been very recently constructed and have not previously been occupied. The entire structure and all components are new and the dwelling has no physical depreciation. **Note:** Newly constructed improvements that feature recycled materials and/or components can be considered new dwelling provided that the dwelling is placed on a 100% new foundation and the recycled materials and the recycled components have been rehabilitated/re-manufactured into like-new condition. Recently constructed improvements that have not been previously occupied are not considered "new" if they have any significant physical depreciation (newly constructed dwellings that have been vacant for an extended period of time without adequate maintenance or upkeep).
C2	The improvements feature no deferred maintenance, little or no physical depreciation, and require no repairs. Virtually all building components are new or have been recently repaired, refinished, or rehabilitated. All outdated components and finishes have been updated and/or replaced with components that meet current standards. Dwellings in this category either are almost new or have been recently completely renovated and are similar in condition to new construction.
C3	The improvements are well-maintained and feature limited physical depreciation due to normal wear and tear. Some components, but not every major building component, may be updated or recently rehabilitated. The structure has been well-maintained.
C4	The improvements feature some minor deferred maintenance and physical deterioration due to normal wear and tear. The dwelling has been adequately maintained and requires only minimal repairs to building components/mechanical systems and cosmetic repairs. All major building components have been adequately maintained and are functionally adequate.
C5	The improvements feature obvious deferred maintenance and are in need of some significant repairs. Some building components need repairs, rehabilitation, or updating. The functional utility and overall livability is somewhat diminished due to condition, but the dwelling remains usable and functional as a residence.
C6	The improvements have substantial damage or deferred maintenance with deficiencies or defects that are severe enough to affect the safety, soundness, or structural integrity of the improvements. The improvements are in need of substantial repairs and rehabilitation, including many or most major components.

Uniform Appraisal Dataset (UAD) (continued)

Quality

CMS does not provide minimum specifications for materials and construction. The appraiser must consider and describe the overall quality of the property improvements.

The selected quality rating must reflect a holistic view of the quality of construction. A quality rating of Q6 is not acceptable. The issues that caused the Q6 rating must be cured prior to closing. Items that may be required to be cured include:

- Modifying the property to make it habitable for year-round occupancy.
- Upgrading electrical, plumbing, and other mechanical systems to community standards.
- Correcting substandard or nonconforming additions to the original structure.
- Curing any other quality related items needed to make the subject property acceptable to typical buyers in the market area.

CMS will close on loans with an appraisal report with a Q1, Q2, Q3, Q4, or Q5 quality rating in either “as is” condition or “subject to repairs.”

A Fannie Mae Form 1004D/Freddie Mac Form 442 Appraisal Update must be completed prior to closing or loan purchase for any appraisal report “subject to repairs” prior to closing or purchase.

Uniform Appraisal Dataset (UAD) (continued)

Quality (continued)

Rating	Description
Q1	Dwellings with this quality rating are usually unique structures that are individually designed by an architect for a specified user. Such residences typically are constructed from detailed architectural plans and specifications and feature an exceptionally high level of workmanship and exceptionally high-grade materials throughout the interior and exterior of the structure. The design features exception high-quality exterior refinement and ornamentation, and exceptionally high-quality interior refinements. The workmanship, materials, and finishes throughout the dwelling are of exceptionally high quality.
Q2	Dwellings with this quality rating are often custom designed for construction on an individual property owner's site. However, dwellings in this quality grade are also found in high-quality tract developments featuring residences constructed from individual plans or from highly modified or upgraded plans. The design features detailed, high-quality exterior ornamentation, high-quality interior refinements, and detail. The workmanship, materials, and finishes throughout the dwelling are generally of high or very high quality.
Q3	Dwelling with this quality rating are residences of higher quality build from individual or readily available designer plans in above-standard residential tract developments or on an individual property owner's site. The design includes significant exterior ornamentation and interior that are well finished. The workmanship exceeds acceptable standards and many materials and finishes throughout the dwelling have been upgraded from "stock" standards.
Q4	Dwelling with this quality rating meet or exceed the requirements of applicable building codes. Standard or modified standard building plans are utilized and the design includes adequate fenestration and some exterior ornamentation and interior refinements. Materials, workmanship, finish, and equipment are of stock or builder grade and may feature some upgrades.
Q5	Dwellings with this quality rating feature economy of construction and basic functionality as main considerations. Such dwelling feature a plain design using readily available or basic floor plans featuring minimal fenestration (i.e., the design and disposition of windows and other exterior openings of a building) and basic finishes with minimal exterior ornamentation and limited interior detail. These dwellings meet minimum building codes and are constructed with inexpensive stock materials with limited refinements and upgrades.
Q6	Dwelling with this quality rating are of basic quality and lower cost; some may not be suitable for year-round occupancy. Such dwellings are often built with simple plans or without plans. Often utilizing the lowest quality building materials. Such dwelling are often build or expanded by persons who are professionally unskilled or possess only minimal construction skills. Electrical, plumbing, and other mechanical systems and equipment may be minimal or nonexistent. Older dwelling may feature one or more substandard or nonconforming additions to the original structure.

Unacceptable Appraisal Practices

Requirements

Below is a list of actions and omissions FHA considers appraisal practices that are unacceptable. Be aware of these deficiencies and address them with the appraiser if detected.

Failure to conduct a complete physical inspection of the subject property or the sales comparables (The assigned appraiser must indicate he/she physically inspected the subjected property)

- Incomplete interior and exterior visual inspections of the subject property or lack of a visual inspection for the exterior of the comparables
- Lack of required photographs and maps
- Failure to provide complete appraisal information per USPAP Standards
- Not providing the cost approach where applicable
- Not completing the income approach on a 3-4 unit dwelling
- Not reporting land use restrictions
- Inconsistencies and calculation errors
  - Series of errors considered individually may not significantly affect the results of the appraisal but when considered in the aggregate would be misleading
- Insufficient information included in report to enable users to understand the report properly
- Not reporting limiting conditions that affect the appraisal, such as but not limited to proximity to a municipal landfill, pending zoning changes, necessary repairs, etc.
- Providing incomplete or inaccurate descriptions of the neighborhood
- Stating neighborhood is primarily residential in nature when it is commercial in nature
- Failing to report the highest and best use of the property
- Failing to report special assessments such as community association fees
- Providing inaccurate analysis of the property characteristics, such as:
  - Reporting property as a ranch when property is a split-level
  - Reporting a split-level as a two story
- Failure to correctly report the form of ownership interest, such as:
  - Listing the property as fee simple when it is a leasehold estate
- Incorrectly reporting or analyzing significant physical characteristics, such as:
  - Describing a 3-bedroom house as a 4-bedroom
  - Reporting property has a garage when there is no garage
  - Failing to note a poor property design or property that does not conform to the neighborhood
- Including inaccurate data about the property site or comparables, such as:
  - Failure to recognize the property is in a flood zone
  - Failure to correctly identify public water and sewer versus private systems

Unacceptable Appraisal Practices (continued)

Requirements (continued)

- Failure to accurately report all readily observable property defects and adverse conditions that affect the property marketability, such as:
  - Defective construction
  - Fire or flood damage
  - Termite/insect damage
  - Roof has signs of leaking or excessive water
  - Negative grading/poor drainage
  - Observable evidence of foundation damage
- Failure to report major defects which may impair the health or safety of the property occupants, such as:
  - Obvious electrical inadequacies such as frayed wiring
  - Lead Based Paint when property built prior to 1978 and there is evidence of defective paint (Chipping, flaking)
  - Hazards such as toxic chemicals, excessive noise or contaminated water or soil
- Failure to report conflicts of interest
- Use of data, particularly comparable sales data that was provided by parties who have a financial interest in the sale or financing of the subject property without the appraiser's verification of the information from a disinterested source. It would be inappropriate for an appraiser to use comparable sales provided by the real estate broker who is handling the sale of the subject property, unless the appraiser verifies the accuracy of the data provided with another source and makes an independent investigation to determine that the comparables provided were the best ones available
- Not disclosing that the seller was related to the appraiser
- Failure to obtain timely and suitable comparable data
- Not verifying the sales information through public records or with a copy of the sales contract
- Using listings instead of actual sales without explanations
- Comparable sales over 12 months old
- Comparables that are not within a reasonable distance from the subject
- Comparables that are physically unlike the subject
- Value conclusions not supported by data and analysis in appraisal report
- The appraiser makes adjustments to the comparables which exceed 15% net and/or 25% gross of the sales price without an explanation.
- Failing to report verified sales concession like seller paid points or closing costs.
- Use of adjustments to the comparable sales that do not reflect the market's reaction to the differences between the subject property and the comparables, or the failure to make adjustments when they are clearly indicated.

PROPERTY AND PROJECT TYPES

Property Type Classifications

Existing Construction

Construction was completed twelve months or more prior to the date of the appraisal inspection

New Construction

Existing less than one year old - Construction was completed less than one year prior to the date of the appraisal inspection. This includes properties that have previously been occupied and are being resold within the one year after construction was completed.

Proposed Construction

The appraisal was completed prior to the pouring of the footing. These are properties that have been approved for a mortgage guarantee prior to the beginning of construction

Under Construction

Construction is in progress and the property is not complete at the time of the appraisal inspection.

Eligible Property/ Project Types

- Single-Family Residence (one unit, attached or detached including town homes or row homes)
- Manufactured Homes
- Modular Home, Pre-cut Home, Panelized Home
- Condominium
- Planned Unit Development (PUD)
- Move-on

Property and Project Types (continued)

Ineligible Property/ Project Types

- Cooperative homes or apartments
- Commercial properties
- Condo-Hotel
- Houseboats
- Mobile Home
- Single-wide manufactured homes
- Multi-family dwelling containing more than four units
- Properties located within designated Coastal Barrier Resource System (CBRS) areas
- Properties used for commercial or industrial purposes
- Mixed-use properties
- Properties with deed restrictions. See Eligible Property Types for 55+ age restricted communities.
- Shared lots (included condominiums) with undivided interests
- Time share units/projects
- Unimproved land
- Working farm, ranch or orchard
- Properties listed for sale at the time of application
- State approved medical marijuana producing properties
- Energy efficiency
- Properties not located in an eligible USDA area
- Properties with sink holes
- Properties serviced by hauled water
- Properties with a wastewater stabilization pond/lagoon (aka sewage lagoon)
- Properties with individual water purification systems required to make the water safe for human consumption (does not include systems installed to improve the taste or softness of the water)
- Hawaiian properties in Lava Zones 1 and 2

Eligible Property Types

Single Family Residence

An attached or detached single-family dwelling, including town homes or row homes.

Manufactured Homes

Newly constructed manufactured homes permanently affixed to the foundation are eligible. New manufactured homes must be purchased from an USDA approved dealer and meet HUD Manufactured Housing Construction and Safety Standards. Manufactured homes completed within the previous 12 months are considered new. This is measured from the date the unit was manufactured (located on the data plate) to the date of the purchase contract. Existing manufactured homes are only eligible if already RD Guaranteed or is REO formerly serviced by a Housing and Community Facilities Program (HCFP)/USDA.

Manufactured Homes must be permanently affixed to the foundation, built on or after June 15, 1976, and meet all RD requirements. Factory-built homes constructed prior to June 15, 1976 are classified as mobile homes and are not eligible for HUD Insuring or CMS financing.

Refer to the Manufactured Homes guidelines for detailed requirements.

Modular Home, Pre-cut Home, Panelized Home

A Modular Home is a factory-built home constructed to the state, local or regional building codes where the home will be located. A Modular Home is construction in two or more three-dimensional sections, including interior and exterior finish, plumbing, wiring, and mechanical systems.

Upon completion, the Modular home is transported to the property site to be joined together on a permanent foundation. A Modular Home can be transported on a steel undercarriage, but this is not a permanent structural component of the improvements, and must be removed at the time the house is attached to the foundation. The Modular Home assumes the characteristics of a site-built home.

Modular homes do not have a Certification Label but do have a label attached to the home identifying the state code of construction.

Modular Homes are considered the same as stick built single-family residences.

Eligible Property Types (continued)

Condominium

A condominium is a real estate project in which each unit owner has title to a unit in a building, an undivided interest in the common elements of the project, and sometimes-exclusive use of certain common elements. The unit owner does not own the land or improvements. A condominium project is real estate that includes the separate ownership fee, or an acceptable Leasehold Estate of a specific residential unit with an undivided interest in the real estate designated for common ownership solely by unit owners. For requirements, see the Leasehold Estates section.

A condominium project is created according to local and state statutes. The structure is two or more units with the interior airspace individual owned. The balance of the property (land and building) is owned in common by the individual unit owners.

For approval procedures and classification information, see the Condominium Projects section.

Planned Unit Development (PUD)

A PUD is a real estate project in which each unit owner has title to a residential lot and building and a nonexclusive easement on the common areas of the project. The owner may have an exclusive easement over some parts of the common areas (e.g., parking space).

- The individual unit owners own a parcel of land improved with a dwelling. This ownership is not in common with other unit owners.
- The development is administered by a homeowners' association (HOA) that owns and is obligated to maintain the common elements (i.e., greenbelts, recreation facilities, and parking areas) within the development for the common use and benefit of the unit owners.
- The unit owners have an automatic, non-severable interest in the homeowners' association (HOA) and pay a mandatory assessment.
- Must be a single-family residence.

FHA loans that are in attached PUD projects required 100% of the insurable replacement cost of the unit's exterior and interior improvements, whether originally installed or subsequently upgraded. When the HOA Master/Blanket Policy does not provide coverage for the interior (or "walls in" coverage) of the project units, then the borrower is responsible for obtaining a walls in policy for the individual unit. Coverage between the project's Master or Blanket Policy and the walls in Policy must cover 100% of the insurable replacement cost of the unit's exterior and interior improvements. Interior coverage must be 100% sufficient to repair the interior of the units, including any additions, improvements, and betterments (e.g., kitchen cabinets, lighting, flooring, plumbing fixtures such as toilets and tubs, etc.) to its original condition in the event of a loss.

Leasehold Estates

Appraisal Procedures For Leasehold Estates

The appraiser must determine the value of the property as though it were owned in fee simple and unencumbered by a lease and to what extent, if any the transfer of property rights impact the property's value.

When appraising a property that is situated on leased land, the appraiser must determine an estimate of value for the subject property as if in fee simple ownership and unencumbered by a lease. The value of the leased fee is then determined and deducted from the estimated value of the unencumbered property. The resulting difference is the value of the leasehold estate.

Each comparable must either be a fee simple sale or an adjusted leasehold estate. If any of the comparables are leasehold estates, an adjustment must be made to all leasehold comparables by adding back the leased fee to the sales price to arrive at the fee simple value. This will require the appraiser to check the annual ground rent for any leasehold comparable.

After all comparables have been adjusted to reflect their value as fee simple, the reconciled value in fee simple is made for the subject. The leased fee is determined in accordance with the annual rent divided by the capitalization rate, and deducted from the fee simple value to arrive at the value of the leasehold estate of the subject property.

The appraiser enters the value of the leased fee on the back of the URAR in the Cost section by lining out the words Estimated Site Value and writing in **Leased Fee.** The value in fee simple is still shown below on the line for Indicated Value By Sales Approach and just below, on the line for Final Reconciliation of Appraisal, the appraiser should write in **Subject on Leased Land with Annual Rent Of $ ________ capitalized at ___ % = $ _______ Leased Fee**.

Under Reconciliation, on the line for final estimate, the word Market should be lined out and replaced with the word **leasehold** so it reads, I estimate the value of the Leasehold Estate, as defined, of the subject property and the value of the Leasehold Estate shown at the end of that line.

Environmental Hazards

Requirements

The property must be free of all foreseeable hazards and adverse conditions that may affect the health and safety of the occupants that may affect the structural soundness of the improvements or may impair the customary use and enjoyment of the property.

Environmental hazards include toxic chemicals, radioactive materials, other pollution, hazardous activities, potential damage from soil or other differential ground movements, ground water, inadequate surface drainage, flood, erosion, excessive noise, defective lead base paint and other hazards on or off site.

If the real estate broker, the property seller, the property purchaser, any employee of CMS, or any other party to the mortgage transaction reveals that an environmental hazard exists in or on the property or in the vicinity of the property, that information must be disclosed to the appraiser and the individual mortgage file must be noted accordingly. (Such information must be disclosed to the borrower, and must comply with any state or local environmental laws regarding disclosure.)

When the appraiser has knowledge of any hazardous condition (whether it exists in or on the subject property or on any site within the vicinity of the property) - such as the presence of hazardous wastes, toxic substances, asbestos-containing materials, urea-formaldehyde insulation, radon gas, etc. it must be noted on the appraisal report and any influence that the hazard has on the property's value and marketability (if it is measurable through an analysis of comparable market data as of the effective date of the appraisal) must be commented on. Appropriate adjustments in the overall analysis of the property's value must be made.

The appraiser is not considered an expert in the field of environmental hazards. The typical residential real estate appraiser is neither expected nor required to be an expert in this specialized field. However, the appraiser has a responsibility to note in the appraisal report any adverse conditions that were observed during the inspection of the subject property or information that he or she became aware of through the normal research involved in performing an appraisal or information readily available through local news sources.

The rejection of a location is warranted only in instances where the property is subject to hazards, noxious odors, offensive sights or excessive noises to the point of endangering the physical improvements or seriously affecting the safety of its occupants. In general, a particular environmental hazard may have a significant effect on the value of the subject property. If the actual impact is not measurable because the hazard is so serious or so recently discovered that an appraiser cannot arrive at a reliable estimate of market value because there is no comparable market data (such as sales, contract sales, or active listings) available to reflect the impact of the hazard, the property is not acceptable.

Environmental Hazards (continued)

Requirements (continued)

A mortgage secured by a property that is affected by an environmental hazard is acceptable if the impact of the hazard is measurable through an analysis of comparable market data as of the effective date of the appraisal. The appraiser must reflect in the appraisal report any adverse effect that the hazard has on the value and marketability of the subject property or indicate that the comparable market data reveals no buyer resistance to the hazard. In the situation where the property is located in a neighborhood affected by radon gas or the presence of hazardous wastes, the appraiser is expected to reflect any adverse effect or buyer resistance that is demonstrated and measurable through the available comparable market data. Therefore, when a property is located in a neighborhood that has a relatively high level of radon gas or is near a hazardous waste site, the appraiser is expected to consider and use comparable market data from the same affected area because the sales prices of the settled sales, the contract sales prices of pending sales, and the current asking prices for active listings will reflect any negative effect on the value and marketability of the subject property.

The appraiser is expressly required to comment on the appraisal report about any environmental hazard's influence on the property's value and marketability. The appraiser and/or USDA Certified Underwriter must make the final decision about the need for inspections and the adequacy of the property as security for the mortgage requested. Sound judgment must be exercised in determining the acceptability of the property. For example, since the appraiser is required to comment on a hazard's effect on the subject property's marketability and value, the appraiser would have to note when there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities. When the USDA Certified Underwriter has reason to believe that a property's private well water might be contaminated as the result of its proximity to hazardous waste sites, the Underwriter is exercising sound judgment if it obtains a "well certification" to determine whether the water meets community standards. The appraiser must verify that the distance between the well and any sources of pollution comply with HUD or Local requirements.

The USDA Certified Underwriter is relying on the appraiser's knowledge of USDA requirements to perform an accurate and detailed evaluation of the property. Based on the appraisers' findings, the appraiser and/or the USDA Certified Underwriter should be making the appropriate requirements for correction.

Locations Near High-Pressure Gas and Liquid Petroleum Transportation Lines

- No part of the structure can be less than 10 feet from the outer boundary of the pipeline easement for high pressure gas and liquid petroleum transmission lines.
- When new construction or subdivision land planning is proposed in areas outside the 10 foot limit, but within an area that extends 220 yards on either side of the center line of such high pressure transmission line, the builder shall be required to provide CMS with a written statement from an authorized official of a gas pipeline company:
    - Certifying compliance of Title 49, Transportation of the Code of Federal Regulations.
    - Certifying that the pipeline complies with all codes and amendments thereto.
    - The builder must obtain the written statements prior to HUD acceptance of applications for commitments on individual property.

Environmental Hazards (continued)

Overhead High-Voltage Transmission Lines

The location is unacceptable if the dwelling is located within 10 feet of the outer boundary of a high-voltage transmission line easement or closer than the fall distance of any pole, tower or support structure of a high voltage transmission line. This includes radio/TV transmission towers, microwave relay dishes or towers or satellite dishes. The appraiser may use tower height as the fall distance.

Operating and Abandoned Oil and Gas Wells

Operating and abandoned oil and gas wells pose potential hazards to housing, including potential fire, explosion, spray and other pollution.

Operating Wells

- Existing Construction - No existing dwelling may be located closer than 300 feet from an active or planned drilling site boundary. (This applies to the site boundary, not to the actual well site / location).
- New and Proposed Construction If an operating well is located in a single-family subdivision, no new or proposed construction may be built within 75 feet of the operating well unless mitigation measures are taken.

Abandoned Wells

A letter may be obtained from the responsible authority within the state government indicating the well was safely and permanently abandoned. Once the letter is obtained, the appraiser should also be given a copy of it. The appraiser must note the location of the well and verify the existence of the letter on the appraisal report.

When such a letter is provided, the dwelling may be no closer than 10 feet from the abandoned well. If the state will not issue the letter, the dwelling must be located at least 300 feet from the abandoned well.

Hydrogen Sulfide Gas Wells (Sour Gas Wells)

Hydrogen sulfide gas wells are extremely hazardous. See HUD Handbook 4150.2, Section 2-2 (D. 4) "Special Case Proposed, Existing, or Abandoned Wells for instructions.

Operating and Abandoned Stationary Fuel Storage Tanks

Operating Storage Tanks

Properties within 300 feet of a stationary storage tank containing more than 1000 gallons of flammable or explosive materials are ineligible. **Abandoned Underground Storage Tanks**

If an underground tank has been abandoned, its removal or proper abandonment is required.

The appraiser should use a VC condition to indicate the location of the tank, and require evidence that the subject's vacated tank has been removed or properly abandoned.

Generally, the local jurisdiction may have established requirements. If not, the tank must be removed or abandoned per the recommendations issued by the applicable State.

Environmental Hazards (continued)

Ground Subsidence

The danger of ground subsidence is a special hazard that is sometimes encountered when buildings are constructed on uncontrolled fill or where the subsoil is unstable and subject to slippage or expansion. This is especially common in parts of the country where there are mining areas.

In mining areas, consider the depth or extent of the mining operations and the site of operating or abandoned mine shafts and tunnels to determine if the danger is imminent, probable or negligible.

The appraiser must note any readily observable conditions which would indicate potential subsidence problems. Signs would include ground cracks, damaged foundations, sinkholes, and settlement problems in the terrain.

If there is a danger of subsidence, the specific site must be deemed ineligible unless evidence is provided to verify that the probability of any subsidence is negligible.

Properties Affected by Lead Base Paint

For all properties built before January 1, 1978, the appraiser must note the condition and location of all defective paint in the home. All interior and exterior surfaces, such as walls, stairs, deck, porch, railing, eaves, windows, doors, fences, and detached garages and other outbuildings and appurtenant structures must be inspected for defective paint surfaces (i.e. chipping, peeling or flaking paint). If an area of paint on the property is defective, the appraisal should be completed as Subject to repairs. The commitment must contain the requirement that the surface must be treated must be thoroughly washed, sanded (but not machine sanded), scraped, or wire brushed so as to remove all defective paint before repainting. The surface must receive, as a minimum, two coats of a suitable non-lead based paint. All defective paint on applicable surfaces must be removed or covered with materials such as hardboard, plywood, plaster, or other suitable materials.

The following requirements must be met when the home is built prior to 1978:

- Borrowers must receive the EPA pamphlet "Protect Your Family from Lead in Your Home"
- The property seller is responsible for providing this disclosure to the homebuyer
- Borrower must sign and date the "Importance of Home Inspection" form on, or before the date of the sales contract
- Refinance and new construction are exempt from this requirement
- The executed form must be retained in the loan file

Environmental Hazards (continued)

Properties Affected by Lead Base Paint (continued)

The following requirements regarding renovation, repair and painting for houses built prior to 1978 must be met:

- Property owners/landlords who renovate, repair, or prepare surfaces for painting in pre-1978 rental housing must be certified and follow lead-safe work practices as required by FHA's Renovation, Repair and Remodeling Rule
- Contractors who perform the repair must be certified; and, must follow specific work practices to prevent lead contamination
- Borrowers performing renovation, repair or painting work on their own home are exempt from FHA's Renovation, Repair and Remodeling Rule but are encouraged to learn to perform lead-safe work practices
- A copy of the EPA or state-lead training certificate in the name of the party who performed the work must be provided. If the repair was made by the borrower on their own home, a letter stating that the borrower made the repair is required
- An inspection to verify completion of the repairs is required
  - **Condominium Units**

    The appraiser needs to inspect the interior of the unit and the exterior surfaces and appurtenant structures of the specific unit being appraised, and address the overall condition, maintenance and appearance of the condominium project. The lead based paint requirements relate only to the unit being appraised, not to the entire project. However, the appraiser should always comment on the overall condition of the condominium project.
  - **Refinances**

    Refinances with an appraisal are subject to this inspection and abatement procedure. However, lead based paint requirements do not apply to refinances without appraisals.
  - **Properties Built Between 1950 and 1978 with a VA-CRV**

    For a property involving a Veterans Administration Certificate of Reasonable Value, in which the dwelling was built between 1950 and 1978, the Client is required to provide evidence from an FHA approved inspector that either no defective paint conditions exist or that defective paint conditions were found and correction is required.

Asbestos Insulation

Asbestos used as roof shingles or siding on a house does not pose a danger as would be if the material were deteriorating within the confines of a home. When used as a wrap for hot water pipes, it is usually covered and poses no danger. When the material is deteriorating into a fine powder and can be inhaled, it may pose a danger to one's health.

Asbestos wrapping around hot water pipes in the basement of a dwelling may be found in older homes. If an appraiser notices this, he/she should make a note on the appraisal report that there appears to be asbestos insulation wrap around the hot water pipes. If there is not obvious deterioration of the asbestos such as punctures or other damage, it should be left alone. If there is obvious damage, the appraiser should condition for an inspection by a professional in that field is required.

Environmental Hazards (continued)

Chinese Drywall

Drywall imported from China from 2001 through 2007 emits sulfur gases, which usually create a noxious odor, and corrodes copper and other metal surfaces, damaging air conditioning, electrical wiring, copper, plumbing, appliances and electronics. Chinese drywall can also cause adverse health effects.

A property that contains Chinese drywall that was imported from 2001 through 2007 is not acceptable.

Heavy Traffic

Properties located on streets having heavy or fast traffic may be less desirable to the market because of the noise and danger from the street. Property value may even be affected.

Properties backing a freeway of other thoroughfare that is heavily screened or instances where the traffic is well below grade may not be as adversely affected for value, desirability, or marketability.

Special consideration should be given to determine if there is indication that adverse changes are taking place in the subject property market area due to heavy traffic and noise. The appraiser must quantify the effect of the noise on the property value and find that the property remains marketable.

Railroad Tracks and Other High Noise Sources

Properties located near railroad tracks, and other noise sources must meet the following guidelines relating to high noise sources:

- **Proposed, under construction and less than one year old**
- **Existing Construction (over 1 year of age)**

  Noise exposure by itself should not necessarily result in the rejection of the property for USDA guarantee financing. All marketability factors must be considered. It must be determined if there is evidence of acceptance in the market and if use of the dwelling is expected to continue. Special consideration should be given to determine if there is indication that adverse changes in market attitude are taking place in the area. The appraiser must quantify the effect of the noise on the property value and find that the property remains marketable.

Environmental Hazards (continued)

Properties Affected By Airport Noise and Hazards

Airport Noise

Properties with airport influences and noise must have evidence of properties acceptance in the market and if use of the dwelling is expected to continue. Continued use of the dwelling indicates market acceptance. Special consideration should be given to determine if there is indication that adverse changes in market attitude are taking place in the area.

Special Airport Hazard - Runway Clear Zones (a/k/a Runway Protection Zones) at Civil Airports or Clear Zones or Accident Potential Zone I at Military Airfields

Proposed, under construction and properties existing less than one-year old are not acceptable if the property is located within a Runway Clear Zone at civil airports or a Clear Zone or Accident Potential Zone I at military airfields.

Existing dwellings, more than one year old, may be acceptable provided the prospective purchaser is aware that the property is located in a Runway Zone / Clear Zone. This notification must be provided to the borrower at the time of the loan application.

Sample Certification

NOTICE TO PROSPECTIVE BUYERS OF PROPERTIES LOCATED IN RUNWAY CLEAR ZONES AND MILITARY AIRPORT CLEAR ZONES

(In accordance with 24 CFR 51.303(a)(3), notice must be given to anyone interested either in buying an existing HUD property, or using HUD assistance to buy an existing property, which is located in either a Runway Clear Zone at a civil airport or Clear Zone at a military installation.)

The property which you are interested in purchasing at

____

is located in the Runway Clear Zone/Clear Zone for

____.

Studies have shown that if an accident were to occur it is more likely to occur within the Runway Clear Zone/Clear Zone then in other areas around the airport/airfield. Please note that we are not discussing the chances that an accident will occur, only where one is most likely to occur.

You should also be aware that the airport/airfield operator may wish to purchase the property at some point in the future as part of a clear zone acquisition program. Such programs have been underway for many years at airports and airfields across the country. We cannot predict if or when this might happen since it is a function of many factors, particularly the availability of funds, but it is a possibility.

We wanted to bring this information to your attention. Your signature on the space below indicates that you are now aware that the property you are interested in is located in a Runway Clear Zone/Clear Zone.

____
Date

____
Signature of Prospective Buyer

____
Type or Print Name of Prospective Buyer

This notification must be provided to the prospective purchaser at loan application and maintained as part of the Case Binder.

Water and Sewage Systems

Private Water Systems

Individual water supply systems (wells) may be acceptable when connection to a public or community water system is not available and there is assurance of a continuing adequate supply of safe potable water for domestic needs, and shall also include auxiliary uses for lawn and garden maintenance.

The appraiser is responsible for identifying the individual water system and appropriately conditioning his/her appraisal for all water testing requirements. The appraiser must comment on availability of public services to the property. If public services are available, the bench-mark to require hook-up to public services is 3% or $8,000, whichever is less.

Private Wells

Individual water systems are owned and maintained by the homeowner and subject to compliance with all requirements of the local and/or State Health Authority codes. A water quality analysis is required to show the water quality of the well meets the requirements of the state or local authority. If the state or local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply. The local health authority or a state certified laboratory must perform a water quality analysis. The water analysis report must be no greater than 150 days old at loan closing. If USDA is aware of any recent environmental impacts that may render the previous analysis invalid (for example – chemical spills, natural disasters, etc.) a new report may be required.

Water and Sewage Systems (continued)

Private Water Systems (continued)

Minimum Testing Requirements

Water quality must be tested for lead, (first flush) nitrate, nitrite, total nitrate/nitrite, total coliforms, and fecal coliforms or e coli. If state and local agencies impose additional standards, they too must be met. A state-certified private laboratory or their designee in accordance with the State drinking water regulations should take all test samples.

Attached is a portion of the chart taken from Mortgagee Letter 95-34 showing the CMS acceptable test results for the maximum contaminant levels that may be present in the well-water.

FHA Minimum Water Quality Parameters U.S. EPA Drinking Water Recommendations for Private Well Water Quality Testing					
Contaminant	**HUD Requirement**	**MCL**	**CFR Citation**	**Treatment by POU/POE**	**Method Name**
Lead (First Draw)	.015mg/l	TT with Action level of 0.015 mg/l	141.80 141.81	• Reverse Osmosis • Activated Alumina	• Atomic Absorption; Furnace • ICP Mass Spectrometry • Atomic Absorption; Platform
Nitrate (as Nitrogen)	10 mg/l	10 mg/l	141.82	• Ion Exchange • Reverse Osmosis • Electrodialysis	• Ion Chromatography • Automated Cadmium Reduction • Ion Selective Electrode • Manual Cadmium Reduction
Nitrite (as Nitrogen)	1 mg/l	1 mg/l	141.82	• Ion Exchange • Reverse Osmosis	• Ion Chromatography • Automated Cadmium Reduction • Manual Cadmium Reduction • Spectrophoto metric
Total Nitrate / Nitrate	10 mg/l	10 mg/l	141.82	• Ion Exchange • Reverse Osmosis	Same as above
Total Coliforms	< 10/100 ml	< 10/100 ml	141.83	• Disinfection • Reverse Osmosis	• Total Col. Fermentation Tech • Total Col. Membrane Filter Tech • ONPG-MUG (Colilart) • Colisure test
Fecal Coliform or E. Coli	Zero	Zero	141.83	• Disinfection • Reverse Osmosis	• Fecal Coliform EC test Coli: EC + MUG test • Coli: Nutrient Agar + MUG test • Coli: ONPG- MUG (Colilart) • E. Coli: Colisure test

Water and Sewage Systems (continued)

Private Water Systems (continued)

Clearing the Water Test Results:

In order to clear this condition, the associate responsible must be sufficiently aware of all the requirements governing water quality. If the result of the water test reveals that any of the items exceed the Maximum Contaminant Levels (MCL), the property is not acceptable unless that deficiency is satisfactorily addressed.

Well Location:

Individual water supply systems (wells) should be checked to establish the distance from the septic system.

A well located within the foundation walls of a dwelling is not acceptable except in arctic or sub-arctic regions.

Water which comes from any soil formation which may be polluted, contaminated, fissured, creviced or less than 20 feet below the natural ground surface is not acceptable, unless acceptable to the local health authority. Certification is required in the insuring package.

Individual water supply systems are not acceptable for individual lots in areas where chemical soil poisoning has been or is practiced if the overburden of soil between the ground surface and the water bearing strata is coarse grained sand, gravel, or porous rock, or is creviced in a manner which will permit the recharge water to carry the toxicants into the zone of saturation.

Distance from Pollution Source

The chart below lists the standard required distances between the well and the septic systems and the special allowances CMS will make when these requirements cannot be met. However, if any state or local regulations require greater distances, those distances must be met. If the locality permits distance requirements that are less than those required by FHA, the property may be considered eligible provided you provide documentation that the property is in compliance with the applicable local or state distance requirements and meets the conditions stated below.

Source of Pollution	*Standard Minimum Horizontal Distance (feet)
Property Line	10
Septic Tank	50
Absorption Field/Drain Field	100

Well Depth and Casing Requirements:

New wells must be drilled no less than 20 feet deep, and cased.

Casing should be steel or other casing material that is durable, leak-proof, and acceptable to (either) the local health authority and (or) the trade or profession licensed to drill and repair wells in the local jurisdiction.

Water and Sewage Systems (continued)

Private Water Systems (continued)

Individual Residential Water Purification Equipment:

CMS does not permit the use of Water Purification Equipment as a means of remedying an otherwise unacceptable water quality.

Waivers for Reduced Distances:

- **Distance Between the Well and Septic Tank Drain Field**

  FHA will accept local or state distance requirements provided they do not allow for less than 75 feet between the well and the septic tank drain field.

- **Distance Between Well and Property Line:**

  FHA will accept the state or local distance requirements provided the well is not within 10 feet of any roadway or the property line of other than a single family residential property. That is the well cannot be within 10 feet of a commercial, industrial or multi-family building.

- **Documentation Requirements for Waiver Acceptance:**

  The appraiser must clearly show the location of the private well and the septic systems on the site sketch and the distance between the two. If the appraiser is unable to determine the distance between the well and the drain field or if the well is within 10 feet of any property line, the appraiser will make a comment on the appraisal report.

  The USDA Certified Underwriter can clear the appraiser's condition by obtaining satisfactory evidence from a qualified party that the distance requirements between the two systems and from the well to the property line have been met.

Cisterns

Properties served by cisterns are not acceptable.

Hauled Water

Properties served by hauled water are considered ineligible collateral per CMS.

Community Water and Sewer Systems

A Community Water System or a Community Sewer System is a central system, owned, operated and maintained by a private corporation or a non-profit property owners association.

- If the property is served by a community water system, the appraiser must note on the Uniform Residential Appraisal Report the name of the water company. The operations personnel are responsible for ensuring that the community system(s) are licensed and adequate to service the property.

Water and Sewage Systems (continued)

Shared Wells

Shared wells may serve existing properties which cannot feasibly be connected to an acceptable public or community water supply system.

A shared well is acceptable provided:

- It contains a valve on each dwelling service line as it leaves the well
- It services no more than four living units or properties
- There is a shared well agreement that is binding upon signatory parties and their successors in title. The shared well agreement must be recorded. The agreement may be recorded no later than the closing date if necessary. The agreement must make provisions for maintenance and repair of the system and the sharing of costs to do so. These provisions must include a permanent easement that allows access for maintenance and repair
- Water quality analysis is required. The water quality of the well must meet the requirements of the state or local authority. If the state or local authority does not have specific requirements, the maximum contaminant levels established by the EPA will apply.

Individual Sewage Systems

It is acceptable for a property to have an individual sewage system if the property cannot connect to a public system. The individual sewage system must be acceptable to the local health authority. This includes numerous types of sewage systems including cesspools, individual pit privies, and mound systems.

Certifications are only required if the appraiser suspects a problem with the system, or problems are customary in the area. In those instances, the appraiser is to condition for a certification by the local health authority, a licensed sanitarian or an individual determined to be qualified by the USDA Certified Underwriter.

The appraiser must comment on availability of public services to the property. If public services are available, the bench-mark to require hook-up to public services is 3% or $8,000, whichever is less.

In some Home Ownership Center jurisdictions, the appraiser will require a certification when the property has been vacant at the time of the appraisal.

A certification is acceptable up to 90 days.

Private Roads

Requirements

If the property is on a community-owned or privately owned and maintained street, there should be an adequate, legally enforceable agreement for maintenance of the street. A street that does not meet city or state standards frequently requires extensive maintenance, and property values may decline if it is not regularly maintained. If a property fronts on a street that is not typical of those found in the community, the appraiser should comment on the effect of that location on the subject property's marketability and value.

Streets shall provide all-weather access to all buildings for essential and emergency use, including access needed for deliveries, service, and maintenance and fire equipment. All-weather surface is defined as a road surface over which emergency and the area's typical passenger vehicles can pass at all times.

Private streets and shared driveways must be protected by permanent recorded easements or be owned and maintained by a homeowners' association. The recorded easement must be reviewed and approved by the Underwriter. Evidence of a road maintenance agreement is not required.

Certifications

Overview

When the appraiser requires certifications, such as termite, roofing, structural, electrical, plumbing, heating, or property inspection, a qualified professional from that field must complete the inspection and certification. If the subject property's state requires licensing or certification for the profession, CMS is responsible for verifying the professional's license or certification is current. LDP checks must be performed on all certification companies. If any of the inspections result in necessary repairs, the repair bills should be itemized and the repairs verified as satisfactorily completed with a clear certification issued.

Utilities

When utilities (water, gas, electric) are not turned on at the time of initial appraisal inspection, the appraiser must condition for certifications that will state that all of the utilities have been turned on and tested and that they appear to be in working order. The certification can be done with a re-inspection by the appraiser (with the utilities turned back on) or by professionals in the specific fields (i.e. electricians, plumbers, etc. These professionals should be licensed in states where licensing applies.)

Carbon Monoxide (CO) Detectors

The FHA appraiser is required to address the presence of a CO detector for states that require detectors in residential properties. For a complete list of state requirements, see the National Conference of State Legislators (NCSL) Carbon Monoxide Detectors State Statutes page (http://www.ncsl.org/issues-research/env-res/carbon-monoxide-detectors-state-statutes.aspx).

Certifications (continued)

Property Inspection

If a home inspection is performed, and is included in the loan file, and identifies the need for repairs, which were not identified in the appraisal report, the USDA Certified Underwriter is responsible for determining that the property meets FHA minimum property standards.

If minimum property standards are not met, the USDA Certified Underwriter must request the appropriate documentation, certifications and/or repairs to ensure the property meets minimum property standards.

Termite Inspection

Wood destroying insects and other organisms can cause serious problems in the wood structural components of a house. USDA requires maximum assurance that a home is free of any infestation. While HUD does not require a cleared termite report on a Streamline refinance, the USDA Certified Underwriter may impose the condition based upon his or her discretion.

The inspection must be performed by a state licensed pesticide business (registered pest control technician).

The National Pest Control Association's **HUD Form NPMA-33 - Wood Destroying Insect Inspection Report** form must be used for existing construction, unless the state mandates a specific form.

- The form NPMA-33 is valid for 90 days from the date of the inspection
- The form must be signed by the borrower

If any documentation within the loan file indicates a termite/pest inspection has been ordered, requested, required, and/or completed (even if the borrower elected to have an inspection completed), CMS requires a copy of the termite/pest inspection.

Existing Properties:

Purchases and refinances (except streamline refinances) must have a complete report that is not more than 90 days old at the time of closing. All structures within the legal boundaries of the property, including garages, must be inspected. Exceptions are minor detached structures such as a small shed.

Condominiums:

The first floor units of a condominium unit are subject to the same inspection requirements as other single-family homes. The inspection must include ground floor attached and/or detached garages, sheds, and other structures that are a part of the subject.

If a unit is on the second floor or above, a termite inspection report is not automatically required. If the appraiser detects evidence of possible dry rot or infestation by some wood-destroying organism, the appraiser must call for the inspection report.

In order to waive the repair requirements on a condominium, obtain a letter from the Homeowners' Association listing the date of scheduled repairs, name of the contractor awarded the work and acknowledgment that the funds necessary to pay for those repairs have already been budgeted and /or collected. This letter must be attached to the Homebuyers Summary.

Certifications (continued)

Termite Inspection (continued)

Termite Damage:

Active infestations must be treated and all related damage must be properly corrected. If either the pest control inspector or the appraiser indicates termite damage is present, an inspection by an approved fee compliance inspector, a qualified home building inspector, or an engineer with expertise in structural related matters must be conducted to determine the degree of damage and recommend corrective action, if necessary. If the damage is structural in nature, the inspector must be qualified to complete structurally related inspections and repairs. CMS is responsible for verifying the inspector's qualifications, including state licensing where required. If the termite inspector chooses to draw a diagram of the property, the certificate will contain a grid showing where the damage and /or infestation exist.

For those states whose mandated form does not address damage but does indicate evidence of either active or previous infestation, it should be assumed that some degree of damage is present.

Clearing the Termite Inspection Report

- **Section I -** Section I recommendations must be satisfied prior to closing. All infestation must be cleared and the damage corrected.
- **Section II -** Action on Section II items should be at the USDA Certified Underwriter's discretion and that all items must be considered to determine their impact on value.

  Items such as peeling paint, health and safety, and those leading to structural unsoundness (earth to wood contact, dry rot, excessive moisture, etc.), are general criteria items and should not be waived.

  The inspector will check the appropriate box in Section II of Form NPMA-33 to indicate if any visible damage from insects was noted. However, the termite inspector is not expected to distinguish between structural and cosmetic damage.

  Escrow holdback for repair of termite damage is not permitted.

  When the termite certification indicates the presence of termite related infestation, the following requirements for corrective action apply:

  - **Previous infestations, currently inactive termites - no previous damage**

    Neither structural **inspection** nor certification is required.
  - **Previous infestations, currently inactive termites - damage noted**

    Obtain a statement from one of these qualified sources that the repairs have been completed.
    - Qualified Independent Contractor
    - HUD Fee Panel Inspector
    - Engineer with expertise in structurally related matters
    - Qualified Home Building Inspector
  - **Active infestation - no damage noted**

    Treatment must be performed. No structural inspection required.

Certifications (continued)

Termite Inspection (continued)

- **Active infestation - damage noted**

  Treatment must be performed and all repairs must be completed. An inspection must be made by one of the following sources:
  - HUD Fee Panel Inspector
  - Engineer with expertise in structurally related matters
  - Qualified Home Building Inspector

Termite Control in New Construction Properties

For new construction treatments, **Subterranean Soil Treatment Guarantee - HUD Form NPCA 99-A** is required, and **Subterranean Soil Treatment Record-Form HUD-NPMA 99-B** -must be used, if applicable. If a state has more stringent record keeping requirements than HUD-Form NPCA-99-B, the state form can be accepted in lieu of the NPCA-99-B, in which case the state form would be attached to HUD-Form NPCA-99-A.

The acceptable methods of treatment for protection against subterranean termite attacks are:

- Chemical soil treatment
- Pressure preservative treated wood
- Naturally termite resistant wood (i.e. redwood, cedar)
- Physical barriers (such as metal or plastic termite shields)

The National CABO Dwelling Code permits the use of pressure preservative treated wood as a measure of termite protection. The seven areas requiring pressure treated wood by the CABO Dwelling Code are:

- Wood joists or the bottom of a wood structure floor when closer than 18 inches (457 mm) or wood girders when closer than 12 inches (305 mm) to exposed ground in crawl spaces or unexcavated areas located within the periphery of the building foundation
- All sills or plates that rest on concrete or masonry exterior walls and are less than 8 inches (203 mm) from exposed ground
- Sills and sleepers on a concrete or masonry slab that is in direct contact with the ground unless separated from such slab by an impervious moisture barrier
- The ends of wood girders entering exterior masonry or concrete wall having clearance of less than 0.5 inch (12.7 mm) on tops, sides and ends
- Wood siding, sheathing and wall framing on the exterior of a building having a clearance of less than 6 inches from the ground
- Wood structural members supporting moisture-permeable floors or roofs that are exposed to the weather, such as concrete or masonry slabs, unless separated from such floors or roofs by an impervious moisture barrier
- Wood furring strips or other wood framing members attached directly to the interior of exterior masonry walls or concrete walls below grade except where an approved vapor retardant is applied between the wall and the furring strips or framing members

  Pressure treated wood must be used in all framing members up to and including the top plate of the first floor level wall. This includes the sub-floor and floor joists of the first floor. The use of pressure treated wood in only the sill plate is not acceptable and must not be used as a physical barrier unless it can be inspected for any termite shelter tubes around the inside and outside edges and joints of a barrier. Field cut ends, notches, and drilled holes of pressure treated wood must be re-treated in the field.

Certifications (continued)

Termite Inspection (continued)

If the builder used pressure treated wood, Form HUD-NPMA-99-A is not necessarily required. In lieu of Form HUD-NPMA-99-A, the builder must provide a letter, on letterhead, stating that the house is protected from termites by the use of pressure treated wood. The builder must provide the buyer with a one-year warranty against termites similar to that required on Form HUD-NPMA-99-A. If the builder chooses to use Form HUD-NPMA-99-A he or she needs to check the box next to **wood** under the section titled **Type of Treatment** and insert the following statement:

Complies with Mortgagee Letter 2001-04 for use of preservatively treated wood.

If the building does not require termite protection because there is no wood in the locations identified in the Mortgagee Letter (such as when using all steel, masonry or concrete building components), under **Type of Treatment** and in the space to the right of the block titled, **Soil** the builder must add the following:

The use of post-construction soil treatment where the chemicals are applied only around the perimeter of the foundation is not acceptable in new construction properties.

Existing Properties (over 1 year old) Single Family

A clear pest inspection is required for all homes:

- TIP Zone 1 over 1* year of age
- TIP Zone 2 over 2* years of age
- TIP Zone 3 will be required at the discretion of the appraiser and USDA Certified Underwriter.

New Construction
(proposed construction, under construction and existing less than 1 year old)

- TIP Zones 1 and 2 require termite soil treatment
- TIP Zone 3 requires soil treatment at the discretion of the appraiser and USDA Certified Underwriter. If there is a possibility of termites at or near the general area of the site then treatment is required

Form HUD-NPMA-99-A - Subterranean Termite Soil Treatment Builder's Guarantee must be used.

HUD-Form NPCA-99-B - New Construction Subterranean Termite Soil Treatment Record is used with Form HUD-NPMA-99-A only if the property is treated with a soil termiticide.

The licensed pest control company is responsible for completing HUD form NPCA-99-B as appropriate, and providing it to the builder.

The builder is responsible for attaching the forms together and distributing the completed forms to the Client.

Provide one copy to the buyer at closing and include a copy in the case file.

New Construction Property Requirements

Overview

New dwellings must be designed and constructed in accordance with certified plans and specifications. Certifications may be accepted from individuals or organizations trained and experienced in the compliance, interpretation, or enforcement of the applicable development standards for drawings and specifications.

New Construction Certified Plans and Specifications

The CMS file must contain evidence the plans and specifications comply with all development standards* applicable to the new construction. Acceptable evidence includes:

1. Copy of the certification from a qualified individual or organization that the reviewed documents comply with applicable development standards. Form RD 1924-25 is an acceptable format but may not be required by the Agency for guaranteed loans.

   OR

2. Certificate of Occupancy issued by a local jurisdiction.

   OR

3. Building Permit (or equivalent) issued by local jurisdiction.

CMS may accept certifications from individuals or organizations trained and experienced in the compliance, interpretation or enforcement of the applicable development standards* for drawings and specifications. Plan certifiers may be any of the following:

(1) Licensed architects;

(2) Professional engineers;

(3) Plan reviewers certified by a national model code organization;

(4) Local building officials authorized to review and approve building plans and specifications; or

(5) National codes organizations.

* Applicable development standards. The current International Code Council (ICC) standards or current state adopted ICC code(s) for residential construction.

Evidence of Construction Inspections

The CMS file must contain copies of the documents described in one of the following three options:

1. Certificate of Occupancy issued by a local jurisdiction that performs at least 3 construction phase inspections, including inspections noted in option 2 below and a 1-year builder warranty plan acceptable to Rural Development.

   OR

2. Three construction inspections performed when:
   - Footings and foundation are ready to be poured and prior to back-filling;
   - Shell is complete, but plumbing, electrical and mechanical work is still exposed (this is not applicable to new manufactured homes);
   - Final inspection of completed work prior to occupancy;

New Construction Property Requirements (continued)

Evidence of Construction Inspections (continued)

- A 1-year builder warranty plan acceptable to Rural Development. Builders may utilize their own warranty form, HUD-92544 or Form RD 1924-19. Applicants who build their own homes cannot provide a self-warranty.
- New manufactured home construction only requires footing and final inspections.

OR

3. Final inspection and a 10-year insured builder warranty.

Evidence of Thermal Standards for New Construction

The CMS file must contain evidence thermal standards meet or exceed the International Energy Conservation Code (IECC) in effect at the time of construction. Evidence of thermal standards are typically included in the plans and specs to which the dwelling is built. The final inspection or Certificate of Occupancy issued by a local jurisdiction meets this requirement. Otherwise, documentation of conformance may be by one of the following options:

1. The builder may certify confirmation with the IECC standards.
2. A qualified, registered architect or a qualified, registered engineer may certify confirmation with IECC standards.

In general, the lender has primary responsibility for all loan origination activities. The Agency has primary responsibility to review lenders' actions and monitor participants' compliance with program requirements. The Agency will not require the lender to routinely submit documentation maintained in the lender's file regarding new construction that is not required to be submitted under program guidelines, such as:

- Copies of plans, drawings, and specifications;
- Certifications regarding the plans, drawings, and specifications (although lenders may voluntarily elect to use Form RD 1924-25, this form is not a required form for the SFHGLP. The certification may be on the plans and drawings, a separate form, or on any document that conveys the necessary information);
- Building permits;
- Copies of new construction inspections;
- Occupancy certificates; and
- Copies of construction warranties.

The Agency has the option to request any of these documents in appropriate situations such as:

- The Agency is performing a processing review of a newly approved lender;
- The Agency is performing a periodic review of the lender's compliance with program regulations;
- The Agency believes the lender is not fulfilling the obligations of the Lender Agreement and/or program guidelines; or
- The Agency is reviewing a loss claim.

New home purchase transactions that cannot meet the minimum required plan certification, inspections and warranty document requirements outlined in this paragraph are limited to a 90 percent loan to value (LTV). The lender may loan the one-time upfront guarantee fee in addition to the limiting 90 percent LTV.

Manufactured Homes

Manufactured Homes

A manufactured home is a structure that is constructed in a factory and transportable in one or multiple sections to the permanent site. The home is constructed to the Federal Manufactured Construction and Safety Standards (also referred to as HUD-code) implemented June 15, 1976. A manufactured home should not be confused with a modular home or a mobile home. Refer to the Property Types section for more detail. Factory-built homes constructed prior to June 15, 1976 are classified as mobile homes and are not eligible for HUD Insuring or CMS financing.

Certification Label and Data Plate

Manufactured homes constructed to the HUD-code display the Certification Label and the Data Plate. The Certification Label, also called the HUD Label, is located on the tail end of each transportable section. The Data Plate is located inside of the home. Per regulations, the Data Plate is to be affixed on or near the main electrical breaker box or other readily visible/accessible location. Removal of these items is illegal. Additionally, these items are not replaceable. CMS will not extend financing on manufactured homes missing one or both of these items.

The appraiser is to provide photos of both the Certification Label and Data Plate in the appraisal.

Manufactured Home Property Eligibility Requirements

All manufactured homes submitted to CMS for financing must meet all of the following criteria:

- Government (FHA, USDA and VA) financing only.
- Minimum floor area of 400 square feet.
- The manufactured home must be the only residence located on the subject property lot/parcel.
- Was constructed in conformance with the Federal Manufactured Home Construction and Safety Standards and is evidenced by the Certification Label affixed to the structure in accordance with 24 CFR 3280.11. – Appraiser to confirm.
- Was designed to be used as a dwelling with a permanent foundation and built to FHA/USDA/VA criteria. The manufactured home was built and remains on a permanent chassis.
- There were no changes, additions, or modifications to the manufactured home after it left the factory. The appraiser will need to comment if there have been any additions or modifications to the home.
- The property must be classified as real estate (but does not need to be treated as real estate for purposes of state taxation). See Transfer of Manufactured Homes to Real Property.
- The finished grade elevation beneath the manufactured home must be at or above the 100-year return frequency flood elevation. If a basement is used, the grade beneath the basement must be at or above the 100-year return frequency flood elevation.

Manufactured Homes (continued)

Manufactured Home Property Eligibility Requirements (continued)

- Property is new construction (the manufacture home has been permanently installed on the site for less than 12 months prior to the signing of the purchase agreement).
- Property is existing construction, only if already RD Guaranteed or an REO property formerly serviced by a Housing and Community Facilities Program (HCFP)/USDA
- The mortgage must cover both the manufactured home and the site.
- The maximum amortization term is 30 years.

Manufactured Home Ineligible Property

CMS will not extend financing on manufactured properties with the following:

- Properties containing more than one manufactured home
- Manufactured homes that do not meet USDA or FHA's guidelines as stated in the Permanent Foundations Guide for Manufactured Housing (PFGMH)
- Manufactured homes that do not have the proper certifications
- Manufactured homes that do not meet the criteria stated above
- Manufactured homes with additions
- Manufactured homes with changes after leaving the factory and not being re-certified
- Manufactured homes that have been relocated to a site other than transporting from the factory to the permanent foundation
- Manufactured homes classified as mobile homes.
- Manufactured homes that are considered Construction-Permanent (CP) loans and are proposed construction or under construction. CP loans combine the short-term interim financing for the cost of construction along with the long-term permanent financing.

Foundation Systems

The permanent foundation systems for all manufactured homes must follow FHA guidelines that were in effect at the time of certification as stated in PFGMH. The PFGMH can be found at (www.huduser.org/publications/destech/permfound.html). The appraiser is required to confirm the permanent foundation system meets USDA guidelines.

Engineer's Certification on Foundation Compliance – New Construction

For new construction, an Engineer's Certification on Foundation Compliance with the PFGMH is required and must contain the following:

- Be completed by from a professional engineer or registered architect attesting to compliance with current guidelines. Both of these individuals must be licensed in the state where the manufactured home is located.
- Be site specific and contain the engineer's or registered architect's signature state license/certification number. In states where seals are issued, the seal must be on the certification.

Manufactured Homes (continued)

Engineer's Certification on Foundation Compliance – Existing Construction

For existing construction, a copy of the foundation certification showing the foundation meets the guidelines in the PFGMH that were in effect at the time of certification is acceptable provided there are no alterations and/or observable damage to the foundation.

An Engineer's Certification on Foundation Compliance is not required on the following scenario:

- Streamline refinances of an existing USDA guaranteed loan and there have been no modifications to the foundation or the structure from the effective date of the certification.

Flood Zone

New construction manufactured homes located in a flood zone must meet the current standards for flood zone V in FEMA regulations (44 CFR 60.e3).

For existing construction, the property must have met FEMA elevation and construction standards required by HUD in 24 CFR 55.1(c)(ii) at the time of construction.

Any manufactured home located in Flood Zones A or V require one the following items to be eligible for CMS financing:

- FEMA issued Letter of Map Amendment (LOMA):
- FEMA issue Letter of Map Revision (LOMR); or
- Acceptable Elevation Certificate based on the finished construction, prepared by a state licensed/registered engineer or land surveyor, and indicate that the finished grade beneath the manufactured home is at or above the 100-year return frequency flood elevation. If the manufactured home has a basement, the grade beneath the basement must be at or above the 100-year flood elevation.

Inspections for Manufactured Homes

For new construction manufactured homes (completed less than 12 months from application date), the initial and final inspections completed by FHA Compliance Inspectors, licensed engineer, or registered architect are required. The inspections must be completed per the requirements stated in HUD 4145.1, REV-2, CHG-1, Architectural Processing and Inspections for Home Mortgage Insurance. The inspector must have a copy of the FHA required foundation certification, related plans and specifications at the time of inspection and must be reported using form HUD-92051, Compliance Inspection Report.

Manufactured Homes (continued)

Dealer and Builder Certifications for Manufactured Homes

In addition to other New Construction Property Requirements, the following exhibits must be provided for purchase transactions:

- Exhibit 13-A must be executed by the manufactured home dealer to verify that any cash payment or rebate as a result of the purchase of the manufactured unit has been deducted from the price of the unit and was not paid to the borrower, the cost of the unit represents the full price of the unit excluding any purchase with personal funds by the borrower for furniture, if furniture was purchased in conjunction with the transaction a lien will not be filed against the security property, and thermal requirements in effective at the time of purchase has been met.
- Exhibit 13-B must be executed by the manufactured home builder/contractor to warrant that the manufactured unit identified has been erected on the subject identified property, the property development complies with construction plans, the manufactured unit sections were properly joined and sealed according to the manufacturer's specifications, and the manufactured home sustained no hidden damage during transportation and erection.

Termite Protection/ Inspection

All manufactured homes require termite protection and control. For new construction, chemical soil treatment, EPA registered bait treatments, pressure preservative treated wood, naturally termite resistant wood or any combination of the above is accepted.

Perimeter Enclosures

The perimeter beneath the manufactured home must be enclosed. The perimeter enclosure must be a continuous wall, keeps out water and vermin, separates the crawl space from backfill and must be adequately secured to the perimeter of the unit to allow for proper ventilation of the crawl space.

For new construction and properties built after May 21, 2009, the space beneath the manufactured home must be enclosed by a continuous foundation-type construction designed to resist all forces to which it is subject without transmitting forces to the building superstructure. Additionally, the enclosure must be adequately secured to the perimeter of the home and be constructed of materials that conform to HUD's Minimum Property Standards (i.e., concrete, treated wood, masonry) and it must conform to the PFGMH for foundations.

For existing construction, if the perimeter enclosure is non-load bearing skirting comprised of lightweight material, there must be adequate backing to permanently attach and support the skirting. Examples are concrete, treated wood and masonry.

The appraiser must confirm the perimeter enclosure meets USDA guidelines.

Condominium Projects

CMS extends financing for manufactured homes located in a condominium project. Condominium projects are acceptable to RD when approved by Fannie Mae (FNMA), Freddie Mac (FHLMC), HUD, or VA. Lenders must retain evidence in their permanent loan file of the project's approval by one of these four entities. Applicant's remain responsible to obtain individual homeowners insurance as applicable.

Manufactured Homes (continued)

PUD Projects

CMS extends financing for manufactured homes located in a PUD project.

Title

All manufactured homes and land must be classified as real estate. The title policy must state specifically that the manufactured home and the land are classified as real estate.

Additionally, one clear title policy is required at the time of closing. The purging of title is required prior to closing if there are two separate deeds on the property – one land deed and one chattel deed or motor vehicle title for the unit).

CMS will not close a loan on a manufactured home in which the title has not been purged. A certification of purged title for the manufactured home is acceptable to evidence the manufactured home has been officially converted from chattel to real property.

Maximum Mortgage Amount

CMS does not provide financing for CP transactions in which the subject is proposed construction or under construction. CMS will extend financing for a transaction in which the property status is existing construction (construction is completed but was completed less than 12 months from the application date) and the borrower does not currently have or previously had any ownership interest in the unit or the land. USDA does not limit the LTV or maximum loan amount on a manufactured home. Maximum financing is available on either a purchase or refinance.

Transfer of Manufactured Homes to Real Property

Manufactured homes must be attached to the land and classified as real estate. The process of converting a manufactured dwelling unit to real estate is determined by state law, but will generally include cancelling the personal property title and/or recording notice in the public records, summarized in Manufactured Homes Title Requirements. Regardless of the state convention, CMS must be satisfied that the subject has been converted to real property, or will be converted by the title company through closing. The following are required for every loan:

- ALTA 7 (or equivalent) endorsement must be issued with the lender's final title insurance policy
- Security instrument will include a manufactured housing rider naming the make/model, dimensions, serial numbers, and HUD label numbers of the unit
- Property taxes for qualifying must be based on the full value of the land and manufactured dwelling unit
- Copies of any recorded notices related to the manufactured home must be included in the loan file

Condominium Projects

Overview

Condominium projects create additional risk because the Homeowners' Association (HOA) has legal rights that could adversely affect the mortgagee's rights. Depending on the financial management of the HOA, the value of the project (unit) can be adversely affected.

Condominium projects must have been created and exist in full compliance with all state and local statutes where the project is located and all other applicable laws.

The Client is not aware of any circumstances that would make the project ineligible for approval.

Condominium projects may be constructed in individual legal phases. A project review may be completed on the entire project or on a particular legal phase. Marketing or construction phases are not acceptable.

Condominium projects with pending litigation are not eligible.

Condominium Requirements

Condominiums are acceptable to RD when the project has been approved by Fannie Mae (FNMA), Freddie Mac (FHLMC), HUD, or VA. For purchase transactions, lenders must retain evidence In their permanent loan file of the project’s approval by one of these four entities. For refinance transactions, it is not necessary to provide evidence of the project’s approval. Applicant’s remain responsible to obtain individual homeowners insurance as applicable.

Continuing Project Eligibility

The Client is not aware of any change in circumstances since its review of the project that would result in the project no longer satisfying CMS’ requirements

Ineligible Condominium Projects

- Any project not already approved by FNMA, FHLMC, HUD, or VA.
- New projects where the seller is offering sale/financing contributions/concessions in excess of established limitations for individual loans
- Projects where 15% of the total units within the project are more than one month delinquent on HOA fees, dues or assessment payments Projects where a single entity owns more than 10% of the total units in the project
- Projects with pending litigation against the homeowners' association, or its officers, directors, and project builders and developers

Identification of Condominium Hotels/Motels

A careful analysis of the project to determine eligibility is required, utilizing several reliable sources of information. These include, but are not limited to, the appraisal, the contract for sale, and the applicable project's Web site.

Search the web to help determine if Condominium project is operating as a hotel.

The above websites are a tool and due diligence is required to determine that project is not a Condominium hotel and ineligible.

Condominium Projects (continued)

Ineligible Condominium Projects (continued)

The selection of the appraiser is a key element in obtaining an accurate appraisal report. The appraiser is expected to provide an accurate description of the project to include any characteristics that may be an indication that the project is ineligible. An appraiser who is not familiar with a specific real estate market may not have adequate information available to perform a reliable appraisal.

The appraisal report may identify project characteristics that do not definitively determine that the project is a Condominium hotel; however, it provides evidence that would require the lender to perform additional research. These project characteristics include, but are not limited to:

- Projects that include registration services and offer rentals of units on a daily basis
- Projects that restrict the owner's ability to occupy the unit
- Projects with names that include the words hotel or motel
- Projects with mandatory rental pooling agreements that require the unit owners to either rent their units or give a management firm control over the occupancy of the unit. These formal agreements between the developer, Homeowners' Association and/or the individual unit owners, obligate the unit owner to rent the property on a seasonal, monthly, weekly, or daily basis. In many cases, the agreements include blackout dates, continuous occupancy limitations and other such use restrictions. In return, the unit owner receives a share of the revenue generated from the rental of the unit
- Central telephone service
- Room service
- Units that do not contain full-sized kitchen appliances
- Daily cleaning service
- Advertising of rental rates
- Restrictions on interior decorating
- Franchise agreements
- Central key systems
- Location of the project in a resort area
- The occupancy of the project (The project may have a few or even no owner occupants)
- Projects converted from a hotel or motel

Condominium Projects (continued)

Ineligible Condominium Projects (continued)

In some instances, a project may be part of a Master Association. A Master Association is a Homeowners' Association in a large condominium project that consists of representatives from associations covering specific areas within the project. It is a second level association that handles matters affecting the entire development, while the first level association handles matters affecting their particular portion of the subject development. If a project is part of the Master Association and the Master Association operates as a hotel, resort, motel, inn or lodge the entire project is ineligible.

As an example, a Master Association consists of five condominium projects within a development. Each of the five projects has its own legal documents including Declaration of Condominium, By-Laws, Articles of Incorporation and Master Deed. All five condominium projects are part of a Master Association that also has legal documents. Although the individual projects do not have the amenities of a condominium hotel, the Master Association offers hotel like amenities, as previously defined; therefore, the entire project is ineligible.

While no single factor will determine if a project is a condominium hotel, all factors of the project must be considered. If there is any doubt as to whether a project is a condominium hotel, contact Corporate Underwriting for discussion.

In addition to the appraisal, thoroughly examine the contract for sale to determine, among other information, if there are guaranteed rent-backs, references to rental pooling or management agreements, and Securities and Exchange Commission (SEC) filing references and/or prospectus documents.

Condominium Projects (continued)

Warranty Process for Units in Approved Condominium Projects

If the subject project is on the FHA Approved List of Condominiums, whether FHA approved the condominium project (HRAP) or another lender approved the condominium project (DELRAP), the USDA Certified Underwriter must represent and warrant that all other requirements for delivering mortgages to CMS' investor, as described in the Condominium sections of this Client Guide have been met.

Lender Certification for Individual Unit Financing:

- **Eligibility Requirements**
  - Project must be CMS' investor DELRAP approved, DELRAP approval by another lender or HRAP: Comply with conditions of approval
  - Project consists of at least 2 units
  - Presale
  - Existing Projects: At least 50% of the total units in the project must have been sold and conveyed to individual owners
  - New Construction Less Than 12 Months: At least 50% of the total units in the project must have been sold and conveyed to individual owners
  - Proposed or Under Construction: At least 30% of the total units in the project must have been sold and conveyed to individual owners
  - Conversion: At least 51% of the total units in the project must have been sold and conveyed to individual owners
  - At least 50% of units are occupied as a primary residence
  - No single entity (the same individual, investor group, partnership, corporation, builder/developer) may own more than 10% of the total units in the project, including developers/builders who subsequently rent vacant or unsold units OR for projects with fewer than 10 units, no single entity may own more than one unit within the project
  - No more than 15% of the total units can be more than one month delinquent on homeowners' association fees, dues, or assessments
  - Commercial space may constitute up to 25% of the total floor space in the project, subject to the compliance with the following:
  - Any commercial space in the project must be compatible with the overall residential nature of the project, which is free of adverse conditions to the unit owners
  - FHA Concentration
    - Projects > 3 units: <= 50% may have FHA financing
    - Project <= 3 units: 1 unit may have FHA financing
  - May submit for HOC approval if there is >50% and <100% FHA concentration and the project is 100% complete for at least one year (final or temporary CO), 100% sold and conveyed and has 10% reserves.

Condominium Projects (continued)

Warranty Process for Units in Approved Condominium Projects (continued)

- **Legal Requirements**
  - Right of First Refusal language or covenants in the condominium legal documents are NOT permitted unless the first mortgagees or its assignees rights will not be adversely impacted to:
  - Foreclose or take title to a condominium unit pursuant to the remedies in the mortgage
  - Accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor, or
  - Sell or lease a unit acquired by the mortgagee or its assignee
  - The unit is part of a condominium project that provides for common and undivided ownership of common areas by unit owners
  - Condominium projects must have been created and exist in full compliance with all state and local statutes where the project is located and all other applicable laws
- **Insurance Requirements**
  - Minimum $1 million general liability insurance per occurrence
  - Project must be insured on 100% replacement cost or guaranteed replacement cost
  - Fidelity Insurance is required the HOA and management company (if applicable) for all projects with greater than 20 units
  - Walls-in (HO-6) coverage, if required
- **Litigation**
  - No legal action is pending against the condominium homeowners' association, or its officers, directors, and project builders and developers
- **Documentation**

  The following documentation must be in each loan file:
  - Lender Certification for Individual Unit Financing signed by USDA Certified Underwriter
  - FHA Homeowners' Association Questionnaire
  - Appraisal Report
  - Site Condos: Fannie Mae Form 1073
  - Insurance Documentation
  - Pending Special Assessment Analysis, if applicable
  - Printout of FHA Connection Condominium approval (HRAP or DELRAP)
  - Documentation supporting Lender Certification that project is in continued compliance with condominium guidelines

Compliance Inspections

Overview

The Compliance Inspection Report form 92051 is required to ensure that the mortgage risk in construction is within acceptable limits. Inspections do not relieve the builder of his or her contractual obligations to the borrower.

At least three inspections are required for proposed construction, as follows:

Initial Inspection

An initial inspection is required before the "beginning of construction", defined as placement of permanent construction, with foundation forms in place. An open excavation, without a minimum of foundation forms in place, must be re-inspected by the fee inspector.

Framing Inspection

A framing inspection is required when the building is enclosed and the framing, plumbing, heating, electrical, and insulation are is complete and visible.

Final Inspection

A final inspection is required when construction is complete and property is ready for occupancy.

Fewer than three inspections apply based on the following:

- Properties covered by insured ten-year protection plan may require only a final inspection
- Areas with known specific problems to recur, or when there is a high incidence of complaints against the builder. The initial and intermediate inspections should be required. The builder must advise USDA of coverage prior to the issuance of the conditional commitment for this exception to apply or three inspections will be required.
- Local authorities can make the initial and framing inspections. A Fee inspector must make the final inspection.

NEW CONSTRUCTION EXHIBITS

Builder's Certification of Plans, Specifications, and Site (HUD Form 92541)	**Builder's Certification of Plans, Specifications, and Site** (HUD Form 92541) The USDA Certified Underwriter is responsible for the review of this form. If any further documentation is required, it will be obtained by the USDA Certified Underwriter and include with the certification. The USDA Certified Underwriter may condition for the certification in the case of an MCRV conversion for a condominium or a PUD. All the lines must be completed and fully executed by the builder. Note that the first signature can be the builder or an agent of the builder, but the second signature must be the builder. In the case of a corporation, an officer of the corporation would sign.
Termite Control	• **HUD- NPCA-99-A - Subterranean Termite Soil Treatment Builder's Guarantee** • **HUD-NPCA-99-B - New Construction Subterranean Termite Soil Treatment Record** o Must be executed by the builder and Termite Company. The borrower must be provided a copy at closing. It may or may not be accompanied by the standard termite report form in California.
Carpet Identification	Carpet manufacturer or seller certifies that the carpet meets USDA standards. Builder certifies to us that the manufacturer maintenance program has been provided to the borrower.
Manufacturer's Warranties and Insulation Certificate	Builder certifies that the Manufacturer's warranties and the insulation certificate stating R-value of insulation have been given to borrower.
Ten Year Insured Protection Plan Warranty	Acceptable evidence of coverage is a c copy of the Application for Insurance executed by the builder along with a copy of the HUD-1 Uniform Settlement Statement showing the premium is paid at closing.
Certificate Of Occupancy	Obtain a copy of the Certificate of Occupancy when applicable, or the Building Inspection Card to meet this condition.

APPRAISAL REVIEW

Overview

The appraisal information must provide a logical basis for evaluation. The appraiser must present a concise picture of the neighborhood, site, and improvements to support an indicated value. Value must be supported by three comparable sales of a similar nature. The USDA Certified Underwriter is responsible for determining that the appraiser has adequately supported his or her opinion of the subject's property value.

The components discussed below are used to assess the adequacy of appraisal reports.

The Subject Property

The first part of the appraisal report is used as follows:

- Identify and describe the location of the subject property
- Provide information about property taxes and special assessments
- Indicate the occupancy status of the subject property
- Describe the subject property rights to be appraised
- Summarize financing data and sales concessions
- Identify the borrower, current owner, client and appraiser
- Provide information pertinent to the subject purchase transaction, if applicable

The appraiser must identify the subject property by its complete property address and complete and correct legal description; a post office box number is not acceptable. The appraiser should indicate the nearest intersection if a house number is not available. When the legal description is lengthy, the appraiser may attach the complete and correct (full) description as an addendum to the appraisal report, or may refer simply to its location in the public records.

The appraiser must identify the subject property rights to be appraised as Fee Simple or Leasehold. In addition, the appraiser must indicate whether the subject property is located in a PUD or condominium and enter the taxes and insurance expenses and condominium or PUD common expenses, as applicable.

The USDA Certified Underwriter must verify that accurate monthly property tax estimates are being used when qualifying borrowers on new construction loans. Taxes must be estimated for the completed home and the land, not just for the vacant land value. A realistic estimate for the completed property can be provided by the appraiser or the assessor's office or from comparable sales.

The appraiser must identify the type of transaction, state the total dollar amount of the loan charges and/or concessions that will be paid by the seller (or any other party who has a financial interest in the sale or financing of the subject property) and provide a brief description of the items on the appraisal report.

Appraisal Review (continued)

Neighborhood Analysis

The purpose of a neighborhood analysis is to identify the area - based on common characteristics or trends - that is subject to the same influences as the subject property. The purpose is not to rate or judge the neighborhood. The sales prices of comparable properties in the identified area should reflect the positive and negative influences of the neighborhood. The appraiser should focus on describing the various components of a neighborhood and reporting the factors that have an impact on value in narrative form.

A neighborhood analysis should consider the influence of social, economic, government, and environmental forces on property values in the subject neighborhood. However, neither the racial composition nor the age of a neighborhood is an appraisal factor.

CMS does not designate certain areas as being acceptable or unacceptable or in other words, CMS does not "red-line". Redlining can occur when perceived property risks are based on improper location factors, such as the arbitrary granting of unfavorable loan terms on the basis of geographic area or when the perceptions of risk are derived from factors that do not predict risk, either reliably or not at all. Race, for example, is a factor that is not predictive of risk. Racial redlining is illegal under federal law. Other factors that serve as a proxy for race are equally impermissible.

The appraiser should explain any changes that have occurred that might influence the marketability of the properties within the neighborhood. The appraiser also must comment if there is market resistance to a neighborhood because of the known presence of an environmental hazard or any other factor.

Two neighborhood characteristics that the appraiser should consider in selecting comparable sales and in preparing the neighborhood analysis are:

General Appearance

The general appearance of the properties in the neighborhood is a key factor. The appraiser must consider the extent to which the properties are receiving proper maintenance.

Appeal to Market

Appeal to Market is the extent to which all aspects of the neighborhood will appeal to the typical purchaser in the market. An individual property by itself cannot overcome a generally prevailing reluctance of the market to invest in a neighborhood. On the other hand, a relatively weak property in a strong, viable neighborhood is likely to sustain its value, although it must be carefully analyzed.

The appraiser must take into consideration the various aspects of a neighborhood (based on both proximity and value) by comparing the characteristics for the subject neighborhood to those for competing neighborhoods.

For example, if the neighborhood is characterized by a lack of maintenance or the absence of local government services (which also might be typical for competing neighborhoods), the appraiser should include a comment to that effect to provide an adequate description of the neighborhood in his or her analysis.

The appraisal report forms require the appraiser to address several important factors that are used to analyze the neighborhood's impact on the property's marketability. Some of the key factors are discussed in the following subsections.

Appraisal Review (continued)

Neighborhood Analysis (continued)

Neighborhood Characteristics:

Mortgages that are secured by residential properties in urban, suburban, or rural areas are acceptable. An "urban" location relates to a city, a "suburban" location relates to the area adjacent to a city, and a "rural" location relates to the country or anything beyond the suburban area.

Urban Properties:

For properties in urban neighborhoods, the appraiser must provide sales data available within one mile of the subject property.

Mortgages in urban areas are sometimes underwritten on a block-by-block basis. Block-by-block underwriting and appraisal analysis are acceptable in cases in which rehabilitation has started either in the block where the subject property is located or in facing blocks visible to the subject property but has not yet spread to the rest of the neighborhood. This provides for more weight being placed on the positive influences of a neighborhood in an urban area that is being rehabilitated. The acceptability of this is conditioned on the appraiser demonstrating local conditions make it appropriate and all essential factors are considered.

When a security property is located in an urban neighborhood that has vacant or boarded up properties, the appraiser would need to look at comparable properties in the same neighborhood to assure that any effect of the vacant or boarded up properties is taken into consideration in developing the estimate of value for the security property.

For an urban area this may include residential multifamily properties and other properties that are used to provide commercial services (such as groceries and other neighborhood stores) in support of the local neighborhood, industrial properties, etc. Viable urban neighborhoods frequently are characterized by a successful mixing of different property uses and types. The presence of mixed property uses or a variety of property types within an area does not mean that a property located in that area will be unacceptable. Since such mixed uses may be a characteristic of the market area, the appraiser should take them into consideration when performing the analysis of the market area and defining the market area's boundaries. To assure that any positive or negative effects of the mixed land uses are reflected in the sales comparison analysis, the appraiser should select comparable sales from within the same area whenever possible. If this is not possible, the appraiser will need to make "location" adjustments (if appropriate) for any sales that are not subject to this type of characteristic.

Suburban Properties:

Since suburban areas are usually well developed and comparable sales typically are available in the subject neighborhood, the appraiser would most likely use comparable properties in the immediate vicinity of the subject property. However, if the subject property is located in an area where there is a shortage of recent comparable sales, the appraiser must adequately document his or her analysis in the appraisal report and explain why such comparable sales were used.

Appraisal Review (continued)

Neighborhood Analysis (continued)

Rural Properties:

Rural properties are generally more difficult to assess. Marketing times may be affected by their remote location. Therefore, the proximity of comparable sales is critical in determining a rural property's marketability.

A mortgage must be secured by a property that is residential in nature, based on the description of the subject property, zoning, and the present land use. Mortgages that are secured by agricultural-type properties (such as farms, orchards, or ranches), on undeveloped land, or on land development-type properties are unacceptable.

Special consideration must be given to properties with outbuildings. Properties with minimal outbuildings, such as a small barn or stable, that are of relatively insignificant value in relation to the total appraised value of the subject property are acceptable if they are typical of other residential properties in the subject area.

Outbuildings not representing typical residential improvements for the location and property type are acceptable if the appraiser attributes no value to them.

Properties with significant outbuildings, such as a large barn, a storage area or facilities for farm-type animals, or a silo, might indicate that the property is agricultural in nature. It must be determined if the improvements are residential or agricultural in nature, regardless of whether the appraiser assign any value to the outbuildings.

It is not uncommon for rural areas to consist of a variety of property types that may or may not have different uses. It is also not uncommon for urban neighborhoods to consist of a variety of property types that have different uses. Such mixed-use areas may or may not reflect a successful blend of various single-family residential and non-residential uses.

Neighborhood Property Values:

Ideally, property values should be stable or increasing, however, there may be areas of the country experiencing a decline in property values. Declining values are a concern due to the potential for equity erosion.

The appraiser's role is to substantiate the stability of the market and to provide an estimated value of the subject property. In doing this, the appraiser is required to indicate on the appraisal report if property values in that market are increasing, stable, or declining. If values are declining, the appraiser must comment on the reason for the decline and its effect on the property's marketability as well as rate (%) of decline. The reasons for a decline in value and the probability of its continuance are key considerations in the property's acceptability.

If the appraiser indicates the property is in a declining market, two comparable sales which closed within 90 days of the date of the appraisal must be provided. In some markets, compliance with this requirement may be difficult or not possible due to the lack of market data and, in some cases a detailed explanation is required. The appraiser is expected to include at least two sales that are as similar as possible to the subject and which settled within 90 days in order to show recent market activity.

Appraisal Review (continued)

Neighborhood Analysis (continued)

In addition, the appraiser must:

- Include a minimum of two active listings or pending sales
- Insure that active listings and pending sales are market tested and have reasonable market exposure to avoid the use of overpriced properties as comparable sales. The appraiser should bracket the listings using both dwelling size and sales price whenever possible
- Adjust active listings must reflect list to sale price ratios for the market
- Adjust pending sales to reflect the contract purchase price whenever possible or adjust pending sales to reflect list to sales price ratios
- Include the original list price, any revised list prices, and total days on the market. Provide an explanation for days on the market that do not approximate time frames reported in the Neighborhood section of the appraisal or that do not coincide with the days on the market in the Market Conditions Addendum
- Reconcile the adjusted values of active listings or pending sales with the adjusted value of the settled sales provided. If the adjusted values of the settled comparables are higher than the adjusted values of the active listings or pending sales, the appraiser must determine if a market conditions adjustment is appropriate. The final value should not be based solely on the comparable listing or pending sale data.
- Include an absorption rate analysis per the Market Conditions Addendum

Data Requirements:

The appraiser must verify data via local parties to the transaction: agents, buyers, sellers, lenders, etc. A Multiple Listing Service (MLS) by itself is not considered a verification source.

Unacceptable data sources include local and national media, and other sources considered not readily verifiable. Appraisal results should be able to be replicated

Known or reported incentives or sales concessions must be noted in the financing section for any active or pending comparables used.

The USDA Certified Underwriter is responsible for reviewing the appraisal and determining if the appraised value is accurate and adequately supports the value and marketability of the subject property.

Demand/Supply:

An oversupply of housing is not desirable, since it indicates that properties are selling slowly with a lot of competition. The appraiser must comment on the reason for the oversupply and its effect on the value of the subject property.

Appraisal Review (continued)

Neighborhood Analysis (continued)

Marketing Time:

Marketing time is the average time that it takes for a reasonably priced property to sell in the subject neighborhood.

Marketing time of properties in the subject neighborhood should be less than six months to assure no loss of equity.

When marketing time is greater than six months, the appraiser must comment on the reason for the extended marketing period and its effect on the value of the subject property.

Price/Age Range and Predominant Value:

The appraiser must indicate the price range and predominant value as well as the age range, and predominant age of properties in the subject neighborhood. These must reflect the high and low prevailing ranges for residential properties comparable to the property being appraised.

A comparison of the predominant value for the neighborhood must favorably reflect the mortgaged premises value. If the subject property sets the top value for the neighborhood, it may be an indication the subject property represents an over-improvement. Future purchasers may be less willing to pay for property features not common to the area and its appeal may be limited at its current value. Maximum financing may not be appropriate.

A property at the low end of the market's value may also be cause for concern. Careful evaluation is required to determine whether the property in its current form is likely to continue to be its highest and best use.

Predominant Occupancy:

The appraiser should categorize the predominant occupancy status of the neighborhood as "owner", "tenant", "vacant (0-5%)", or "vacant (over 5%)" as part of his or her description of the neighborhood.

To assure that any effects (positive or negative) of a predominant tenant-occupancy status will be reflected in the sales comparison analysis, the appraiser should select comparables sales from within the same neighborhood whenever possible. If the appraiser uses as comparables sales that are outside of the subject neighborhood, he or she may need to make "neighborhood" or "location" adjustments to the sales comparison analysis for any sales that are not subject to this same neighborhood characteristic.

Appraisal Review (continued)

Neighborhood Analysis (continued)

Present Land Use of the Neighborhood:

Typically, dwellings best maintain their value when they are situated in neighborhoods that consist of other similar dwellings. However, the existence of different land uses and property types in a neighborhood does not mean that a mortgage secured by property located in that neighborhood is unacceptable. When different land uses and property types are present in a neighborhood, that fact should be considered a neighborhood characteristic that the appraiser needs to take into consideration when performing the neighborhood analysis and defining the neighborhood boundaries.

In addition, if there is a significant amount of vacant or undeveloped land in the neighborhood, the appraiser should include comments to that effect to assure that he or she adequately describes the neighborhood.

The appraiser must comment whether the present land use in the neighborhood is likely to change or whether it is in the process of changing. If the subject property is undergoing transition, the appraiser must describe the changes and comment about the impact on marketability and value of the subject property.

Appraisal Review (continued)

Site Analysis

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, and other amenities. Since amenities, easements, and encroachments may either detract from or enhance the site's marketability, the appraiser must comment on them if the site is not typical for the neighborhood.

Properties on Excess Acreage:

Excess acreage is defined as that which is larger than what is typical in the neighborhood and capable of a separate use. Generally, the excess portion can be subdivided and marketed as an individual parcel. However, in small communities and outlying areas, appraisers must use different criteria because the market may accept a wide variance in lot sizes. If the plot contains excess land, the appraiser is required to describe the excess land but not attribute any value. A compete and correct legal description of the portion being appraised is required. The excess land must be excluded from the mortgage security.

Zoning:

The appraiser is responsible for reporting the specific zoning classification for the subject property. The appraiser must include a general statement to describe what the zoning permits--"single-family," "two-family," etc.--when he or she indicates a specific zoning such as R-1, R-2, etc. The appraiser must also include a specific statement if the improvements do not represent a legal and conforming use of the land.

A property is generally unacceptable if the improvements do not constitute a legally permissible use of the land. Certain exceptions to this policy can be made, as long as the property is appraised and underwritten in accordance with the following special requirements:

- A mortgage that is secured by a one-to four-family property or a unit in a PUD project is acceptable if the property represents a legal, but non-conforming, use of the land -- as long as the appraiser's analysis reflects any adverse effect that the non-conforming use has on the value and marketability of the property.
- A condominium unit mortgage, from a project that represents a legal but non-conforming use of the land, is acceptable only if the improvements can be rebuilt to current density in the event of their partial or full destruction. (In such cases, the mortgage file must include a copy of the applicable zoning regulations or a letter from the local zoning authority that authorizes reconstruction to current density.)
- A mortgage secured by a single-family or a two-family property that includes an illegal additional unit or accessory apartment (which may be referred to as a mother-in-law, mother-daughter, or granny unit) is acceptable as long as the illegal use conforms to the subject neighborhood and to the market. The property must be appraised in conformity with its legal use, that of a single-family or two-family property (and the borrower must qualify for the mortgage without considering any rental income from the illegal unit).

Appraisal Review (continued)

Site Analysis (continued)

- o The appraiser must report that the improvements represent an illegal use and demonstrate that the improvements are typical for the market through an analysis of at least three comparable properties that have the same illegal use. The USDA Certified Underwriter must also make sure that the existence of the illegal additional unit will not jeopardize any future hazard insurance claim that might need to be filed for the property. A mortgage secured by a three- or four-family property that includes an illegal accessory apartment is unacceptable.

- A mortgage secured by a property that is subject to certain land-use regulations (such as coastal tideland or wetland laws) that create setback lines or other provisions that prevent the reconstruction (or maintenance) of the property improvements if they are damaged or destroyed is unacceptable. (The intent of these types of land-use regulations is to remove existing land uses and to stop land development-- including the maintenance or construction of seawalls--within specific setback lines.)
- It is not uncommon for residential properties in rural locations to have an agricultural zoning classification. Mortgages secured by such properties are acceptable as long as the property is primarily residential in nature, the residential use is permissible under the zoning and land use regulations, the property improvements represent the highest and best use of the site as improved, and the property is a relatively typical residence for the neighborhood or market area.

Highest and Best Use:

The highest and best use of a site is that reasonable and probable use that supports the highest present value on the effective date of the appraisal. For improvements to represent the highest and best use of a site, they must be legally permitted, be financially feasible, be physically possible, and provide more profit than any other use of the site would generate. All four of these criteria must be met if the improvements are to be considered as the highest and best use.

A strict theoretical highest and best use analysis identifies the perfect improvements for a site--assuming the site is vacant and available to be developed. The appraiser's highest and best use analysis of the subject should consider the property as it is improved. This treatment recognizes that the existing improvements should continue in use until it is financially feasible to remove the dwelling and build a new one, or renovate existing dwelling.

If the use of comparable sales demonstrates that the improvements are reasonably typical and compatible with market demand for the neighborhood, and the present improvements contribute to the value of the subject property so that its value is greater than the estimated vacant site value, the appraiser should consider the existing use as reasonable and report it as the highest and best use.

On the other hand, if the current improvements clearly do not represent the highest and best use of the site as an improved site, the appraiser must so indicate on the appraisal report. In such cases the property would not be acceptable for financing.

Appraisal Review (continued)

Site Analysis (continued)

Utilities:

For a property to be eligible for a mortgage, the utilities must meet community standards and have market acceptance. If public sewer and/or water facilities--those that are supplied and regulated by the local government are not available 1, then community or private well and septic facilities must be available and utilized by the subject property.

In general, if available, connections must be made to public water/sewer systems or a community water/sewer system, if the connection costs to the public or community system are reasonable (3% or less of the estimated value of the property). If connection costs exceed 3%, the existing on-site systems will be acceptable provided they are functioning properly and meet the requirements of the local health department.

If there is market resistance to an area because of environmental hazards or any other conditions that affect the septic system, well or public water facilities, the appraiser must comment on the hazards' effect on the subject property's marketability and value. The appraiser should make the appropriate conditions for closing based upon FHA requirements. For example, if public water facilities are available, the appraiser will condition for the community or private water facilities to convert to public.

Off-Site Improvements:

The property should front on a publicly dedicated and maintained street that meets community standards and is accepted in the market area. If the property is on a community-owned or privately owned and maintained street, there should be an adequate, legally enforceable agreement for maintenance of the street. A street not meeting city or state standards frequently requires extensive maintenance, and property values may decline if it is not regularly maintained. If a property fronts on a street that is not typical of those found in the community, the appraiser must comment on the effect of that location on the subject property's marketability and value.

The presence of sidewalks, curbs and gutters, street lights, and alleys depends on local custom. If they are typical in the community, they should be present on the subject site. The appraiser must comment on any adverse conditions and address their effect on the marketability and value of the subject property. The appraiser must state the type of any off-site improvements (streets, curbs/gutters, sidewalks, street lights, and alleys) that are present and also indicate whether they are publicly or privately maintained.

Legal ingress and egress must be available to the property, and no exceptions may be noted on the title report for these characteristics.

Appraisal Review (continued)

Site Analysis (continued)

Properties Using Solar or Wind Energy:

An eligible solar or wind energy system is one that utilizes the wind or solar energy to reduce energy required from other sources. It may be an addition, alteration or an improvement to an existing or new structure. Both active and passive solar systems as well as wind driven systems are acceptable. However, solar heating and domestic hot water systems are not permitted without backup systems that are 100% operational.

The Lot:

The topography, shape, size, and drainage of the lot are all equally important. Steep slopes that cause erosion, difficulty in maintaining a lawn, or difficult access to the property itself or to a garage are generally unfavorable conditions. Drainage must be away from the improvements to avoid the collection of water in or around them. In towns and cities the site area should be limited to the lot on which the house sits, unless the appraiser comments that the additional land is typical for the neighborhood, in which case additional land may be acceptable.

In rural areas, sites may be 10 acres or more but are considered in relation to the *typical* size of lots in the area. If the size of the site is excessive, such as 30 acres in an area where 10 acres is typical, the excess land is not considered in the appraisal nor included in the mortgage.

Flood Zones:

The appraiser must indicate on the appraisal report whether or not the property is located in a Special Flood Hazard Area that is identified on the Federal Emergency Management Agency's (FEMA) and Flood Insurance Rate Maps (FIRM). The appraiser must also indicate the specific FEMA flood zone, map number and map date.

If the property is located within a SFHA, the appraiser must:

- Attach a copy of the flood map panel to the appraisal report
- Enter the FEMA zone designation on the reporting form as well as identify the map panel number and map date.
- Quantify the effect on value, if any.

  If the property is not shown on any map, the appraiser must enter "not mapped." Appraiser should still comment if there is any history or vulnerability to flooding to subject property in spite of its location’s unmapped status.

  Appraisers are required to perform the due diligence necessary to determine if a property is located within a Coastal Barrier Resource System (CBRS) zone. The U.S Fish & Wildlife Service mapping database is an additional source that identifies the CBRS boundaries. If the property is located within the CBRS boundaries, appraisers are instructed to immediately stop work on the assignment and return the file to the Lender.

  The flood insurance is required for the term of the loan in an amount at least equal to either the outstanding balance of the mortgage less estimated land value or the maximum amount of NFIP insurance available with respect to the property, whichever is less.

Appraisal Review (continued)

Site Analysis (continued)

Reject properties if they are subject to frequently recurring flooding or if there is any potential hazard to life or safety, or if escape to high ground would be infeasible during a severe flood.

A property is not eligible for FHA insurance if the house and related improvements to the property is located, or is proposed to be constructed within a SFHA (Zone A or Zone V) and where flood insurance under the National Flood Insurance Program (NFIP) is not available in the community.

A property is not eligible for FHA-insured financing if the improvements are located, or are proposed to be located within the Coastal Barrier Resource System (CBRS). CBRS areas are environmentally protected areas that have restrictions on federal assistance, including FHA-insured financing for residential development. CBRS areas are located along the coast of the Gulf of Mexico, Atlantic Ocean, and the Great Lakes.

Proposed construction, located within a Special Flood Hazard area (100 year frequency), is ineligible regardless of whether or not the property is or will be covered by flood insurance.

Improvement Analysis

The appraiser must provide a clear, detailed, accurate, and comprehensive description of the improvements. The appraiser should be as specific as possible (commenting on such things as needed repairs, additional features, modernization, etc.), and should provide supporting addendum if necessary.

The description of the improvements should include a general overall description and specific descriptions of the exterior, foundation, basement, insulation, interior surfaces, heating and cooling systems, kitchen equipment, attic, amenities, and car storage. If the property that is being appraised includes an accessory apartment, the appraiser should describe it in the "comments" section of the improvement analysis portion of the appraisal report form.

Actual and Effective Ages:

The relationship between the actual and effective ages of the property is a good indication of its condition. A property that has been well-maintained will generally have an effective age somewhat lower than its actual age.

Properties that have an effective age higher than their actual age probably have not been well-maintained or may have a particular physical problem. In such cases, the USDA Certified Underwriter must pay particular attention to the condition of the subject property in its review of the appraisal.

There is no restriction on the age of eligible dwellings. Consequently, mortgages on older dwellings that meet the general requirements are acceptable. The improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject market area.

If the property is less than two years old, the appraiser must show the month and year of construction completion.

Appraisal Review (continued)

Improvement Analysis (continued)

Conformity to the Neighborhood:

The improvements should generally conform to the neighborhood in terms of age, type, design, and materials used for their construction. If there is market resistance to a property because its improvements are not compatible with the neighborhood or with the requirements of the competitive market, (because of inadequate plumbing, heating, or electrical services; design; quality; size; condition; or any other reason directly related to market demand), the loan should be underwritten more carefully. If appropriate, the loan may also require more conservative mortgage terms.

The USDA Certified Underwriter should be aware that many older neighborhoods have favorable heterogeneity in architectural styles, land use and age of housing. For example, older neighborhoods are especially likely to have been developed through custom building; this variety may be a positive marketing factor.

In the appraisal and underwriting process, special consideration must be given to properties that represent special or unique housing for the subject neighborhood. Non-traditional types of housing, such as earth houses, geodesic domes, log houses, etc. are acceptable, provided the appraiser has adequate information to develop a reliable estimate of market value.

There is no requirement that one or more of the comparable sales must be of the exact same design and appeal as the property that is being appraised (although appraisal accuracy is enhanced by using comparable sales that are the most similar to the subject property). On a case-by-case basis, both the appraiser and the USDA Certified Underwriter must independently determine whether there is sufficient information available to develop a reliable estimate of market value. This will depend on the extent of the difference between the special or unique property and the more traditional types of houses in the market and the number of such properties that have already sold in the area.

If recent comparable sales of the same design and appeal as the subject property are not available, the appraiser may be able to determine sound adjustments for the differences between the comparables that are available and the subject property and to demonstrate the marketability of the property. He may need to use older comparable sales or comparable sales in competing neighborhoods and any other reliable market date to verify the existence of similar properties in the market area to document the property as acceptable.

However, if the appraiser is not able to find any evidence of market acceptance and the characteristics of the property are so significantly different that he or she cannot establish a reliable estimate of market value, the property will not be acceptable as security for any mortgage.

Appraisal Review (continued)

Improvement Analysis (continued)

There is no minimum size or living area requirements for properties. However, dwelling units of any type should contain sufficient living area to be acceptable to typical purchasers or tenants in the subject market area. There should be comparables of similar size to the subject property to support the general acceptability of a particular property type.

Unpermitted Additions:

Unpermitted additions, modifications and room conversions are not eligible.

Insulation and Energy Efficiency:

The Appraisal Report Form provides an area for the appraiser to state the "R" value for insulation if he or she is aware of it and to comment on the adequacy of the insulation. The appraiser should list the additional energy-efficient features in the "comments" area.

The appraiser also should compare the energy-efficient features of the subject property to those of the comparable properties in the "sales comparison analysis" grid to assure that the overall contribution of these items is reflected in his or her estimate of the market value of the subject property.

An energy efficient property is one that uses cost effective design, materials, equipment, and site orientation to conserve nonrenewable fuels. Special energy saving items should be recognized in the appraisal process. The nature of these items and their contribution to value will vary throughout the country because of climatic conditions and differences in utility costs.

Appraisal Review (continued)

Improvement Analysis (continued)

Room List and Gross Living Area:

The most common comparison for single family properties (including units in PUD or condominium projects) is above grade gross living area. The appraiser must be consistent when he or she calculates and reports the finished above-grade room count and the square feet of above grade gross living area that is above-grade in square feet. For units in condominium projects, the appraiser should use interior perimeter unit dimensions to calculate the gross living area. In all other instances, the appraiser should use the exterior building dimensions per floor to calculate a property's above-grade gross living area. Only finished above-grade areas should be used--garages and basements (including those that are partially above-grade) should not be included.

A level is considered to be below-grade if any portion of it is below-grade--regardless of the quality of its "finish" or the window area of any room. Therefore, a walk-out basement with finished rooms would not be included in the above-grade room count.

Rooms that are not included in the above-grade room count may add substantially to the value of a property--particularly when the quality of the "finish" is high. For that reason, the appraiser should report the basement or other partially below-grade areas separately and make appropriate adjustments for them on the "basement and finished areas below-grade" line in the "sales comparison analysis" adjustment grid.

To assure consistency in the sales comparison analysis, the appraiser generally should compare above-grade areas to above-grade areas and below-grade areas to below-grade areas. However, if the appraiser needs to deviate from this approach because of the style of the subject property or of any of the comparables, he or she must explain the reason for the deviation and clearly describe the comparisons that are being made.

Infestation, Dampness and Settlement:

CMS requires correction if the appraiser indicates that there is evidence of dampness, wood boring insect infestation or damage, or settlement, (that is atypical for the age and location of the subject and presents a weather or safety hazard.

Appraisal Review (continued)

Improvement Analysis (continued)

Property Condition and Appraiser Comments:

Based on the factual data of the improvement analysis, the appraiser must express an opinion about the condition of the improvements. The appraiser must report the condition of the improvements in factual, specific terms. Any condition that may affect the value or marketability of the subject property must be reported to assure that the appraiser adequately describes the property. The appraiser must report a detrimental condition of the improvements even if that condition is also typical for competing properties. For instance, the appraiser should note if a property is characterized by deferred maintenance or a lack of updating even if the same condition applies to competing properties in the neighborhood.

Any required repairs and any physical, functional, or external inadequacies must be addressed by the appraiser in the "Comments" section of the report. Adverse environmental conditions (including, but not limited to, hazardous wastes, toxic substances, etc.) that are present in the improvements, on the site, or in the immediate vicinity of the subject property must also be addressed.

- **Roof Damage**

  Visible evidence of roof leaks and/or interior water damage (e.g., ceiling stains) even if the appraisal does not list them must be addressed. If any of these conditions exist, a roof certification by a qualified roofing contractor or general contractor must be obtained. The roof must have a remaining useful and physical life of at least two years.

- **Deferred Maintenance**

  Appraisals on properties with deferred maintenance must include a realistic cost to cure. Excessive deferred maintenance (usually above 5% of the property value) and any items that affect basic habitability and safety will require an Appraisal Update and/or Completion Report (Fannie Mae 1004D/Freddie Mac form 442). Refer to **Appliances:** The Valuation Protocol (page D-26 of Appendix D, Handbook 4150.2) for additional guidance.

- **Unacceptable Property Conditions**

  - Imminent Threat - Properties defined as imminent threat are those that pose an imminent health or safety threat
  - Inadequate Foundation Inadequate foundations are those that do not meet current code requirements. Additionally, a cantilevered property is not acceptable. A cantilevered property is a projecting structure supported at one end and carries a load at another end or along its length
  - Inadequate Heating Properties defined as having inadequate heating are those without permanently affixed legal heating systems (e.g., the property uses space heaters or fireplaces to heat the premises)
  - Inadequate Maintenance or Services: These are properties, which lack city or county maintenance services
  - Inadequate Utilities: These are properties without water or public electricity connections to the site. This term also includes improperly vented water heaters
  - Boarded-up properties

Appraisal Review (continued)

Improvement Analysis (continued)

Physical Deficiencies or Adverse Conditions:

- **Debris, Graffiti, Trash**

  Properties showing an excessive amount of debris, graffiti, or trash may require clean up. If clean-up is necessary, an Appraisal Update and/or Completion Report (Fannie Mae form 1004D/Freddie Mac form 442) with photo is required

- **Infestation, Dampness, Settlement**

If the appraiser indicates that there is evidence of dampness, wood boring insects, or settlement, he or she must comment on its effect on the subject property's marketability and value. The USDA Certified Underwriter must request either satisfactory evidence that the condition was corrected or submit a professionally prepared report (e.g., an exterminator's certificate or an engineer's report). The report must indicate that based on an inspection of the property, the condition does not pose any threat of structural damage to the improvements. If corrective action is not a condition of the appraisal, the appraiser must comment on the effects of adverse conditions on value and marketability.

Sales Comparison Approach

The value indicated by this approach must be supported by an analysis of recently closed sales of at least three comparable sales located in the subject property's neighborhood or market. One of the three settled comparables sales used must be a conventional sale if available.

If the subject property is located in an area where there is all government financing, this must be noted in "Comments". Having all conventional comparables with no government comparable sales is acceptable. Generally, the appraiser should use comparable sales that have been settled or closed within the last six months. However, the appraiser may use older comparable sales as additional supporting data if he or she believes that it is appropriate. The appraiser must comment on the reasons for using comparable sales that are more than six months old. If the subject property is located in a declining market, the comparable sales must be dated within 90 days of the date of the appraisal.

The appraiser's analysis of a property must take into consideration all factors that have an impact on value, recognizing that a well- informed or well-advised purchaser will pay no more for a property than the price he or she would pay for a similar property of equal desirability and utility if it were purchased without undue delay. To accomplish this, the appraiser must analyze the closed or settled sales, the contract sales, and the current listings of properties that are the most comparable to the subject property. This is particularly important in soft or declining markets because the competing current listings and contracts probably reflect the upper-end of value for the subject property as of the effective date of the appraisal, and we expect appraisers to accurately report and reflect market conditions as of that date.

Appraisal Review (continued)

Sales Comparison Approach (continued)

The comparable market data must be verified, analyzed, and adjusted for differences between the comparable properties and the subject property. Because the appraiser's estimate of market value is no better than the reliability of the comparable data that is used, the appraiser must exercise due diligence to ensure the reliability of the comparable sales data that he or she uses. The appraiser must report the data and/or verification source(s) for each comparable sale on the appraisal form. An appraiser may use a single source for the data and verifications or multiple sources if they are needed to adequately verify the comparable sales. The quality of the data available varies from source to source and from one locality to another.

On the other hand, if the appraiser's basic data source does not confirm or verify the sales data, the appraiser will need to use additional sources. When comparable sales data is provided by a party that has a financial interest in either the sale or financing of the subject property, the appraiser must re-verify the data with a party who does not have a financial interest in the subject transaction.

The USDA Certified Underwriter should thoroughly review the "sales comparison analysis" adjustment grid. The sales comparison analysis provides many places in which an error can be made in the use of dollar adjustments. A spot check must always be made of the positive and negative adjustment calculations. Errors in arithmetic may have a significant effect on the value conclusion and, therefore, must be corrected by the appraiser. The following key items are considered in the review and analysis of the sales comparison approach:

Proximity to Comparable Sales to the Subject:

The description of the comparable's proximity to the subject property must be specific (e.g., two blocks south). Whenever possible, the appraiser should use comparable sales in the same neighborhood and/or as the subject property because the sales prices of comparable properties in the neighborhood should reflect the same positive and negative location characteristics. Generally, comparable sales should not be more than one mile from the subject.

Sales Price:

The sales price of each comparable sale should be within the general range of the estimate of market value for the subject property. A $100,000 comparable sale for a $75,000 subject property may raise questions about the validity of the comparable.

Comparable Sales Inside and Outside New and Established Projects:

For properties that are in established subdivisions or for units in established condominium or PUD projects (those that have resale activity), the appraiser should use comparable sales from within the subject property's subdivision or project if there are any available. Resale activity from within the subdivision or project should be the best indicator of value for properties in the subdivision or project. If the appraiser uses sales of comparable properties that are located outside of the subject neighborhood, an explanation must be included with the analysis.

For properties in new subdivisions or for units in new (or recently converted) condominium or PUD projects, the appraiser must compare the subject property to other properties in its general market area as well as to properties within the subject subdivision or project. This comparison should help demonstrate market acceptance of new developments and the properties within them. Generally, the appraiser should select one comparable sale from the subject subdivision or project and two comparable sales from outside the subject subdivision or project.

Appraisal Review (continued)

Sales Comparison Approach (continued)

In selecting the comparables, the appraiser should keep in mind that sales or re-sales from within the subject subdivision or project are preferable to sales from outside the subdivision or project as long as the developer or builder of the subject property is not involved in the transactions

Value Adjustments:

Comparable sales must be adjusted to the subject property; except for sales and financing concessions, which are adjusted to the market at the time of sale. The subject property is the standard against which the comparable sales are evaluated and adjusted.

The appraiser must describe property characteristics using specific, factual, and detailed language. The appraiser must use numerals whenever possible (e.g., for lot size, age of improvements, etc.). Clear descriptions (such as good, average, fair or poor) must be used to provide consistency between the property and the comparable sale.

If an item in the comparable property is superior to that in the subject property, a negative (-) adjustment is required to make that item equal to that in the subject property. Conversely, if an item in the comparable property is inferior to that in the subject property, a positive (+) adjustment is required to make that item equal to that in the subject property.

If the appraiser's adjustments do not fall within the net and gross percentage adjustment guidelines, but the appraiser believes that the comparable sales used in the analysis are the best available, as well as the best indicators of value of the subject property, the appraiser must provide an appropriate explanation.

- **Number of Adjustments**

  The need for numerous adjustments indicates the comparable sale is not similar to the subject property. This decreases the validity of the comparable sale. In some circumstances, the use of comparable sales with higher-than-normal adjustments may be warranted. The appraiser must satisfactorily justify their usage.

- **Sales or Financing Concessions/Contributions**

  Appraisers are required to identify and report sales concessions and properly address and / or adjust the comparable sale transactions to account for sales concessions. Sales concession influence the price paid for real estate and may be paid in many forms. The appraiser must be provided with all financing data and sales concessions, even if the concession is in a form not normally included in the sales agreement, such as a gift or down payment assistance.

  The dollar amount of sales or financing concessions paid by the seller must be reported for the comparables if the information is reasonably available. Generally, sales or financing data for comparable sales, such as the mortgage amount, loan type, interest rate, term, and any fees or concessions the seller paid--is available. The appraiser should obtain this information from an individual who was a party to the comparable transaction (the broker, buyer, or seller) or from a data source that the appraiser considers to be reliable. There may be some situations in which sales or financing information is not available because of legal restrictions or other disclosure-related problems. In such cases, the sale should not be used as market data.

Appraisal Review (continued)

Sales Comparison Approach (continued)

Examples of sales or financing concessions include interest rate buy downs or other below-market rate financing; loan discount points; loan origination fees; closing costs assistance for costs customarily paid by the borrower; payment of condominium or PUD association fees; builder incentives, down payment assistance, monetary gifts or personal property, refunds of (or credit for) the borrower's expenses; absorption of monthly payments; assignment of rent payments; and the inclusion of non-realty items in the transaction given by the seller or any other party to the transaction.

Adjustments must be considered for different types of sales or financing concessions. Positive adjustments for sales or financing concessions are not acceptable. For example, if local tradition or law results in virtually all of the property sellers in the market area paying a 1% loan origination fee for the purchaser, and a property seller in that market did not pay any loan fees or concessions for the purchaser, the sale would be considered as a cash equivalent sale in that market. The appraiser should recognize comparable sales that sold for all cash or with cash equivalent financing and use them as comparables if they are the best indicators of value for the subject property. Such sales can also be useful to the appraiser in determining those costs that are normally paid by sellers as the result of tradition or law in the market area.

The amount of the negative adjustment to be made to each comparable with sales or financing concessions is equal to any increase in the purchase price of the comparable the appraiser determines to be attributable to the concessions. The need to make negative adjustments and the amount of the adjustments to the comparables for sales and financing concessions are not based on how typical the concessions might be for a segment of the market area. However, large sales concessions can be relatively typical in a particular segment of the market and still result in sale prices that reflect more than the value of the real estate.

Adjustments based on mechanical, dollar-for-dollar deductions that are equal to the cost of the concessions to the seller (as a strict cash equivalency approach would dictate) are not appropriate. The effect of the sales concessions on sales prices can vary with the amount of the concessions and differences in various markets. The adjustments must reflect the difference between what the comparables actually sold for with the sales concessions and what they would have sold for without the concessions so that the dollar amount of the adjustments will approximate the market's reaction to the concessions.

- **Date of Sale/Time Adjustments**

  The appraiser should provide the date of the sales contract and the settlement or closing date for each comparable sale. Unless the appraiser believes that the exact date is necessary to understand the adjustments, only the month and year of the sale need to be reported. If the appraiser does not report both the contract date and the settlement or closing date, he or she must identify the reported sale date as either the contract date or the settlement or closing date. If the appraiser reports the contract date only, he or she must state whether the contract resulted in a settlement or a closing.

Appraisal Review (continued)

Sales Comparison Approach (continued)

The appraiser must minimize adjustments made due to the difference in time of the comparable sale from the subject property sale. The adjustments must reflect the difference in market conditions between the date of sale of the comparable and effective date of appraisal for the subject property. If used, the comparable sales must be supported by documents that reflect the differences were warranted. For example, positive adjustments for the time of sale must have a correlated rating in the Neighborhood section showing increasing property values. Additionally, the appraiser must explain the appreciation that has taken place, how long is has been experienced, and whether it can be expected to continue. The appraiser must also describe the conditions causing it.

- **Above-Grade Room Count & Gross Living Area**

  Only finished above-grade areas should be included in calculation of gross living area. The appraiser should report the basement and other partially below-grade areas separately and adjust them accordingly. The room count should be similar for the subject property and all comparables. For example, a four bedroom comparable sale generally is not acceptable to support the value of a two bedroom subject property. The appraiser must address large differences between subject property and comparable sales, since they raise doubts about the validity of the comparables as good indicators of value. Adjustments for differences in square footage must be realistic for the marketplace.

- **Bracketing**

  The appraiser must choose comparables that bracket the square footage (GLA) of the subject. Ideally, one of the comparables should be a little larger (200 square feet to 300 square feet); another a little smaller; and a third should be approximately the same size (generally 100 square feet of the subject). The appraiser should not select comparables by sales price.

- **Total Adjustments (Net & Gross)**

  There are established guidelines for the net and gross percentage adjustments that are relied upon to determine whether a property should be used as a comparable sale. Generally, the dollar amount of the net adjustments for each comparable sale should not exceed 15% of the comparable's sales price. When the adjustments exceed 15%, the appraiser must comment on the reasons for not using a more similar comparable. Further, the dollar amount of the gross adjustments for each comparable sale should not exceed 25% of the comparable's sales price. The amount of the gross adjustment is determined by adding all individual adjustments without regard to the positive or negative adjustments. When the adjustments exceed 25%, the appraiser must comment on the reasons for not using a more similar comparable. Line adjustments should not exceed 10%. Individual adjustments that are excessively high should be explained by the appraiser and reviewed carefully by the USDA Certified Underwriter.

Appraisal Review (continued)

Cost Approach

The estimated reproduction cost of improvements must not be completed for existing construction; however, the estimated value of the site must still be entered. If the subject property is proposed construction or existing construction under one year of age, the Marshall and Swift Form 1007 is to be completed and attached and the box is to be completed using the figures from Marshall and Swift calculations.

Under "Comments on Cost Approach", the appraiser must indicate, for existing, proposed, or under construction, that the property conforms to applicable minimum HUD standards. If it does not conform, the appraiser must reject the property and explain. If the required repairs or corrections permit the property to "conform to HUD standards," the appraiser should state that the property conforms to minimum / maximum HUD standards.

In addition, a sketch of all improvements (house, garage, outbuildings) must be prepared on a separate page and attached to the Uniform Residential Appraisal Report (Fannie Mae form 1004). The appraiser should note in the "Comments on Cost Approach" box, See attached summary property sketch. The sketch should show the gross living area above grade for the house and the area of the garage if attached. The sketch should include all exterior dimensions of the house as well as patios, porches, garages, breezeways and other offsets. The appraiser should enter "covered" or "uncovered" to indicate a roof or no roof, such as over a patio.

Remaining Economic Life:

The estimated remaining economic life must be shown in the "Comments on Cost Approach" space. The remaining economic life of a property is the estimated period over which the improvements will continue to contribute to the value of the property, or the estimated period in which the improvements increase the value of the property above that for the vacant site provided the improvements receive normal maintenance.

Value Influences:

There are four basic forces that influence real property values:

- Social standards
- Economic factors
- Government controls
- Environmental conditions

Because these forces may result in a change in the improvement's' contribution to value, estimating the remaining economic life of a property can be difficult. Therefore, the appraiser should emphasize the overall quality and design of the improvements and the attitudes of typical purchasers in the subject market area. The appraiser may state the remaining economic life as a single figure or as a range, if more appropriate.

Appraisal Review (continued)

Income Approach

The income Approach to value is based on the assumption that market value is related to the market rent or income that a property can be expected to earn. Appraisals relying on the Income Approach as a sole indicator of market value are not acceptable. Its use is generally appropriate in neighborhoods of single-family properties when there is a substantial rental market, and is required for all three-to four- unit properties. When used, the appraiser must show the gross rent from each of the comparables at the bottom of the form under "Final Reconciliation".

The value indicated by the Income Approach, if considered applicable by the appraiser, must be derived by the gross rent multiplier technique using economic market rent.

- Estimated market rent is based on an analysis of comparable rentals in the neighborhood. After appropriate adjustments are made to the comparables, their adjusted (or indicated) values are reconciled to develop an estimated monthly market rent for the subject property.
- The gross rent multiplier is determined by dividing the sales prices of comparable properties that were rented at the time of sale by their monthly market rent, which is then reconciled to create a single gross rent multiplier (or a range of multipliers) for the subject property.

If the Income Approach is not used, the appraiser should draw a line through the words "Indicated Value by Income Approach (if applicable)" and enter the estimated market rent. The rest of the line items should be marked "N/A".

Reconciliation

The reconciliation process that leads to the estimate of market value is an on-going process throughout the appraiser's analysis. The final reconciliation is not an averaging technique, rather it is a process used by the appraiser to explain the reasonableness of each approach and its applicability to the final estimate of value.

The appraiser must indicate whether the appraisal is made "as is", "subject to repairs, alterations, or conditions listed", or "completion per plan and specifications". The "as is" value should be used only if there are no repairs or inspections required or if the property is being rejected.

NATURAL DISASTERS

Overview

When natural disasters occur (e.g. hurricanes, tropical storms, tornadoes or other severe storms) steps must be taken to ensure that the security on each loan is protected.

Once a disaster is declared, FEMA announces which counties are considered disaster areas under Designated Counties at **www.fema.gov**. CMS will update their Disaster Site and it is the responsibility of the client to check the site for updates.

The following guidelines apply when a property is located in a Federally Declared Major Disaster Area as defined by FEMA:

Properties Located in Federally Declared Major Disaster Areas

If the property inspection was completed prior to the incident date of the natural disaster, a re-inspection or inspection will be required. These requirements apply to all Loans regardless of appraisal requirements. Regardless of whether or not the transaction requires an appraisal, an inspection will be required up to and including 90 days from the date the natural disaster occurred. There may be situations where a longer timeframe may be instituted.

The inspection or re-inspection must be a condition of the loan closing.

Inspection Requirements

An appraiser, engineer, architect, qualified home inspector or an employee of the Client may perform the special property inspection. Attach photographs of the subject property to the Special Disaster Inspection Certification. The individual who performs the inspection should review the original appraisal report and be able to certify that his or her personal inspection of the building revealed no indications of significant disaster related damages. The inspector's Special Disaster Inspection Certification must address the physical condition of the site and improvements; it does not need to address value trends. If the condition of the subject property is acceptable, the value conclusion made prior to the disaster.

Natural Disasters (continued)

Inspection Requirements (continued)

Special Disaster Inspection Certification Alternatives:

The following forms may also be used for this certification along with a photograph of the subject property:

- Appraisal Update and/or Completion Report (Fannie Mae form 1004D/Freddie Mac form 442)
- Uniform Residential Appraisal Reports (Fannie Mae form 1004/Freddie Mac form 70)
- Drive-by Appraisal (Fannie Mae/Freddie Mac form 2055). In any situation where the appraiser notes defects in the exterior inspection, a full Fannie Mae form 1004/Freddie Mac form 70 appraisal report with an interior and exterior inspection is required
- Individual Condominium or PUD Unit Appraisal Report (Fannie Mae form 1073/Freddie Mac form 465)
- Special Disaster Inspection Certification may take the form of a letter on the qualified individual's letterhead bearing an original signature. The letter is required to contain the language indicated in the Special Disaster Inspection Certification Instructions
- Standard form used by the property inspector providing it clearly identifies the name, address, and qualifications of the inspector, contains the information required in the Special Disaster Inspection Certification, and bears an original signature

Properties with Significant Damage:

If a property was significantly damaged and an appraiser performed the property damage inspection, the property must be re-inspected by a qualified home inspector, or an engineer to assess the nature and degree of the damage. A significantly damaged property must be repaired before the loan is closed if the damage affects the structural integrity or livability of the property, as determined by the inspector.

Properties with Minor Damage:

Repairs will not be required for a property with minor damage not affecting the structural integrity or livability of the property. Appraisers must certify that value “as is” and that property still meets USDA Minimum Standards.

CMS’ investors will not finance delinquent loans.

Escrow Accounts

Repair escrows are not permitted.

ADDENDUM A - CREDIT MATRIX

Credit Alert Verification Reporting System (CAIVRS)

CAIVRS is a Federal government wide repository to file and report delinquent and/or defaulted claims on individuals that were paid on their behalf.

CAIVRS may return the following results:

- A: Approved by CAIVRS (no issues exist)
- B: Multiple cases from one or more Federal agencies
- C: Claim filed
- D: Default on loan
- F: Foreclosure of loan
- J: Judgment filed

An "A" response is the only acceptable result for an applicant to be eligible for a guaranteed loan.

CAIVRS in GUS:

- GUS will automatically retrieve the CAIVRS response for each applicant when the Borrower Information application page is saved. If the automatically retrieved CAIVRS response is not an "A" response, the lender must obtain evidence of an "A" CAIVRS response outside of GUS. This documentation must be uploaded as part of a complete loan application submission of the GUS application to USDA. The CAIVRS response cannot be overwritten or revised within GUS. USDA will retrieve and confirm an "A" CAIVRS response when the loan file is processed in the Agency's internal Guaranteed Loan System (GLS).
- If the CAIVRS system is unavailable at the time the lender initially completes the Borrower Information Application page, the user may manually retrieve the CAIVRS response by accessing the GUS Assets and Liabilities Page, under the CAIVRS Information section. Lenders can select the HUD CAIVRS hyperlink to access the CAIVRS website directly. The CAIVRS number retrieved in this manner must be manually entered into the applicable CAIVRS Number block.

Manually Submitted Files without GUS:

- Lenders must obtain and document an eligible CAIVRS response and include this evidence in a complete loan submission to USDA.

All Guaranteed Loans:

CAIVRS is not the only source to report a delinquent Federal debt. A delinquent Federal debt identified on the credit report, public records, or equivalent, must be investigated by the lender to determine if the debt is valid, paid in full, or the creditor has issued a release of liability. An applicant with a delinquent non-tax Federal debt is ineligible for a guaranteed loan.

Addendum A - Credit Matrix (continued)

Credit Scores and Validation

A credit score is a statistical number that evaluates an applicant's creditworthiness based on their credit history. The credit score considers payment history, amounts owed, percentage of credit used, length of credit history, types of credit, and newly acquired credit.

GUS Loans: GUS will determine the acceptable credit score to be used for the underwriting recommendation for Accept, Refer, and Refer with Caution recommendations.

GUS Accept/Accept with Full Documentation files: No credit score validation required.

Manually Underwritten Loans without GUS: Lenders must select the middle of three scores, the lower of two (a repeating score may be used), or the single reported score. A credit report with no score must refer to non-traditional tradeline requirements.

Validate Credit Score - GUS Refer, Refer with Caution, and Manually Underwritten files: One applicant whose income and/or assets is used to originate the loan must have a validated credit score. This applicant must have two tradelines on the credit report that have been/were/are open for 12 months based on the date the account was opened as stated on the credit report. A validated score does not indicate the applicant has an acceptable credit history. A validated score confirms that one applicant has an eligible minimum credit history.

The following tradelines are eligible to validate the credit score and may be open, closed, and/or paid in full: loans (secured/unsecured), revolving accounts, installment loans, credit cards, collections, charge-off accounts, etc.

Lenders may use an authorized user account to validate the credit score when one of the following is met:

- The tradeline is owned by another applicant on the mortgage loan application;
- The owner of the tradeline is the spouse of the applicant; or;
- The applicant can provide evidence that they have made payments on the account for the previous 12 months prior to loan application.

Public records (bankruptcy, foreclosure, tax liens, judgments, etc.), disputed, and self-reported accounts are ineligible tradelines for credit validation.

Common Scenarios:

A. Only one eligible tradeline on the credit report? Non-traditional tradelines may be verified to meet the cumulative tradeline number requirement.
B. No eligible tradelines on the credit report? One applicant whose income or assets are used to underwrite the loan must have an eligible non-traditional credit history.

Refer to the Nontraditional credit section of this matrix for guidance. GUS Refer, Refer with Caution, and manually underwritten files are not eligible for debt ratio exceptions if:

1. There is not one applicant with a validated score using traditional tradelines on the credit report, or
2. The file requires non-traditional credit tradelines.

Addendum A - Credit Matrix (continued)

Credit Inquiries/ Recent Debts/ Undisclosed Debts

A credit inquiry is a request by an institution for credit report information. A hard inquiry is requested when an applicant is seeking credit and completes a credit application. Hard inquiries are typically listed on the credit report and factored into the credit score. A soft inquiry is not included on the credit report and does not result in a new credit/debt. Soft inquiries may include a free annual credit report, companies developing marketing lists, prequalification offers, etc.

Inquiries for credit made by the applicant(s) 90 days before the date of the credit report must be investigated to determine if new credit accounts were opened. Lenders must retain documentation in their permanent loan file to support newly identified debts.

GUS Accept/Accept with Full Documentation files: New installment or revolving accounts that are not reflected on the credit report in GUS must be manually entered on the GUS Assets and Liabilities page under the Liabilities – Credit, Cards, Other Debts and Leases that You Owe section. No downgrade is required.

GUS Refer, Refer with Caution, and Manually underwritten files: New installment or revolving accounts that are not reflected on the credit report in GUS must be manually entered on the GUS Assets and Liabilities page under the Liabilities – Credit, Cards, Other Debts and Leases that You Owe section or on the loan application for non-GUS loans.

Credit Exceptions

Credit repayment issues do not always reflect an inability or unwillingness to meet financial obligations. When evidence of significant derogatory credit is present, lenders may consider extenuating circumstances and determine if the applicant is creditworthy. The lender's underwriter must use prudent underwriting judgment to evaluate loan requests that include significant derogatory credit. Refer to guidance in this Chapter to determine if a credit exception is required.

GUS Accept/Accept with Full Documentation files - No credit exception required: GUS has determined the credit is an acceptable risk. Confirm the GUS Declarations page is accurately completed for each applicant.

GUS Refer, Refer with Caution, manually underwritten files: The credit exception must include the lender's documented rationale on the underwriting transmittal summary or similar underwriting form. The rationale must meet the following:

- The circumstances that led to the derogatory credit were temporary in nature, beyond the applicant's control, and due to the current employment/financial/health of the household are unlikely to recur. Examples include but are not limited to temporary loss of job/unemployment, delay or reduction in benefits, illness, divorce, dispute over payment for defective goods or services, etc.;
- The approved lender must explain their rationale for issuing the credit exception (identified compensating factors, etc.) and why the applicant(s) remains an acceptable credit risk; and
- The applicant must provide documentation to the approved lender for their permanent loan file that supports the extenuating circumstances. The documentation is not required to be submitted to USDA.

USDA does not approve the lender's credit exception. Lenders are responsible for their credit decision. Previous USDA losses, delinquent non-tax Federal debts, delinquent child support, and ineligible CAIVRS results are not eligible for lender approved credit exceptions.

Addendum A - Credit Matrix (continued)

Non-Traditional Credit

Applicants that do not have the required traditional credit history, a validated credit score, or no credit score may document their willingness to pay debt obligations through alternate sources. The use of a non-traditional credit history is not a reason to deny a loan.

Applicants with a 12-month Verification of Rent (VOR): Two tradelines are required: The VOR plus one additional tradeline. This tradeline must be an eligible traditional tradeline from the credit report with a 12-month history or an eligible non-traditional tradeline.

Applicants with no rent history: Three tradelines are required. Tradelines may be a combination of traditional tradelines from the credit report with 12-month history or eligible non-traditional tradelines.

Non-traditional credit may be documented as 1. A Non-Traditional Mortgage Credit Report (NTMCR), 2. Self-Reported tradelines on a traditional credit report, or 3. Evidence from third party verifications, canceled checks, money order receipts, electronic payments, payment histories from the creditor/company, bank statements that clearly identify debit payments for the service/product, etc.

An eligible non-traditional tradeline must have a 12-month history and cannot have been closed more than 6 months prior to loan application. Examples of acceptable non-traditional credit sources include but are not limited to:

- Rent or housing payments
- Utility services: gas, electric, water, land-line telephone service, or cable TV (services should not be included in rent payments)
- Insurance payments: automobile, life, household, renter's insurance, medical supplements. Premiums paid through payroll deduction for employee offered coverage of plans are ineligible. Premiums paid quarterly or annually are acceptable when the payment(s) provide 12 months of coverage.
- Childcare: licensed childcare providers may provide documentation to support the date of enrollment, dates of fees paid, etc. Bank statements to support cash withdraws or handwritten receipts are not acceptable.
- School tuition
- Payments to local stores (car dealerships, department/furniture/appliance stores, specialty stores)
- Payments for uninsured portions of medical bills
- Internet or cell phone services
- Automobile leases
- Personal loans with repayment terms in writing, supported with canceled checks, money order receipts, or electronic payment receipts
- 12 month documented history of savings that demonstrate regular deposits which equal three months of proposed mortgage (PITI) payments that will be retained as cash reserves post-closing
- Any other reference that gives insight into the applicant's willingness to make periodic payments on a regular basis for recurring credit obligations.

Child support, alimony, garnishments, court ordered debts, monthly subscription services, gym memberships, etc. are not eligible non-traditional credit tradelines.

Applicant's that utilize non-traditional credit to qualify for a guaranteed loan are not eligible for debt ratio waivers.

Addendum A - Credit Matrix (continued)

Recent / Undisclosed Debts / Increased Balance of Existing Debts Identified after a Conditional Commitment is Issued

Lenders may discover new debt(s)/increased payments of existing debts/etc. after USDA issues a Conditional Commitment (Form 3555-17/17E) but prior to loan closing. These debts/payment amounts were not part of the loan application submitted to USDA. Examples of these debts include but are not limited to installment debts, revolving credit lines, real estate taxes, final homeowner's insurance premiums, etc.

Cumulative debt amount of $50 or less:

When the additional monthly amount(s) of the new/increased debt(s) does not exceed $50, the lender may retain the issued Conditional Commitment. The lender must retain all documentation to support the new/increased debt(s) and payment(s) in the permanent loan file. No further action is required.

Cumulative debt amount $51 or more:

Lenders must request the GUS loan to be released by USDA. Lenders must enter the new/increased debt(s) and payment amount(s). The lender must retain all documentation to support the data entries. A new preliminary underwriting submission must be completed to confirm the GUS underwriting recommendation. Lenders must upload documentation as applicable and complete a new final underwriting submission to USDA. USDA will issue a new Conditional Commitment. Lenders cannot close loans without a valid Conditional Commitment.

ADDENDUM B - CREDIT ACCOUNTS AND ADVERSE CREDIT

Authorized User Accounts (AU)

An authorized user is a person who has permission to use another person's credit card/line of credit but is not legally responsible for payment of the debt.

Lenders are not required to include monthly payments for an AU account in an applicant's debt ratio. A closed AU account requires no consideration. An AU account that is classified as "terminated" is considered a closed tradeline.

Lenders may continue to include the monthly debt at their discretion if they determine the applicant is making the payment.

AU accounts and credit score validation for GUS Refer, Refer with Caution, and manually underwritten loans is addressed in the Credit Scores and Validation section.

Chapter 7 Bankruptcy (BK)

Chapter 7 of Title 11 of the U.S. bankruptcy code controls the process of asset liquidation. A trustee is appointed to liquidate nonexempt assets to pay creditors. After the proceeds are exhausted, the remaining debt is discharged.

A Chapter 7 BK discharged or dismissed more than 36 months at the time of loan application is not considered adverse credit.

GUS Accept/Accept with Full Documentation files:

GUS may render an Accept underwriting recommendation for loan files that have been discharged from Chapter 7 BK less than 36 months. No credit exception is required.

Addendum B - Credit Accounts and Adverse Credit (continued)

Chapter 7 Bankruptcy (continued)

GUS Refer, Refer with Caution, and manually underwritten files:

The approved lender may determine the applicant(s) is creditworthy when their Chapter 7 BK has been discharged less than 36 months. A credit exception must be documented and submitted with the loan file. Refer to the Credit Exception section for guidance.

Chapter 7 BK that includes a mortgage:

If the Chapter 7 BK absolved a mortgage debt, the applicant is not legally liable to repay unless the debt was reaffirmed. Foreclosure action post BK discharge is against the property, not the applicant, to allow the lender to obtain title. However, until the property is fully titled to the lender, the applicant remains responsible for real estate taxes, home insurance premiums, HOA fees, special assessments, and similar debts.

Include applicable items in the debt ratio unless evidence confirms the applicant is no longer in ownership. Lenders must retain documentation in their permanent loan file.

Chapter 11, 12 or 13 Bankruptcy (BK)

Chapter 11, 12 and 13 U.S. bankruptcy proceedings allow the debtor to reorganize their finances and debt payments under the supervision and approval of the court. An impartial trustee consolidates the debt and distributes money to each creditor.

Plan in Progress - GUS Accept/Accept with Full Documentation files:

Confirm all payments for the Chapter 11, 12 or 13 BK are included on the Asset and Liabilities application page. GUS may render an Accept underwriting recommendation. No downgrade is required due to the manual entry of the monthly BK payment. No credit exception is required.

Plan in Progress - GUS Refer, Refer with Caution, and manually underwritten files:

An applicant with a Chapter 11, 12 or 13 BK in progress must meet the following:

- Lender must document 12 months of debt restructure plan has elapsed;
- All required payments have been made on time; and
- The applicant has written permission from the bankruptcy court/trustee to enter into a mortgage transaction. If the bankruptcy court/trustee does not review or issue permissions, the creditor may determine if the applicant is an acceptable credit risk.

Confirm all payment amounts for the Chapter 11, 12 or 13 BK are included on the Asset and Liabilities application page in GUS or on the loan application. No credit exception is required.

Completed Plan - GUS Accept/Accept with Full Documentation files:

No credit exception is required.

Completed Plan - GUS Refer, Refer with Caution, and manually underwritten file:

Plans completed 12 months prior to loan application require no further documentation. No credit exception is required.

Addendum B - Credit Accounts and Adverse Credit (continued)

Charge-Offs

A charge-off is a debt that was determined unlikely to be collected by the creditor due to substantial delinquency. Creditors may sell the debt to a collection company or pursue a judgment against the borrower if the statute of limitations has not expired to collect the debt. This adverse credit is reflected in the credit score.

The approved lender's underwriter must review all charge-off accounts and determine if the applicant(s) is an acceptable credit risk, regardless of GUS underwriting recommendation. USDA does not require charge-off accounts to be paid.

If the applicant has a repayment plan with the creditor for a charged off debt, include the payment in the Asset and Liabilities GUS application page or on the loan application.

GUS Accept/Accept with Full Documentation files: No credit exception is required.

GUS Refer, Refer with Caution, and manually underwritten files: No credit exception is required.

Collections

A collection is a debt that has been assigned/sold to a third-party debt collection agency due to negligent payment of the borrower. This adverse credit is reflected in the credit score.

The approved lender's underwriter must review all collection accounts and determine if the applicant(s) is an acceptable credit risk, regardless of GUS underwriting recommendation. USDA does not require medical collection accounts to be paid.

If the cumulative total of all non-medical collections exceeds $2,000, the following options will apply:

1. Require payment in full of these accounts prior to loan closing;
2. Use an existing repayment agreement or require payment arrangements be made with documentation from the creditor and include the monthly payment; or
3. Include 5 percent of the outstanding balance as the monthly liability amount, no further documentation required.

All open collection accounts on the credit report must be listed on the GUS Assets and Liabilities page under the Liabilities – Credit Cards, Other Debts, and Leases that You Owe section and/or on loan application.

GUS Data Entry:

- Collections that will be paid at or before loan closing should select the "To be paid off at or before closing" checkbox.
- If the collection is not required to be paid in full, the lender should select the "Omit" checkbox and provide an explanation in the additional data entry pop up box to state why the debt will be omitted from ratio consideration.

If a repayment agreement has a specified monthly payment, include that amount. Do not enter "$1.00" in the monthly payment data field unless this is a documented repayment amount.

GUS Accept/Accept with Full Documentation files: No credit exception is required.

GUS Refer, Refer with Caution, and manually underwritten files: No credit exception is required.

Addendum B - Credit Accounts and Adverse Credit (continued)

Consumer Credit Counseling – Debt Management Plans

Credit counseling provides guidance and support to consumers which may include assistance to negotiate with creditors on behalf of the borrower to reduce interest rates, late fees, and agree upon a repayment plan. The credit score will reflect the degradation of credit due to participation in this plan. Credit accounts that are included in the repayment plan may continue to report as delinquent or as late pays. This is typical and will not be considered as recent adverse credit. Lenders must retain documentation to support the accounts included in the debt management plan and the applicable monthly payment. Lenders must include the monthly payment amount due for the counseling plan in the monthly liabilities.

GUS Accept/Accept with Full Documentation files:

No credit exception is required.

GUS Refer, Refer with Caution, and manually underwritten files:

The following must be documented and retained in the lender's permanent loan file:

- One year of the payment period of the debt management plan has elapsed;
- All payments have been made on time; and
- Written permission from the counseling agency to recommend the applicant as a candidate for a new mortgage loan debt.
- No credit exception is required

Delinquent Court Ordered Child Support

An applicant that is delinquent on court ordered child support is ineligible for a guaranteed loan unless the applicant has an approved repayment agreement in place with three timely payments made prior to loan closing, the arrearage is paid in full prior to loan closing, or a release of liability is documented.

Delinquent Federal Non-Tax Debt

A non-tax Federal debt is a debt owed to the U.S. Federal Government other than Federal income taxes. Federal debts are typically discovered when the lender reviews the Credit Alert Verification Reporting System (CAIVRS) result, credit report, public records, or equivalent.

An applicant with a delinquent Federal non-tax debt is ineligible until the debt is paid in full or a release of liability is documented.

Federal Taxes

Federal taxes are due each year on the date determined by the Internal Revenue Service (IRS). Taxpayers who owe taxes and do not pay in full by the filing date are determined delinquent by the IRS.

Repayment Plans:

An applicant with delinquent Federal tax debt is ineligible unless they have a repayment plan approved by the IRS. A minimum of three timely payments must have been made. Timely is defined as payments that coincide with the approved IRS repayment agreement. The applicant may not prepay a lump sum at one time to equal three monthly payments to meet this requirement. The lender must retain evidence of the repayment agreement and payment history in their permanent file. No credit exception is required.

Addendum B - Credit Accounts and Adverse Credit (continued)

Federal Taxes (continued)

Approved Extension:

An IRS approved extension to file a tax return does not grant the applicant additional time to pay their taxes due. Applicants must pay their estimated income tax due by the IRS filing date or they are determined delinquent by the IRS. An applicant that has owed taxes on previous filed return(s) exhibits a pattern of taxes due, therefore an estimated tax payment must be made to the IRS by the specified deadline. The applicant may file their return at a later date and remain eligible for a guaranteed loan. An applicant that has received tax refunds for previous filed return(s) may remain eligible with no estimated tax payment due to the IRS because they would not be determined delinquent. The applicant will remain eligible for a guaranteed loan.

Failure to File:

Applicant's that are required to file taxes but have failed to do so for the current or previous years by required IRS due dates without approved extensions and/or required tax payments as determined by the IRS are ineligible

Disputed Accounts: Non-Derogatory

A disputed account occurs when the applicant questions the validity of a transaction registered to the account. When a dispute is submitted to a creditor, a review is completed to determine if the debt continues to be due from the applicant. Most disputes are reviewed and finalized within 90 days.

GUS Accept/Accept with Full Documentation files:

A GUS Accept recommendation may be retained if any of the following are met:

- The disputed tradeline has a zero balance;
- The disputed tradeline states "paid in full" or "resolved" on the credit report;
- The disputed tradelines are 24 months or greater;
- The disputed tradeline is current and paid as agreed;
- The payment stated on the credit report is included in the monthly debts;
- A documented payment from the creditor is included in the monthly debts; or
- Five percent of the stated account balance on the credit report is included in the monthly debts.

GUS Refer, Refer with Caution, and manually underwritten files:

The applicant must provide the lender with applicable documentation to support the reason and basis of their dispute with the creditor. Lender's must determine the impact of the disputed account on the repayment of the proposed mortgage debt. Each account must include the payment stated on the credit report, five percent of the balance of the account, or a lesser amount documented from the creditor. **No credit exception is required.**

Addendum B - Credit Accounts and Adverse Credit (continued)

Disputed Accounts: Derogatory

Disputed derogatory accounts that must be considered are non-medical collections and accounts with late payments in the last 24 months. For all loan types, the lender may exclude the following:

- Disputed medical accounts/collections;
- Charged off accounts,
- Disputed derogatory accounts that are the result of identity theft, credit card theft, or unauthorized use when evidence (police report, attorney correspondence, creditor statement) is provided to support the applicant's explanation; or
- Accounts of a non-purchasing spouse in a community property state.

GUS Accept/Accept with Full Documentation files: No credit exception is required.

GUS Accept files with less than $2,000 in disputed derogatory accounts will require the lender to determine if the disputed accounts may impact the applicant's ability to repay the proposed mortgage obligation.

Each account (excluding those listed above) must include a minimum monthly payment of:

1. The payment stated on the credit report. if no payment listed, use
2. Five percent of the balance of the account, or
3. A lesser amount documented from the creditor.

GUS Accept/Accept with Full Documentation files must be downgraded to a Refer when the applicant has $2,000 or more collectively in disputed derogatory accounts in the last 24 months.

Refer, Refer with Caution and manually underwritten files: No credit exception is required.

The lender must analyze the potential impact to the applicant's ability to repay the proposed mortgage debt with disputed derogatory accounts. Each account (excluding those listed above) must include a minimum monthly payment of:

1. The payment stated on the credit report,
2. Five percent of the balance of the account, or
3. 3. A lesser amount documented from the creditor.

Garnishments

A garnishment is a legal process that instructs a third party to deduct payments directly from a debtor's wage or bank account for defaulted payments. A garnishment may be deducted by the debtor's employer and disclosed on earnings statements.

Garnishments must be included in the debt ratio. Garnishments manually added to the Asset and Liabilities GUS application page will not result in a manual downgrade of a GUS Accept/Accept with Full Documentation file underwriting recommendation. Review the debt type paid through the garnishment to ensure the applicant remains eligible for a guaranteed loan.

Addendum B - Credit Accounts and Adverse Credit (continued)

Non-Federal Judgment

A judgment is a formal decision made by a court following a lawsuit. The judgment is a legally enforceable court order which could result in various methods to collect the debt.

Court ordered judgments must be paid in full or have evidence of three timely payments made per an agreement with the creditor. Include the monthly payment (if applicable) in the debt ratio. A GUS Accept/Accept with Full Documentation file is not required to be downgraded due to the manual entry of the payment.

Confirm the Declarations in GUS and/or the loan application accurately reflect the presence of a judgment.

Non-Purchasing Spouse Debts (NPS)

Lenders must follow applicable community property state (CPS) lending laws when the applicant(s) and/or property reside in a CPS. The credit history of the NPS is not a reason to deny a loan application. Lenders are responsible to know CPS laws and requirements for the treatment of NPS debts.

The credit report for the NPS must be obtained outside of GUS and uploaded along with the complete loan submission. The NPS debts will be manually entered in GUS by the lender as required by law. Lenders will identify the NPS debts by selecting “Other” as the Account Type Description and entering “NPS debt” in the pop-up box.

NPS debt(s) that the lender has determined to exclude will not be entered into GUS. The lender will retain documentation in their permanent loan file that supports exclusion (a copy of the state statute that allows exclusion of the NPS debt.)

A GUS Accept/Accept with Full Documentation file is not required to be downgraded due to the manual entry of NPS debts.

The following are identified as community property states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. Puerto Rico and several Indian jurisdictions allow community property ownership. Alaska is an opt-in CPS. Property is separate unless both parties agree to make it community property through a community property agreement or trust.

Deed-In-Lieu (DIL)

A deed-in-lieu of foreclosure allows the borrower to convey or deed all interest in a property to the lender to satisfy a loan in default and avoid foreclosure. The DIL will be reflected in the applicant’s credit score and public records. Lenders must confirm the Declarations in GUS and/or on the loan application are completed accurately.

A DIL recorded 36 months prior to the date of loan application is not adverse credit.

GUS Accept/Accept with Full Documentation files: No downgrade or credit exception required.

Refer, Refer with Caution, and manually underwritten loan files: A credit exception is required for a DIL within the 36 months prior to loan application.

An applicant that has a DIL recorded post-divorce/filed legal separation agreement and the home was awarded to the ex-spouse/remaining party may document the loan was paid as agreed prior to date of divorce decree/legal separation agreement. The payment history on the credit report or other documentation from the loan servicer/lender may be retained to confirm eligibility.

Addendum B - Credit Accounts and Adverse Credit (continued)

Foreclosure or Repossession

A foreclosure is the legal process by which a lender takes control of a property, evicts the homeowner (if necessary), and sells the home to attempt to satisfy the mortgage debt. The current homeowner(s) is no longer able or willing to make agreed upon mortgage payments as stipulated in the mortgage contract. Repossessions occur when the borrower cannot or will not remit payment for the collateral secured with the lender. The lender may sell the collateral to satisfy the debt. A deficiency balance may remain. These adverse credit actions will be reflected in the applicant's credit score and public records as applicable. Lenders must confirm the Declarations in GUS and/or on the loan application are completed accurately.

A foreclosure discharged, or a repossession reported 36 months prior to the date of loan application is not adverse credit.

GUS Accept/Accept with Full Documentation files: No credit exception is required.

Refer, Refer with Caution, and manually underwritten loan files: A credit exception is required when the applicant has a foreclosure discharged or a repossession reported within the 36 months prior to loan application.

An applicant that has a foreclosure discharged or a repossession reported post-divorce/filed legal separation agreement and the home was awarded to the ex-spouse/remaining party may document the loan was paid as agreed prior to date of divorce decree/legal separation agreement. The payment history on the credit report or other documentation from the loan servicer/lender may be retained to confirm eligibility.

USDA considers the loss of a timeshare adverse credit of a long-term obligation and not a foreclosure. This loss will be reflected in the credit score. Lenders must review the applicant's credit history to determine if they are an acceptable credit risk. No credit exception is required for the loss of a timeshare.

Short Sale

A short sale allows a homeowner to sell their property for less than the balance due on the mortgage. All sales proceeds go to the lender. The lender will either forgive the difference owed or a deficiency judgment may be obtained to require the borrower to repay the lender all or part of the remaining balance. The short sale will be reflected in the applicant's credit score and public records. Lenders must confirm the GUS Declarations page and/or the loan application are completed accurately.

A short sale closed 36 months prior to the date of loan application is not adverse credit.

GUS Accept/Accept with Full Documentation files: No credit exception is required.

Refer, Refer with Caution, and manually underwritten loan files: A credit exception is required when the applicant has a short sale closed within the 36 months prior to loan application.

An applicant that has a short sale closed post-divorce/recorded legal separation agreement and the home was awarded to the ex-spouse/remaining party may document the loan was paid as agreed prior to date of divorce decree/legal separation agreement. The payment history on the credit report or other documentation from the loan servicer/lender may be retained to confirm eligibility.

Addendum B - Credit Accounts and Adverse Credit (continued)

Previous USDA Loss

An applicant with a previous Section 502 Single Family Housing Direct or Guaranteed loan that resulted in a loss paid by the Federal government, must provide the lender with the following information:

1. Explain and document the circumstances that led to the loss paid on their behalf. Example: If the loss was due to reduced wages, IRS tax transcripts would document the loss of income. Medical explanations are not required to submit private health information; Explain why the loss is unlikely to recur. Example: Losses due to unemployment and no medical insurance would show a new stable work history with medical benefits; and
2. The lender must provide the documentation and recommendation for loan approval along with the final and complete application submission. Explain positive aspects of the loan file which attribute to future success. Examples: Stable job time of 2 years or more, low qualifying ratios, reserves available post loan closing, etc. USDA will review the explanation and supporting documentation and make the final determination of the applicant(s) eligibility for a new guaranteed loan

Rent/Mortgage Payment History

An indicator of future mortgage payment probability is the applicant's payment of their current rent or housing. Lenders should include the current rent or mortgage payment amounts on the Income and Expenses GUS application page and/or the loan application.

GUS Accept/Accept with Full Documentation files:

No Verification of Rent (VOR) required. No credit exception required.

GUS Refer, Refer with Caution, or manually underwritten loan files:

A VOR may be required. Refer to the GUS Underwriting Findings Report to determine if a VOR is required for a complete loan application. If a full 12-month VOR is not available, lenders may verify the amount of rental history that has been paid. One rent or mortgage payment paid 30 or more days past due in the previous 12 months is significant derogatory credit and will require a credit exception.

USDA CONDOMINIUM PROJECT MATRIX

Unapproved Condominium Project				
Project Classification	**Project Eligibility**	**Presale**	**Insurance**	**Documentation Requirements**
Site/Detached Condo	• No review required. • Project must consist of single-family detached dwellings. • No shared garages or shared buildings.	• No requirements.	• Hazard coverage for a single family detached dwelling paid by the borrower.	• Appraisal Report (Fannie Mae Form 1073)
HRAP or DELRAP Previously Approved Condominium Project by CMS or Another Lender				
Approval Method	**Project Eligibility**	**Presale**	**Insurance**	**Documentation Requirements**
Lender Certification for Individual Unit Financing	• Project must be HRAP or DELRAP approved. • Project consists of at least 2 units. • All units and common elements are 100% complete in subject legal phase. • No single entity (same individual, investor group, partnership or corporation) may own >10% of total units in project (existing projects). o Projects with <10 unit, no single entity may own more than one unit and project must be 100% complete. • <=15% of the total units within the project can be more than 30 days delinquent on HOA fees, dues or assessment payments. • <=25% of the total space may be used for non-residential purposes. • Right of First Refusal language or covenants in the condominium legal documents are NOT permitted unless the first mortgagees' or its assignees rights will not be adversely impacted to: o Foreclose or take title to a condominium unit pursuant to the remedies in the mortgage. o Accept a deed or assignment in	• Existing Project: 50% of units are sold and conveyed. • New Construction Less Than One Year Old: 30% of the units are sold and conveyed. • Non-gut Conversion: 51% of the units are sold and conveyed. • 50% of project occupied as primary residence.	• $1,000,000 liability coverage minimum per occurrence. • Insure on 100% of its replacement cost. • Fidelity Insurance is required for the HOA and Management Company, if applicable, for all projects over 20 units with coverage no less than three months aggregate assessments on all units and reserve funds. • Walls-in (HO-6) coverage, if required. • Policy must be in homeowner's name or in the name of the HOA (2-4 Unit Project). • Flood Insurance, if applicable.	• Lender Certification for Individual Unit Financing signed by DE USDA Certified Underwriter • FHA HOA Questionnaire • Appraisal Report o Site Condos: Fannie Mae Form 1073 • Insurance Documentation • Pending Special Assessment Analysis, if applicable • FHA Connection Approval Printout • Documentation supporting Lender Certification that project is in continued compliance with condominium guidelines • For projects less than one year old, HUD will require the following: o Builder's Certification of Plans, Specifications and Site, Form HUD-92541 o Warranty of Completion of Construction, Form HUD-92544 o Building Permit issued by local jurisdiction o Final Certificate of Occupancy issued by local jurisdiction o Subterranean Termite Protection Builder's Guarantee (NPCA -99-

Unapproved Condominium Project				
Project Classification	**Project Eligibility**	**Presale**	**Insurance**	**Documentation Requirements**
	lieu of foreclosure in the event of default by a mortgagor, or o Sell or lease a unit acquired by the mortgagee or its assignee. • FHA Concentration: o Projects >3 units: <= 50% may have FHA financing. o Project <=3 units: One unit may have FHA financing. o May submit for HOC approval if there is >50% and <100% FHA concentration and the project is 100% complete for at least one year (final or temporary CO), 100% sold and conveyed and has 10% reserves. • Project does not consist of any manufactured homes. A stick-built project cannot contain any manufactured homes. • No pending litigation. • See the additional Underwriting Guidelines for information on the following topics: o Affordable Housing o Special Assessments o Recreational Leases o Restrictions for Leasing o Transfer control of HOA • Verify an eligible project; See Ineligible Condominium Projects section for more information.			o Subterranean Termite Soil Treatment Builders Guarantee (NPCA-99-b) o HUD approved 10-year Warranty, if required

Ineligible Projects
• Any project or building that is owned by several owners as tenants-in-common, or by a Homeowners' Association in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific apartment in the building • Assisted Living • Common Interest Apartment AKA community apartment project or own your own. A project in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific unit in the building. The project or building is often owned by several owners as tenants in common or by a Homeowners' Association • Condominium Hotel projects are managed and operated as a hotel or motel, even though the units are owned individually. FHA considers projects with any of the following characteristics to be non-residential hotel-type projects and "second home" residential projects in resort locations and therefore, ineligible. • Condominium projects that represent a legal, but non-conforming use of the land; if zoning regulations prohibit rebuilding the improvements to current density in the event of their full or partial destruction • Houseboat projects • Investment securities that have documents on file with the Securities and Exchange Commission or projects where unit ownership is characterized or promoted as an investment opportunity • Mandatory Rental Pools • Multi-family projects that permit an owner to hold title to more than one unit, with ownership of all his or her units evidenced by a single-deed and mortgage. Projects that allow lockout units are considered multi-family • New projects where the seller is offering sale/financing contributions / concessions in excess of established limitations for individual loans • No more than 15% of the total units within the project can be more than one month delinquent on HOA fees, dues or assessment payments • Projects located in Coastal Barriers as defined by the Coastal Barriers Act • Projects not deemed to be primarily residential • Projects that restrict the unit owner's ability to occupy the unit • Projects where a single entity owns more than 10% of the total units in the project • Projects with non-incidental business operations owned or operated by the Homeowners' Association such as, but not limited to, a restaurant, spa, health club, etc. • Project where nonresidential space is greater than 25% • Projects where the developer has retained ownership of the common areas or amenities after transfer of control has been turned over to the HOA • Time share or segmented ownership projects

End of Guidelines

REVISION SUMMARY

Revision History

Date	Version	Description of Change
11/09/22	4.9	Rebranded with New Logo.
11/01/22	4.9	Revised **Secondary Financing— Down Payment Assistance** to add DPAs are permitted and contact/submission requirements.
05/02/22	4.8	• Revised Identity Verification to update requirements for "Qualified" Non-residents and adopt FHA guidance (almost all EAD Codes except a few ineligible classes). • Revised Selecting an Appraiser to clarify "Trainee appraisers are unacceptable to CMS."
06/23/21	4.7	• Revised **Non-Traditional Credit** to add "When utilizing non-traditional credit, the Underwriter is responsible to enter a "0" as the credit score in the loan origination system (LOS)." • Updated references to Letters of Explanation to clarify "Borrower(s) must write, sign, and date all Letters of Explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content."
04/05/21	4.6	• Revised **Leasehold Estate** requirements. • Revised **Ineligible Property/Project Types** to remove Leaseholds.
03/18/21	4.5	• Added **Federal Taxes** • Added **Addendum A -Credit Matrix**
02/17/21	4.4	Updated references to Uniform Residential Loan Application (URLA) and 4506-T to 4506-C throughout guidelines.
12/01/20	4.3	Revised **Rate Reduction Refinance** requirements.
10/15/20	4.2	• Updated **Age of Appraisal** to within 150 days of loan closing and added requirements for using Fannie Mae Form 1004D/Freddie Mac Form 442. • Revised **Manufactured Home Property Eligibility Requirements** for existing construction. • Added **Dealer and Builder Certifications for Manufactured Homes** requirements.
08/14/20	4.1	• Updated 1980 references throughout document. • Revised **Non-Purchasing Spouse** to clarify debt requirements. • Updated **Requesting the Guarantee Certificate** requirements for completing RD 3555-21 • Added **Hazard Insurance Deductible** requirements. • Updated **Installment and Revolving Accounts** requirements. • Updated **Part Time and Secondary Employment** income requirements. • Updated **Disability Income** to clarify requirements for Long-Term Disability (Not disability income received from the Social Security Administration) and Disability Income received from the Social Security Administration. • Revised **Required Appraisal Forms** requirements. • Revised **Private Water Systems** to clarify requirements for Private Wells. • Updated **Shared Wells** requirements.
07/17/20	4.0	• Revised **Contingent Liabilities** to add requirements Mortgage Assumptions where there is no Release of Liability. • Updated **Gift Funds** with current USDA requirements for Documentation, Reserves and Funds to Close. • Updated **New Construction Property Requirements** with current USDA requirements for New Construction Certified Plans and Specifications, Evidence of Construction Inspections, and Evidence of Thermal Standards for New Construction.

Revision Summary (continued)

Date	Version	Description of Change
01/27/20	3.9	• Revised **Refinance Mortgages** to add Streamlined Assist Refinance requirements and updated Net Tangible Benefit requirements. • Removed outdated table with NTB requirements. • Revised **Escrow Account** to state repair escrows are not permitted.
11/19/19	3.8	• Deleted **Maximum Interest Rates Allowed for GRH Program** requirements. Effective 10/1 USDA removed requirements.
09/25/19	3.7	• Revised **Collections and Charge-Offs Paid through Closing Transaction** to clarify that a credit report or supplement may be used in addition to a payoff demand and must list the same information as a payoff demand • Revised **Student Loans > Non-Fixed payment loans** to use one half percent (.50%) of the loan balance or the actual payment reflected on the credit report (was one percent of the loan balance reflected on the credit report).
07/22/19	3.6	• Revised **Red Flags** to update Property Flipping requirements. • Revised **The Subject Property** section to remove the swimming pool restrictions.
04/02/19	3.5	• Added requirements for **Collections and Charge-Offs Paid through Closing Transaction** • Revised **Sources of Unacceptable Income** to remove Retained earnings in a company • Added requirements for **Rent Credits**
06/19/18	3.4	• Revised the **Ineligible Properties** list to add Mixed-Use Properties and Hawaiian properties in Lava Zones 1 and 2. • Revised **Eligible Properties** to remove Mixed-Use Properties.
03/27/18	3.3	• Added **Document Images** requirements. • Revised **Student Loans** to align with USDA 3555 requirements • Revised **Unacceptable Sources of Assets** to add cryptocurrency
08/01/17	3.2	Revised the **Sources of Unacceptable Income** section.
06/27/17	3.1	Revised **Refinance Transactions with Escrow Credits** to permit netting of escrows (formerly not permitted).
12/12/16	3.0	Revised **Annual Income Limits**, **Unpermitted Additions and Gift Funds** sections.
10/31/16	2.9	Added **Rent History** section.
08/30/16	2.8	Revised **Borrowers and Co-Borrowers** section Added new **Ineligible Borrowers** section Revised **Cisterns** section
07/15/16	2.7	Revised the **GUS Resubmission Requirements, Establishing Borrower Credit Reputation, 30 Day Accounts, Major Adverse Credit > Unacceptable Credit, Annual Income Limits, Repayment Income, Stability of Income and Employment, Sources of Unacceptable Income, Monthly Debt Obligations, List of Ineligible Property/Project Types, Environmental Hazards,** and **Private Water Systems** sections.
11/06/15	2.6	• Minor Change to add Appraisal Independence Requirement for **Appraisal Transfers**.

Revision Summary (continued)

Date	Version	Description of Change

07/24/15	2.5	• In the **USDA Loan Eligibility** section, modified the following:
		  o Added the **Previous Financial Claims** sub-section.
		  o Removed the **Additional Requirements for Community Property States** sub-section.
		  o Updated the **Purchase Mortgage** sub-section.
		• In the **USDA Employment and Income Evaluation and Documentation**, updated the **Social Security Income** sub-section.
		• In the **USDA Liabilities and Debt Ratios** section, updated the **Contingent Liabilities** sub-section.
		• In the **USDA Assets** section, removed the **Cash on Hand** sub-section.
		• In the **Property and Project Types** section, updated the following sub-sections:
		  o **Manufactured Home Property Eligibility**
		  o **Requirements Manufactured Home Ineligible Property**

06/22/15	2.4	• Updated the **Non-Traditional Credit** section to align with the USDA requirements. • Updated **Qualifying Borrowers with Non-Traditional Credit** section to include that ratio waivers may apply for refinance transactions with RD approval. • Removed existing **Insufficient Credit content and add statement "Insufficient credit refers to borrowers who do not have credit scores and do not meet the minimum tradelines required for non-traditional credit, which is not acceptable for USDA."** • Added **Thin Credit requirements for GUS automated underwriting** • Updated the **Student Loans requirements**. • Added section for **Transfer of Manufactured Homes to Real Property**
06/10/15	2.3	Added that CMS does not permit the netting of escrows on USDA loans to the **Refinance Transactions with Escrow Credits** section.
05/01/15	2.2	In the **USDA Liabilities and Debt Ratios** section, added the **Compensating Factors for Refinance Transactions** sub-section.

04/10/15	2.1	• In the **USDA Loan Eligibility** section, modified the following:
		  o Added the **Documenting Clearances** sub-section.
		  o Updated the following sub-sections:
		    ▪ **Social Security Number Validation**
		    ▪ **Purchase Mortgage Refinance Mortgages**
		    ▪ **Principal Curtailment**
		• In the **USDA Employment and Income Evaluation and Documentation**, updated the **Documentation Standards** sub-section.
		• In the **USDA Assets** section, modified the following:
		  o Updated the **Asset Sources** sub-section.
		  o Added the **Foreign Assets** sub-section.
		• In the **USDA Property Types and Appraisal Documentation and Review** section, modified the following:
		  o Added the **Changes in Purchase Price** sub-section.
		  o Updated the **Condominium Requirements** sub-section.

03/13/15	2.0	In the **USDA Loan Eligibility** section, updated the **Risk Controls** sub-section to remove the property flipping requirements.

Revision Summary (continued)

Date	Version	Description of Change
02/17/15	1.9	• In the **USDA Loan Eligibility** section, updated the **Borrowers and Co-Borrowers** sub-section. • In the **USDA Automated Underwriting** section, updated the **Credit Exceptions** sub-section. • In the **USDA Liabilities and Debt Ratios** section, added the **Payment Shock Calculation** sub-section.
01/02/15	1.8	In the **Asset Sources** section, updated **the Bank Accounts** sub-section.
12/09/14	1.7	In the **Property and Project Types** section, added the **Hauled Water** sub-section.
10/08/14	1.6	• In the **USDA Loan Eligibility** section, updated the **Identity Verification** sub-section. • In the **USDA Automated Underwriting** section, updated the following sub-sections: o **Bankruptcy/Foreclosure/Deed-in-Lieu** o **Short Sales**
09/18/14	1.5	• In the **USDA Loan Eligibility** section, updated the **Non-Purchasing Spouse** sub-section. • In the **USDA Automated Underwriting** section, updated the **GUS "Refer" or "Refer with Caution"** sub-section.
07/22/14	1.4	In the **Eligible Property Types** section, updated the **Manufactured Homes** sub-section.
06/02/14	1.3	Moved Maximum Interest Rates Allowed under the Maximum Mortgage Limits section
05/05/14	1.2	In the **Self-Employed Income** section, added the **Meal Deductions** sub-section.
04/04/14	1.1	• In the **Ineligible Property/Project Types** section, added Single-wide manufactured homes. • Updated the **Manufactured Homes** section to remove the 1992 overlay.
02/20/14	1.0	New document.