PRODUCT GUIDELINES—USDA Matrix

PROGRAM CODE: USDA30

PURCHASE & RATE/TERM REFINANCE PRIMARY RESIDENCE

Maximum LTV/CLTV*	Max Loan Amount	Min FICO	Max Ratios	Mortgage/Rental History
100% / 100% Excluding USDA Guarantee Fee	**Determined by qualifying ratios and county maximum income limits**	**Per GUS***	**Per GUS**	**The following indicators require documentation meeting the criteria of Section 10.8 to approve an applicant's loan request for manually underwritten loans:** • **Late mortgage payments if any mortgage trade line during the most recent 12 months shows 1 or more late payments of greater than 30 days.** • **Late rent payments paid 30 or more days late within the last 12 months.**

LTV/CLTV is calculated on the appraised value. The appraised value can only be exceeded by the guarantee fee.

*Refer to Credit History section below for detailed information regarding credit evaluation and scores below 640.

STREAMLINE REFINANCE

Maximum LTV	Max Loan Amount	Min FICO	Max Ratios	Mortgage/Rental History
100% Excluding USDA Guarantee Fee	Determined by qualifying ratios and county maximum income limits	Per GUS*	Per GUS	0 x 30 last 12 Months

Streamline Refinance transactions must pay off an existing USDA Guaranteed loan. Section 502 Direct loans are not eligible for streamline. Appraisal is not required on a USDA streamline. All other credit criteria apply including 0x30 mortgage rating for previous 12 months.

*Refer to Credit History section below for detailed information regarding credit evaluation and scores below 640.

Helpful USDA Links	USDA Handbooks Does not include MSF Overlays. Refer to Our Library within AllRegs for MSF Overlays.	USDA FAQs Additional Resources	USDA Income Limits Additional Resources	USDA Loan Limits	USDA Turn Times Select your location for current USDA Processing Turn Times	Programs & Services for Lenders

UNDERWRITING GUIDELINES REQUIREMENTS

MAXIMUM LOAN AMOUNTS

Purchase & Rate/Term Refi	Maximum loan amount cannot exceed 100% of the appraised value. Maximum loan amount including financed guaranteed fee cannot exceed 102% of the appraised value. On purchase transactions, if the sales price is lower than the appraised value, closing costs may be financed into the loan amount up to a maximum 100% of the appraised value with the guarantee fee not exceeding 102% of the appraised value.
Streamline Refi	Maximum loan amount cannot exceed the unpaid principal balance of the existing loan plus the guarantee fee. Accrued interest, closing costs, and fees cannot be financed. The original appraisal may be used to determine the appraised value for the streamline transaction.
Eligibility Website	To determine if a property is located in an eligible USDA area, visit http://eligibility.sc.egov.usda.gov

USDA GUARANTEE FEE TABLE		
The USDA guarantee fee is calculated on the loan amount. The fee may be financed. When financing the guarantee fee, the LTV/CLTV may not exceed 102% of the appraised value.		
	Guarantee Fee	**Annual Fee**
Purchase transactions	1.00%	0.35%
Refinance transactions	1.00%	0.35%

COLLATERAL	
Overview	The lender must ensure the subject property meets the Agency's site guidelines. In particular, sites must be located in eligible rural areas; meet community standards regarding utilities, including water and waste water systems; meet street and road access and maintenance requirements; and contain other amenities essential to the continued marketability of the home.
Appraisal Requirements	An appraisal report with interior and exterior inspection of the subject property must include at least the following: HB-1-3555 12-7 (03-09-16)SPECIAL PN Revised (05-17-17) PN 498 • 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. A FHA roster appraiser who certifies the property meets required HUD's Single Family Housing Policy Handbook, a government health authority, a licensed septic system professional, or a qualified home inspector may perform the septic evaluation. Credit and verification documents must be dated within 120 days of the original closing date to be valid. If the documentation exceeds the condition time frame, the lender must obtain updated credit and/or appraisal documents and re-qualify the borrower before the loan note guarantee can be requested and/or issued. USDA Guidelines: Chapter 12 Property and Appraisal Requirements
Eligible Collateral	All dwellings must provide decent, safe, and sanitary at a modest cost (a dwelling with a purchase price not exceeding the FHA Single Family mortgage limit for its county is considered modest), Owner Occupied Only. 1 Unit, PUD's, Condos, Manufactured Homes permanently affixed to the foundation, built on or after June 15, 1976, and meet all RD requirements, Modular Homes.
Ineligible Collateral	Single-wide manufactured homes, co-ops, Condo Hotels, State approved medical marijuana producing properties, income producing farms, ranches, mixed use, commercial properties, energy efficiency, leaseholds, properties not located in an eligible USDA area, properties serviced by hauled water.
Condos	Must meet FHA minimum project standards and be on FHA's approved condominium project list. A current HOA questionnaire and master policy are required to certify the project. The 1008 must reflect the project certification along with the FHA project number.

Manufactured Homes	Newly constructed manufactured homes permanently affixed to the foundation are eligible. 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. (Pilot Program – Colorado, Louisiana, New York, Ohio, Texas, Vermont, New Hampshire and Wyoming – ONLY)
	• No single-wides
	• One unit only
	• At least 3 comparables must be manufactured and support value
	• Comparable sales must have closed within the last six months
	  ○ Sales may exceed six months, but never exceed twelve months
	    ▪ Appraiser must provide acceptable comment(s) for comparable(s) that exceed six months
	• Documentation Requirements
	  ○ Appraiser to verify home is attached to permanent foundation
	  ○ Title policy to include manufactured housing endorsement
	  ○ Affixation affidavit signed by borrower at closing
	  ○ Purchase transaction title to be purged prior to closing
	  ○ All refinance transactions title must be purged prior to closing

<table>
<tr><td>New Construction</td><td>Properties completed within the previous 12 months or properties completed more than 12 months ago but have never been occupied as classified as new construction. The following is required for all new construction loans:
Certificate of occupancy. If the local building authority does not issue certificates of occupancy, a copy of the eligible building permit along with 1) the inspections prior to footing and foundation poured, 2) inspections of plumbing, electrical and mechanicals before the shell is enclosed and 3) a final inspection will be acceptable
Minimum 1 year builder warranty. If the builder issues a 10 year insured warranty, this will be acceptable and evidence of the construction inspections may be waived.
Thermal performance requirements must meet 2006 IECC code and is evidence through the certificate of occupancy, final inspection, or 10 year insured builder's warranty.</td></tr>
<tr><td>Existing Construction</td><td>Existing construction is defined as properties completed more than 12 months or properties completed in less than 12 months but have been previously occupied. A certificate of occupancy is not required on existing construction.</td></tr>
<tr><td>Property Condition</td><td>All appraisals must comply with the reporting requirements of USPAP available at www.appraisalfoundation.org. All appraisal reports must include a Market Condition Addendum (Form FNMA 1004MC) and meet the Uniform Appraisal Dataset (UAD) requirements set forth by Fannie Mae and Freddie Mac. To read definitions of condition and quality ratings, refer to the “Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification Version 1.2”

<u>Repair escrows</u>, post issuance of the Loan Note Guarantee are acceptable provided the home is habitable, as determined by the lender. All items of new construction or repairs must be 100 percent (100%) complete in accordance with plans and specifications except for minor items not affecting the livability of the structure or that cannot be completed due to weather conditions. The lender assumes responsibility for completion of repairs in accordance with the conditions set forth in this Section for any repair escrow established.</td></tr>
<tr><td>Flood</td><td>Existing properties located in a flood zone must have flood insurance coverage. Flood insurance is not required if the subject property is not in a flood zone. New construction properties located in the flood zone are permitted with a Letter of Map Revision (LOMR) or Letter of Map Amendment (LOMA) issued by FEMA.</td></tr>
<tr><td>Septic Certification</td><td>Private septic systems must be free of observable evidence of failure. The septic evaluation may be performed by the appraiser, a government health authority, a licensed septic professional or a licensed home inspector. Evidence of the evaluation and findings are required. A septic certification may be required if noted by the appraiser or at the underwriter's discretion.</td></tr>
<tr><td>Termite Inspections</td><td>Will be required if the loan file indicates a termite/pest inspection has been ordered, requested, required, and/or completed (even if the borrower may have elected to have a termite/pest inspection completed)
Termite inspection must be signed by the borrower(s)
Refinances
For existing properties greater than one year old, termite inspection on NPMA-33 or approved state form(s) and/or treatment is only required if:
The appraiser indicates there may be active infestation
Purchases
New construction requires a termite soil treatment certification (Forms NPMA-99A & NPMA-99B)
For existing properties greater than one year old, termite inspection on NPMA-33 or approved state form(s) and/or treatment is only required if any of the following apply:
The appraiser indicates there may be active infestation
It is required per the sales contract, or
If is customary to the area (see customary state list)
Termite Waiver
If the subject is located in a customary area but the termite report is not required per the sales contract and there is no active infestation, the borrower can waive their right to have a termite inspection completed
<u>MSF Termite/Pest Inspection Waiver</u></td></tr>
<tr><td>Thermal Performance Construction Standards</td><td>All dwellings secured by a USDA loan must meet the thermal performance standards as provided in RD Instruction 1924-A. Existing homes that do not meet the thermal performance standards are not eligible for USDA financing.</td></tr>
<tr><td>Well Certification</td><td>Private well systems require a water quality analysis by the local health authority or state certified laboratory. A certification confirming the well/water meet state and local standards is required.</td></tr>
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Limitations on other R.E. owned	Borrower may retain one dwelling along with the new USDA loan. An applicant who owns a dwelling to which they will retain ownership is eligible for a guaranteed loan to purchase another home if all of the criteria below are met: 1. The homeowner's current dwelling is not financed by a Rural Development guaranteed or direct Section 502 or 504 loan or active grant (the grant agreement has not expired); 2. The homeowner is financially qualified to own more than one house (the loan applicant is limited to owning one single family housing unit other than the one associated with the loan request) 3. The homeowner will occupy the home financed with the guaranteed loan as their primary residence throughout the term of the loan. 4. The current home owned no longer adequately meets the applicants' need. Manufactured housing units that are not fixed on a permanent foundation are considered functionally inadequate. The determination that the current home no longer adequately meets the applicant's needs must include documentation of a significant status change in the circumstances of the borrower that require immediate remedy. Examples of changes in status could include, but are not limited to: Severe overcrowding which is defined as more than 1.5 household residents per room. The room count generally includes a living room, dining room, kitchen, den, recreation room, and bedroom(s). Room counts do not include the bathroom or an entry hall/foyer. The lender must obtain verification that overcrowding has existed for more than 90 days and will persist for at least nine (9) months into the future. 5. The disability or limited mobility of a permanent household resident that cannot be accommodated without substantial retrofitting of the current property, e.g., the installation of a ramp, an elevator or stair lift, or extra-wide doors and hallways. Lender must obtain verification of the change in status, the existing property deficiencies, and the suitability of the new property. The applicant is/has relocated with a new employer, or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance.

TYPES OF FINANCING	
Purchase Transactions	Permitted up to 100% of the appraised value. If the sales price is lower than the appraised value, closing costs may be included in the maximum loan amount up to 100% of the appraised value. The LTV can exceed 100%, up to 102%, with the guarantee fee.
Rate/Term Refinance	Borrowers may obtain USDA financing to pay off an existing guaranteed loan on the property. The new loan amount can include the payoff of the existing loan plus the 2% guarantee fee.
Cash Out Refinance	Not eligible
Down Payment Assistance	Down Payment Assistance programs are permitted. Please refer to the MSF Down Payment Assistance approved list and webpage for program details and requirements. MSF Down Payment Assistance Guidelines
CREDIT	
Social Security Numbers	A valid U.S. Social Security Number is required for ALL borrowers. ITIN (Individual Taxpayer Identification Number) & Foreign Nationals are not allowed.
FICO Validation	A credit score is valid if the applicant has a minimum of two trade lines that have been opened and active for at least 12 months within the past 24 months from the date of the credit report. For example, closed accounts that show a 12-month payment history, or were revolving for 12 months, within the past two years from when the credit report was obtained may be considered. Disputed accounts are not considered an eligible trade line to validate credit. If applicant has only 1 credit score or no credit score, then non-traditional credit is required. Refer to Non-traditional Credit topic below for additional information.
Non-Traditional Credit	Borrowers with no traditional credit history are allowed. Non-traditional credit may not be used to offset a poor credit history or insufficient credit. Borrowers with non-traditional credit are allowed with max financing per program matrix. 3 trade references are required. However, only two sources are required if one of those is a verification of rent or mortgage payments. Refer to USDA Underwriting Guidelines for list of non-traditional trade line sources.
CAIVRS and Exclusionary List	CAIVR clearance must be obtained for all borrowers on the transaction. GSA/LDP/SAM clearance is required for all parties of the transaction.

Credit History	To be eligible for a guaranteed loan, an applicant must have a credit history that demonstrates that they are reasonably able and willing to repay the loan and meet obligations in a manner that enables the lender to draw a logical conclusion about the applicant's commitment to the indebtedness. It is the applicant's overall credit management skill (e.g. including repayment patterns, credit utilization, and level of experience using credit), not solely the existence of delinquent credit accounts – that has an effect on the eventual default risk of a mortgage. The lender must analyze the entire credit history for each applicant listed on the mortgage application. The extent of the analysis will vary based on whether the lender uses a traditional method to underwrite the loan manually, or is assisted by the Agency's automated underwriting system.
	
	A validated score does not wholly indicate that the applicant's credit reputation is acceptable. Even if the score exceeds the credit score as indicated in Section 10.7 of this Chapter, the credit score must be validated and the lender must determine that the applicants have satisfactorily established the willingness and ability to manage and repay obligations as agreed. Once the credit reputation is established, the lender will evaluate the overall layering of risk in credit, capacity and collateral.
	• Validating the Credit Score. Two or more eligible tradelines are necessary to validate an applicant's credit report score. Eligible tradelines consist of credit accounts (revolving, installment etc.) with at least 12 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.
	• Insufficient information. A credit score can be generated if a repository's file includes only one tradeline, however, the lender must not use any score based on fewer than two tradelines. If the credit report cannot establish the required number of eligible tradelines to validate the credit score, establish a minimum payment history through use of a non-traditional report as explained in Paragraph 10.6 of this Chapter. Nontraditional credit may not be used to enhance poor payment records or low credit scores.
	• Validating GUS credit scores. Loans underwritten with the assistance of the Agency's automated underwriting system that receive an "Accept" recommendation are also subject to the credit score validation of this Paragraph. GUS applications receiving an "Accept" underwriting recommendation, that 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.
	
	Lenders should 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 this Chapter. 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.
	
	Indicators of unacceptable credit. The following indicators require documentation meeting the criteria of Section 10.8 to approve an applicant's loan request for manually underwritten loans:
	• Foreclosure within 3 years:
	  ○ Including pre-foreclosure activity, such as a pre-foreclosure sale or short sale in the previous 3 years (refer to Attachment 10-B for additional guidance);
	• Bankruptcy within 3 years:
	  ○ Chapter 7 bankruptcy discharged in the previous 3 years;
	    ▪ An elapsed period of less than 3 years, but not less than 12 months, may be acceptable if the applicant meets the criteria of Section 10.8 of this Chapter.
	• Chapter 13 bankruptcy that has yet to complete repayment (repayment plan in progress) or has completed payment in the most recent 12 months.
	  ○ Plans that are completed for 12 months or greater do not require a credit exception in accordance with Section 10.8;
	• Late rent payments paid 30 or more days late within the last 12 months.
	• Late mortgage payments if any mortgage trade line during the most recent 12 months shows 1 or more late payments of greater than 30 days.
	
	Underwriting with no credit score. The use of non-traditional credit references as described in Section 10.6 of this handbook is acceptable if the applicant does not have a credit score, OR the credit score cannot be validated in accordance with Section 10.5 of this Chapter. If the required number of traditional or nontraditional tradelines cannot be documented, the loan is ineligible.

	An applicant with significant delinquency on the credit report, even with a reliable credit score of 640 or higher, will be subject to further credit analysis and Form RD 1944-61 must be completed. Significant delinquency includes the following: • A foreclosure, deed-in-lieu of foreclosure, short sale, or mortgage charge-off that has been completed within the last 36 months. • A Chapter 7 bankruptcy discharged less than 36 months prior to the application date. • A Chapter 13 bankruptcy where the applicant has not successfully completed the debt restructuring plan or has not demonstrated a willingness to meet obligations when considering the last 12-month payments made under the restructuring plan.
Credit History Manual UW	Underwriting manually with validated credit scores. The lender must perform a detailed review of all aspects of the applicant's credit history. Credit scores will be utilized to underwrite manually underwritten loans. Applicants with validated credit scores (See Section 10.5 of this Chapter) of 640 or greater meet the minimum credit reputation provided indicators of unacceptable credit, as addressed below, are not present in the applicant's credit file. The presence of collections, charge-offs, judgments, disputed accounts, authorized user tradelines and payment shock in the credit analysis, as described in this Chapter, may require further evaluation and documentation by the lender. Refer to Attachment 10-B and Section 10.8 for guidance when considering granting an exception for extenuating circumstances to the credit standards set forth in this Chapter. **Determining the credit score for manual underwriting.** • If the applicant's credit report has three scores, the middle score should be used as the representative score. • If the applicant has two scores, the lower of the two should be used as the representative score. • If the applicant has a repeating score, that score will be utilized. • If the applicant has one score, a NTMCR must be developed for manually underwritten loans. Each applicant must be evaluated separately
Bankruptcy	Ch. 7 discharged for 36 mos. Discharged Ch. 13 requires 12 months satisfactory pay history and court permission to enter into transaction. Consumer counseling services must be paid in full prior to closing.
Collections/Charge Offs	Open collections may be required to be paid off prior to or at closing. Charge-off accounts are debts written off and are not required to be included in the applicant's total debt ratio. This will be determined by the underwriter when evaluating the strengths of the credit profile.
Capacity Analysis - Collections	Capacity analysis when collections are reported – all underwriting types. Unpaid open collections could affect the future ability of an applicant to repay a mortgage when creditors pursue collection. Ensure all collections and charge-offs are listed on the loan application as a liability. Collections meeting the omission policy noted below can be omitted from the total debt to income ratio. Additional documentation is not required to omit those collections meeting criteria below. In an effort to minimize future risk of open collections left unpaid, the lender will consider the following during the capacity analysis of the loan request, regardless of the method utilized to underwrite: 1) Determine if the total outstanding balance of all collections accounts of all applicants is equal to or greater than $2,000. Unless excluded by state law, collection accounts of a non-purchasing spouse in a community property state are included in the cumulative balance of all collections. 2) Remove all medical collections and all types of charge off accounts from the total balance. Medical collections and charge off accounts must be clearly identifiable on the credit report. 3) If the remaining outstanding balance of collection accounts are equal to or greater than $2,000, any of the following actions will apply: a. Payment in full of all collection accounts at or prior to closing. b. Payment arrangements are made with each creditor for each collection account remaining outstanding. A letter from the creditor or evidence on the credit report is required to validate the payment arrangements. The agreed upon monthly payment for each outstanding collection account will be included in the borrower's debt-to-income ratio. c. In the absence of a payment arrangement, the lender will utilize in the debt-to-income ratio a calculated monthly payment. For each collection utilize 5% of the outstanding balance to represent the monthly payment.
Judgments/Liens	Tax liens with a repayment plan require a minimum 3 month payment history paid as agreed. Copy of the agreement is required prior to credit approval. Borrower(s) may not prepay the scheduled payments in order to meet the 3 month requirement. Judgment accounts with a repayment plan already established and a history of consistent repayment will be included as a long term obligation. It may be excluded from the total debt ratio if less than 10 months of the repayment plan remains and the lender determines the debt does not have a significant impact on the repayment of the loan. Significant impact calculations are described in the short term obligations section. A letter from the creditor or evidence on the credit report is required to validate the payment arrangements and payment history. Refer to Chapter 10, Section 10.10 for additional guidance on judgments. Payment(s) is included in the DTI.

Foreclosure / Deed-in-lieu	Must be >3yrs from date of trustee's deed. Documentation required, credit report is unacceptable. (CAIVRS-if applicable). If foreclosure was on a property guaranteed by USDA, borrower is not eligible for new financing.
Short Sale / Short Refi/Modification	The following criteria are applicable to both manual and automated underwriting types. • A short sale is considered a pre-foreclosure activity or event. • An applicant is ineligible for a mortgage loan if they pursued a short sale agreement on their principal residence to take advantage of declining market conditions and purchases at a reduced price a similar or superior property within a reasonable commuting distance. • If an applicant was current at the time of short sale, or in the case of divorce at time of divorce, they may be eligible for a new mortgage loan. The prior mortgage payment history must reflect all mortgage payments due were made on time for the 12 month period preceding the short sale, or time of divorce, and all installment debt payments for the same period were also made within the month due. • An applicant in default on their mortgage at the time of the short sale (or pre-foreclosure sale) is generally not eligible for a new mortgage loan for three years from the date of pre-foreclosure sale. • The lender may grant an exception in accordance with Paragraph 10.8 of this Chapter
Late Payments	Borrowers with more than 1x30 day late in the previous 12 months, 2x30 day late in the previous 36 months, collections filed in the previous 12 months, charge offs within the last 36 months, judgments filed in the previous 12 months and open tax liens with no repayment plan are indications of unacceptable credit and may adversely affect loan eligibility.
Disputed Accounts	Disputed accounts on an applicant's credit report are not considered in the credit score. <u>Manually underwritten loans</u>. For manually underwritten loans, all disputed accounts with outstanding balances/payments must have a letter of explanation and documentation supporting the basis of the dispute. Those debts 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 form the applicant/their attorney to the creditor. The lender is responsible for analyzing the documentation resented and confirming that the explanation and supporting documentation are consistent with the credit record during the underwriting analysis. <u>Automated Underwriting System – GUS "Accept".</u> Loans underwritten with the assistance of GUS that receive an underwriting recommendation of "Accept" will be downgraded to a "Refer" and manually underwritten unless the following conditions are met on the credit report: 1) The disputed trade line has a zero dollar balance. 2) The disputed trade line is marked "paid in full" or "resolved." 3) The disputed trade line has a balance owed of less than $500 and is more than 24 months old.
Monthly Debt Payment	**<u>Long-term obligations</u>** with more than ten months repayment remaining on the credit report presented at underwriting. This may include all Installment loans, alimony, child support or separate maintenance payments, student loans and other continuing obligations. **<u>Short-term obligations</u>** that have a significant impact on repayment ability must be included in the total debt ratio. A significant impact on repayment is defined as 5% or greater of the monthly repayment income of the applicant(s). Installment debt can be paid down to a repayment balance of 10 months or less; however underwriters must include any debt that in their underwriting analysis is considered a significant impact to the applicant's ability to repay the debt.
Revolving Accounts	The minimum monthly payment is required for all revolving credit card debts. If the credit report shows an outstanding balance, but no specific minimum monthly payment, the payment will be calculated 5 percent of the balance as reported on the credit report. If the lender obtains a copy of the current statement reflecting the actual monthly payment, that amount must be used for qualifying purposes. The lender must retain this documentation in their permanent loan file. Revolving accounts with no outstanding balance do not require an estimated payment to be included in the debt ratio. Revolving accounts that will be paid in full prior to loan closing are not required to be closed.
Student Loans	**Lenders must include the payment as follows:** • Fixed payment loans: A permanent amortized, fixed payment may be used in the debt ratio when the lender 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. One percent of the loan balance reflected on the credit report must be used as the monthly payment. No additional documentation is required.
Co-Signed Obligations	Co-signed obligations (Also known as co-borrower, joint obligator or guarantor). Co-signed debts must be considered in the total debt ratio unless the applicant provides evidence another obligor has made the payment on time in the previous 12 months prior to loan application. Acceptable evidence that demonstrates the remaining co-obligor's history of making regular payments during the previous 12 months include canceled checks, money order receipts and/or bank statements of the co-obligor. Late payments reported in the previous 12 months prior to application will require the monthly liability to be included in

	the long-term repayment ratio of the applicant. Debts identified as “individual” on a credit report will always be considered in the debt ratio regardless of what party is making the monthly payment (as an example, parents making car payments on behalf of applicant and the loan is in the applicant’s name). If the applicant can provide conclusive evidence from the debt holder that there is no possibility that the debt holder will pursue debt collection against the applicant should the other party default, the 12 month history is not required.
30 Day Accounts	A 30-day account is a credit arrangement requiring the applicant to pay off the full outstanding balance on the account every month. The lender may utilize the credit report to document the applicant has paid the outstanding balance for the previous 12 months. 30-day accounts that are paid monthly in full are not included in the total debt ratio. If the credit report reflects any late payments in the last 12 months, a long-term monthly payment will be included. The lender will utilize 5% of the outstanding balance as the applicant’s monthly debt.
Child Support/Alimony/Garnishment	Applicants obligated to pay child support, alimony, garnishments, or other court ordered debts must have the payment included in the total debt ratio. If the applicant has a release of liability from the court/creditor, and acceptable evidence is obtained, the debt can be excluded. Lenders will utilize select pages from the applicable agreement/court order to document the required monthly payment due and the duration of the debt. For GUS transactions, the lender will manually enter the obligations on the “Additional Expenses” on the “Assets and Liabilities” page. A manual entry of obligation does not require an underwriting recommendation of “Accept” to be downgraded to a “Refer.” Lenders will ensure repayment agreements are current.
Debt not report on the credit report	Third party documentation is required for verification of payment history of debt not reported on the credit report. Examples are alimony, child support, and separate maintenance fees. The recorded legal documents showing monthly payment and duration are required along with the most recent 12 months payment history verifying timely payments.
Non Purchasing Spouse	Credit report required in community property states. For applicants who reside or are purchasing in a community property state, the debts of the NPS must be included in the applicant’s total debt ratio unless specifically excluded by state law. NPS Credit History may be considered. 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	The following states are known community property states: AZ, CA, ID, LA, NV, NM, TX, WA, WI, AK

INCOME/ASSETS	
Ratios	The maximum ratios for Rural Development loan are 29/41. Ratios may be exceeded with GUS approval. For manually underwritten loans requiring a ratio waiver, the maximum ratio for a Rural Development loan is 32/41 or 29/44.
Debt Ratio Waiver	An applicant’s PITI ratio may exceed 29 percent and the Total Debt ratio may exceed 41 percent if the lender determines that strong compensating factors demonstrate that the household has higher repayment ability. A. <u>Debt ratio waivers for purchase transactions</u> Manually underwritten loans – purchase transactions. Agency approval of a lender’s request for debt ratio waiver may be granted if the following conditions are met: 1. Acceptable ratio thresholds are met: a. The PITI ratio is greater than 29 percent, but less than or equal to 32 percent, accompanied by a TD ratio not exceeding 44 percent; <u>or</u> b. The TD ratio is greater than 41 percent, but less than or equal to 44 percent, accompanied by a PITI ratio not exceeding 32 percent; <u>And:</u> 2. The credit score of all applicant(s) is 680 or greater; <u>And:</u> At least one of the acceptable compensating factors listed below is identified and supporting documentation is provided to the Agency. B. <u>Debt ratio waivers for refinance transactions</u> For manually underwritten Non-Streamlined and Streamlined refinance loans, the lender must thoroughly document the compensating factors that justify a debt ratio waiver. Streamlined-assist refinance transactions do not require debt ratio waivers. Debt ratio waivers can be approved when acceptable compensating factors are present. The following are examples of acceptable compensating factors: 1. 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.). 2. The borrower(s) has successfully demonstrated the ability to pay housing expenses equal to or greater than the new proposed monthly housing expense for the past 12 months. 3. The borrower(s) has demonstrated a conservative attitude toward the use of credit. 4. Cash reserves post-closing. The borrower(s) has demonstrated an ability to accumulate savings comparable to the difference between current housing costs and projected costs. 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. 5. Continuous employment with the current primary employer. **Acceptable Compensating Factors and Supporting Documentation:** • The proposed PITI is equal to or less than the applicant's current verified housing expense for the 12 month period preceding loan application. Verification of housing expenses may be documented on a verification of rent (VOR) or credit report as noted in Chapter 10, 10.13. The VOR or credit report must include the actual payment amount due and report no late payments or delinquency for the previous 12 months. Rent or mortgage payment histories from a family member will not be considered unless 12 months of canceled checks, money order receipts, or electronic payment confirmations are provided. A history of less than 12 months will not be considered an acceptable compensating factor. • Accumulated savings or cash reserves available post loan closing are equal to or greater than 3 months of PITI payments. A verification of deposit (VOD) or two most recent consecutive bank statements document the average balance held by the applicant are required as noted in Chapter 9, 9.3. Cash on hand is not eligible for consideration as a compensating factor. • The applicant(s) (all employed applicants) has been continuously employed with their current primary employer for a minimum of 2 years. A "Request for Verification of Employment" (VOE) (Form RD 1910-5, comparable HUD/FHA/VA or Fannie Mae form, or other equivalent), or VOEs prepared by an employment verification service (e.g., The Work Number.) must be provided. This compensating factor is not applicable for self-employed applicants. Written approval of the debt ratio waiver request by the Agency is represented if a Conditional Commitment for Loan Note Guarantee is issued.
Military Borrowers	Must occupy as primary residence. Proof of discharge must be received within 1 year and the service person's family will continue to occupy the property if they are assigned to combat zone or other hazardous duty prior to discharge.
Income	All qualifying borrowers must have stable and dependable income with a 24 month history. Gaps > 30 days require a letter of explanation from the borrower. Wage earner income to be documented with a written VOE and one month's current paystubs or one month's current paystubs and two years W2's. Three income definitions are used. Whenever income determinations are made, it is essential to use the correct income definition and consider income from the appropriate household members. One very important criterion is income eligibility. Income information is used to determine eligibility, to calculate the applicant's ability to repay a loan, and to determine the amount of the loan. Qualifying income, which is the income that determines eligibility for participants in the program. Repayment income represents the stable and dependable income available to repay the mortgage and other debts. It remains the lender's responsibility to document the applicants qualifying income and support their calculation. Four income definitions are used: 1. Annual Income. The income of all adult household members; 2. Adjusted Annual Income. The household's annual income minus certain qualified household deductions; 3. Qualifying Income. Adjusted annual income compared to established income limits to determine eligibility of the household for the SFHGLP: and 4. Repayment Income. The stable and dependable income used to calculate debt ratios and determine whether the applicant(s) can afford the home.
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 for the next 3 years. In addition to wages, income from employed minors, reimbursements for medical expenses, education scholarships paid directly to the student or the educational institution. Tuition paid by the government directly to the veteran may also be included in the repayment income. Foster care for children or adults and supplemental Nutrition Assistance Program payments are ineligible for repayment consideration. Refer to RD Instruction 3555-D for additional requirements and allowable repayment income sources.
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, 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. Note - the income of a full-time student 18yrs or older who is not the applicant, co-applicant, spouse is excluded after it exceeds $480.

	Eligible deductions are: - Each dependent - $480 - Each disabled individual who is not the applicant or co-applicant - $480 - Each adult full time student $480 - Elderly (head of household or spouse is 62 years of age and older and a borrower on the loan) - $400 (one time deduction; not per person) - Disability expenses (Unreimbursed expenses in excess of 3% of annual income) - Medical expenses exceeding 3% of gross annual for elderly households only - Child care expenses for children 12 years old and under (actual cost of care and must be documented), and- Attendant care expenses for disabled members. Income limits are published for each county in the Exhibits of RD Instruction 3555-D and online at http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do
Annual Income	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 prior to the first month's mortgage payment due date, this amount must be included as income. For annual income, count only the first $480 of earned income from adult full time students who are not the borrower, co-borrower, or spouse. Annual Income is the amount of income that is used to determine an applicant's eligibility for assistance. Annual income is defined as all amounts, monetary or not that are not specifically excluded by regulations, that go to, or are received on behalf of, the applicant/borrower, co-applicant/co-borrower, or any other household member (even if the household member is temporarily absent).
Projecting Annual Income	Current income and family circumstances should be used to estimate the household's annual income over the coming 12 months, unless there is verifiable evidence of a likely change in circumstances or historical data does not support current income. For annual income, consider income that is attributable to any household member. 1. Use the gross amount, before any payroll deductions, of base wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances and other compensations for personal services of all adult members of the household. If a cost of living allowance or a proposed increase in income has been estimated to take place on or before loan approval, it will be included in the annual income calculation to determine household eligibility for the SFHGLP. 2. For the annual income calculation, count only the first $480 of earned income from adult full-time students who are not the applicant, co-applicant, or spouse. 3. The income of an applicant's spouse, unless the spouse has been living apart from the applicant for at least 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. (additional examples found in Chapter 9: Income Analysis 7CRF 3555.152)
Non-Taxable Income	Nontaxable income such as Social Security, Pension, Workers Comp and Disability Retirement may be grossed up 25%.
Rental Income	Rental income must be received for 24 months or greater. 2 years tax returns and copy of the signed current lease. Positive rental income may be considered for repayment purposes (always considered for annual income). Negative rental income is considered a liability. Repayment Income for rents received less than 24 months. Applicants retaining their existing dwelling must qualify for all mortgage liability payments. Newly signed leases have no historical basis to conclude that the income is likely to continue and cannot be used for repayment ratio calculation. Rents received less than 24 months do not represent a stable continued source of income for repayment income due to lack of history and cannot be used when qualifying the loan request. The exclusion of rental income will ensure the applicant has sufficient monthly income to meet all mortgage and liability payments. Lenders who utilize GUS will not populate data fields on the "REO Property Information" page with any information regarding rental income received for less than 24 months in the "Gross Rental Income," "Mortgage Payments," or "Insurance, Maintenance and Taxes" data fields. However, the corresponding mortgage liability associated with the retained dwelling must be included in the long-term debt liability. Repayment Income for rents received 24 months or greater. When applicants can demonstrate rental income is stable and dependable, as evidenced and documented with the most recent two years tax returns and a copy of the current written lease executed by the homeowner and the lessee, the net rental income can be considered for repayment ratios. IRS From 1040 Schedule E is required to verify all rental income. Depreciation or depletion shown on Schedule E may be added back to the net income or loss for repayment income. Positive rental income is considered gross income for repayment income while negative income must be treated as a recurring liability.

	Repayment Ratios. If the net rental amount is negative, the amount of debt will be considered as a recurring liability for repayment ratios. This applies to manual and automated underwritten loan files.
Additional Income Types **(Additional Income Types can be Reviewed in the USDA Guidelines: Chapter 9 Income Analysis)**	Bonus, Commission or Overtime Income: For employment income that includes bonus, commission or overtime, lenders must consider the previous history of these income types from the same employer (or same line of work) together with the employment verification of continuance when calculating annual income. Employee Differential Payments/Housing Allowances: Include this type of payments as gross income when calculating annual income. Automobile/Expense Allowance/Per Diem: If the allowance/reimbursement is shown on the earnings statement as "gross earnings" it must be included in the annual income calculation. Unreimbursed Employee Expenses: The amount of unreimbursed employee expenses will be deducted from the calculation of annual income when supported on IRS Form 2106, "Employee Business Expenses." The sum of columns A and B on Line 8 of the form represent the total amount expensed personally by the employee. Calculation of Annual Income: Historical data may be utilized to project annual income in certain circumstances. For example, if one of the household members works overtime in the winter, but the income is being verified in the summer, historical overtime may be used to determine annual income. Historical information may also be used to estimate annual income that is anticipated to be received for less than 12 months. For example, if one of the household members is a seasonal worker, the income attributable to that worker should be based upon past history, rather than annualizing current income.
Tax Transcripts	**MSF Guidelines:** MSF Guidelines – Page 1
Assets	All assets for all household members must be disclosed. Must have sufficient assets to close. Acceptable assets are checking, savings, gift funds, stocks/bonds, 401K/retirement (use 60% of account value less all loans), and proceeds from sale of other real estate owned. The recent 2 month average monthly balance of liquid accounts is required. Funds borrowed against retirement accounts may be used for loan closing. Unacceptable sources are cash on hand, unsecured borrowed funds, retirement accounts that restrict withdrawal to retirement/employee separation and cannot be used towards reserves.
Minimum Reserves	None. Reserves can be used as a compensating factor but must be the borrower's own funds; cannot be a gift if used as a compensating factor.

Gifts	Acceptable. Donor must be an immediate family member. Standard FNMA gift documentation applies.
	• ***Gift funds in applicant's bank account at time of loan application.*** Document the transfer of the funds from the donor to the homebuyer by obtaining a copy of the canceled check or other withdrawal document showing that the funds are from the donor's account. Evidence the homebuyer deposited the gift into their personal account is required.
	• ***Gift funds provided at loan closing***. If the gift funds are not verified in the applicant's account at time of application and the transfer occurs at closing, the lender remains responsible for obtaining verification that the closing agent received funds from the donor for the amount of the purported gift and that the funds came from an acceptable source. Acceptable documentation includes:
	  ○ if the transfer of funds is by certified check, obtain a bank statement to document the withdrawal from the donor's account with a copy of the certified check or
	  ○ if the transfer of gift funds is from a donor purchased cashier's check, money order, official check or bank check – obtain a withdrawal document or canceled check for the amount of the gift to evidence the funds came from the donor's personal account or
	  ○ if the transfer of funds was via a wire transfer, obtain a wire transfer confirmation to verify the settlement agent received the funds from the donor for the amount of gift.
	Cash on hand" is not an acceptable source of funds.

Buyer Contribution	No minimum investment required. Borrower cannot receive cash back in excess of monies brought to closing by borrower.
Seller Contribution	Seller can pay up to 6% of borrower's closing costs.

GENERAL	
Manual Underwrite	Loans receiving a GUS Refer may be eligible for a manual underwrite. 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.
RD Approval	All USDA loan require a Conditional Commitment (RD 3555-18) issued by Rural Development prior to MSF drawing documents. Any increases in PITI, loan amount, interest rate and/or decreases in available funds require approval from RD before drawing loan documents.
Borrower Eligibility	US Citizens, qualified Permanent Resident Aliens, and qualified Non-Permanent Resident Aliens are eligible with supporting documentation. Foreign Nationals, borrowers with temporary residency status and borrowers with diplomatic immunity are not eligible.
Co-Borrowers	Allowed. All borrowers must occupy the subject property; non-occupant borrowers and co-signers are not allowed.
Adding/Deleting Borrowers	Borrowers may be added or deleted on refinance transactions provided at least one original borrower remains on the loan
Loan Terms Available	30 Year Fixed
Maximum Interest Rate	The maximum interest rate is based on the 90 day Fannie Mae 30 year A/A Remittance rate + 100 basis points and rounded up to the next 1/4%. The rates are found on the Fannie Mae website: http://www.efanniemae.com/sf/refmaterials/hrny/index.jsp
Age of Documents	Credit documents may not be more than 120 days old at the time of closing. Paystub(s) must be dated within 60 days of closing.
Qualifying Fixed Products	Qualify at Note Rate
Assumptions	Not permitted
Escrow waivers	Not permitted
Prepayment Penalty	Not permitted
Buydowns	Not permitted
Program Codes	Select Loan Program (see below)

Select Loan Program

All | VA | FHA | Conventional | RHS | Other | HELOC | State Agency | Local Agency

Code	Name	Mortgage Type	Amortization Type
CHFA SS USDA	CHFA Smart Step	RHS	Fixed
CHFA SS+ USDA	CHFA Smart Step Plus with Grant	RHS	Fixed
CHFA SS+2 USDA	CHFA Smart Step Plus with 2nd Mortg...	RHS	Fixed
CHFAHO USDA	CHFA Home Opener	RHS	Fixed
CHFAHO+ USDA	CHFA Home Opener Plus with Grant	RHS	Fixed
CHFAHO+2 USDA	CHFA Home Opener Plus with 2nd M...	RHS	Fixed
EPCTK-USDA	El Paso County Turnkey - USDA	RHS	Fixed
GSP - USDA	Golden State Platinum USDA	RHS	Fixed
IDA-USDA	IDA Home in Five Advantage	RHS	Fixed
THDA-USDA	Tennessee Housing Development Ag...	RHS	Fixed
TSAHC-USDA30	TSAHC - USDA 30 Yr Fixed	RHS	Fixed
USDA30	USDA 30 Yr Fixed	RHS	Fixed
WSHFC-HA USDA30	WSHFC Home Advantage USDA 30 ...	RHS	Fixed
WSHFC-HKO USDA30	WSHFC Housing Key Opportunities U...	RHS	Fixed