GUARANTEED RURAL HOUSING PROGRAM

POLICY	GUIDELINE
REGULATION	• 7 CFR Part 3555 Refer to the [Handbook 7 CFR 3555 on the USDA website]
GENERAL DESCRIPTION	The Rural Housing Service (RHS) program provides low-to-moderate income rural residents with better access to affordable housing finance options with little or no down payment. Property must be located in a designated rural area. To be eligible for RHS assistance, borrowers must lack sufficient resources (for example, borrower is unable to secure the necessary down payment which is generally 20%), to obtain conventional financing without RHS guarantee assistance. Additionally, the borrower must not currently own a home that is adequate for their needs.
PRODUCT TYPE & TERMS	• 30 year fixed rate mortgage Temporary buy downs are not permitted.
OCCUPANCY	• Primary Residence ONLY
LOAN PURPOSE	• Purchase • Rate Term Refinance permitted only if refinancing a current Rural Housing loan *Note: Refinance Transactions not permitted in Texas*
MAX LTV / CLTV	Max LTV - 100% of the appraised value The maximum LTV may exceed 100% of the appraised value only by the amount of the Guarantee Fee being financed in the loan amount. • Purchase transactions are eligible up to a max 100% LTV plus the applicable Guarantee Fee. • Refinance Transactions may exceed 100% only by the maximum applicable Guarantee Fee. Secondary financing may be used if it is approved by RHS and is offered by city or county agencies.
REFINANCE REQUIREMENTS	Non-Streamlined Refinance transactions must comply with the following requirements: • Must be paying off an existing Rural Development loan; • The interest rate of the new loan must be 100 basis points below the rate of the existing loan to be refinanced. • Appraisal is required. • The loan security must include the same property as the original loan. • Refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made. • The property must be owner-occupied as the borrower's primary residence. • Maximum loan amount cannot exceed the balance of the loan being refinanced, plus the guarantee fee and reasonable and customary closing costs (including funds necessary to establish a new tax and insurance escrow account). Subordinate financing, such as home equity lines of credit and down payment assistance "silent" seconds, cannot be included in the new loan amount. Unpaid fees, such as late fees due the servicer, cannot be included in the new loan amount. • Any existing secondary financing must be subordinate to the first lien. • Cash-out is not allowed. *Streamlined Refinance transactions are not eligible.*
SECONDARY MARKETING	Loan must be locked prior to the time the Underwriter sends the package to the local Guaranteed Rural Housing office.
MAX LOAN AMOUNT	The maximum loan amount is 100% of the conforming loan limit, plus the Guarantee Fee when it is financed. No minimum loan amount.
FEES	Loans are subject to both a guarantee fee and an annual fee as detailed below: **GUARANTEE FEE** To calculate the Guarantee Fee, please follow the detailed instructions in the charts below. • Purchase – 1.00% of the base loan amount, calculated as detailed below • Rate Term Refinance – 1.00% of the base loan amount, calculated as detailed below Guarantee fee may be financed or paid in cash (by borrower or seller) and is required regardless of LTV. The G Fee may be calculated in two ways depending on whether the fee will be financed.

GUARANTEE FEE CALCULATION METHOD

Guarantee Fee Financed	Guarantee Fee Not Financed
The fee is calculated as follows: 1. Divide the base loan amount by .99 and round to the nearest cent. 2. Multiply that number by .01 (1.00%) and round to the nearest cent.	Multiply the loan amount by 1.00% and round to the nearest cent.

ANNUAL FEE - 0.35% annual fee is assessed on every loan. The fee is paid in monthly installments and included in the monthly payment.

TECHNOLOGY FEE - $25 one time, per transaction.

CLOSING COSTS	• Applicable closing costs can be financed provided the appraised value is high enough to support the inclusion of the costs. Discount points may be financed for all applicants (low and moderate income). In such cases, discount points financed must be reasonable and customary and must represent a reduction to the interest rate. • **Credit Card for the Payment of Fees** – If fees associated with the loan have been paid outside of closing (POC) and are charged to the borrower's credit card, but are not reflected in the credit report obtained, the updated credit card payment must be documented and included in the debt-to-income calculation
ELIGIBLE BORROWERS	**HOUSEHOLD INCOME LIMITS APPLY – PLEASE SEE ELIGIBILTY INCOME IN THE SECTION BELOW** • Cannot be presently delinquent on a non-tax Federal Debt. • All borrowers must have a valid US Social Security number. • U.S. Citizen • Permanent Resident Alien with a valid green card. • Non-Permanent Resident Alien(s) are not permitted • Must have established credit in the US. • Must be paid in US dollars. • Funds to close / reserves must be in US dollars in a US depository. • Non-Occupant Co-Borrowers are not permitted. Borrowers are subject to the following eligibility requirements: • Owning a dwelling – Current homeowners are eligible for an RD loan if all of the following are met: o Borrowers are not financially responsible for another RD direct or guarantee loan at time of closing (i.e. the dwelling is not financed by an RD loan); o The borrower is financially qualified to own more than one house (the borrower is limited to owning one single family housing unit other than the one associated with the RD loan request; o The borrower will occupy the home financed by RD as their primary residence; o The current home owned no longer adequately meets the borrower's need. Loan 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. Room count generally includes a living room, dining room, kitchen, den, recreation room and bedroom(s). Does not include: bathrooms, entry ways, or foyers. Lender must obtain verification that overcrowding has existed for more than 90 days and will persist for at least 9 months into the future. • 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. • If the applicant is relocating or has relocated with a new employer, or has been transferred by the current employer to an area not within reasonable and locally recognized commuting distance. o Lender must provide explanation of why the current home no longer meets the borrower's needs and document the reasons beyond homeowner convenience, why the purchase of the new home must occur <u>prior</u> to the sale of the existing home. o Manufactured homes not fixed on a permanent foundation are functionally inadequate and will not render an applicant ineligible if they retain this unit. All costs associated with this unit must be included in the total debt ratio. • Borrowers must lack sufficient resources to obtain "traditional credit". Traditional credit is defined as the borrower having sufficient assets to be able to make a 20% down payment and pay all associated closing costs with a standard loan. **Non-US Citizen borrower's eligibility** must be verified through the Systematic Alien Verification for Entitlements (SAVE Program) which is a database maintained by the Department of Homeland Security's Citizenship and Immigration Services. GUS will sync with SAVE to obtain online immigration status information. Lenders remain responsible for securing proof of identity and evidence that non-citizens who apply for a guaranteed loan are qualified aliens. **Active-duty Military Borrowers** – may be eligible for an RD loan. They must occupy the property as their primary residence. The military applicant must express intent to meet occupancy requirements upon his/her discharge from the service. A military serviceperson who cannot physically reside in a property because they are on active duty will be considered to meet occupancy requirements if the serviceperson's family will continue to occupy the property as their principal residence. *Continued next page*

ELIGIBLE BORROWERS (continued)	**Screening GSA SAM Website (US General Services Administration (GSA) System for Award Management (SAM)** • The lender is responsible for screening the parties involved in the transaction. The check should occur prior to the request for commitment and take place no more than 30 days prior to loan closing. The lender will document the file with the date and screen print of the results of that check. Form RD 3555-21 will document that the lender performed the check. • Loan is ineligible if borrower, seller, listing/selling agent, loan officer is on GSA SAM.gov website. **Screening CAIVRS (Credit Alert Interactive Voice Response System)** - All borrowers must be screened using CAIVRS to determine if the borrower is delinquent on a federal loan.
ELIGIBLE PROPERTY TYPES	• The property must be located in a designated rural area as designated by the RHS office. To determine whether the property is located in a designated rural area, go to the Rural Development website at http://eligibility.sc.egov.usda.gov From the home page, click *Single Family Housing* under *Property Eligibility*. Enter the property address to get an instant determination or to view a map. • Property must be predominately residential in use, character and appearance. Property must not include buildings designed for and to be used principally for income-producing purposes. Barns used for storage are permitted, if not part of an income producing enterprise. • Single family residences, approved condominiums, and PUDs • Condominiums o Units in the condominium project are eligible if the condominium has been approved or accepted by FHA, VA, Fannie Mae or Freddie Mac. o Site condominiums – project approval may not be required if the property meets the following criteria. Site condominiums that do not meet these criteria must have been reviewed as a standard condominium project and receive an approval. • Single family totally detached dwelling encumbered by a declaration of condominium covenant or condominium form of ownership. • The unit has no shared garage or any other attached buildings (i.e. archways, breezeways). • The condominium unit consists of the entire structure, site, and air space and is not considered to be common areas or limited common areas. Appraisal data will continue to be collected on Uniform Residential Appraisal Report (FNMA Form 1073/FHLMC Form 465). A Condominium Rider must supplement the Mortgage. Insurance and maintenance costs will be the responsibility of the unit owner. • RD no longer applies a maximum land value as part of their property eligibility guidelines. • Properties with in-ground swimming pools are permitted. • The property must be contiguous to and have access to a paved or all-weather surface street, road or driveway. If the drive is shared, there must be a permanently recorded easement for ingress and egress. Private streets must have a permanently recorded easement or be maintained by an HOA. • The property must have dependable water and waste disposal systems that are approved by local authorities (refer to *Appraisal Requirements and Property Inspections* section for more details). Properties served by cisterns are not acceptable. Water systems, for existing and new construction, that require continuous or repetitive treatment to be safe bacterially or chemically may be used if the individual water system meets state/local requirements. Individual dwelling water purification units are not an acceptable alternative; however, they may be used if the individual water system, with purification, meets the requirements of the state department of health or other comparable reviewing and regulatory authority. • Existing direct and guaranteed loans remain eligible for refinance transactions • Accessory Dwelling Unit. The presence of an accessory dwelling unit (ADU) does not automatically render the property ineligible. The appraiser will determine if the ADU represents a second single family housing dwelling unit. The Agency defers to the appraisers professional review of the property and expert opinion of the highest and best use of the subject property as a primary residence. The appraiser will include their evaluation in the site analysis section of the appraisal report if applicable. Modest Housing There are no maximum mortgage limits for property financed under the SFHGLP. Modest housing is defined as a new or existing dwelling that a low or moderate income borrower can afford based on their repayment ability. The property must not be primarily designed for income producing activity. • Zoning**.** The property must comply with applicable zoning and restrictions. If an existing property does not comply with all current zoning ordinances but it is accepted by the local zoning authority, the appraiser must report the property as legal non-conforming. The appraisal must reflect any adverse effect of the legal nonconforming use on the value and marketability of the property. • Economic Life. The economic life of a dwelling must meet or exceed the term of the proposed loan. *Continued next page*

ELIGIBLE PROPERTY TYPES (continued)

- Flood Hazards
  - Existing properties located in a flood zone are ineligible unless flood insurance through NFIP program is available. Flood elevation certificate is no longer required.
  - New or proposed homes in a flood zone are ineligible unless:
    - A final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) is obtained from FEMA which removes the property from Special Flood Hazard Area; OR
    - The Lender obtains a FEMA National Flood Insurance Program Elevation Certificate. The Flood Elevation Certificate must document that the lowest floor (including the basement) of the residential building, and all related improvements essential to the value of the property, are built at or above the 100-year flood elevation in compliance with NFIP. The elevation certificate must be prepared by a licensed engineer or surveyor.
    - Note: Part of the site may be located in the special flood hazard area without triggering these requirements, as long as no part of the dwelling is located in the SFHA. At the lender's discretion, lender may require flood insurance even if the residential building and related improvements to the property are not located within the SFHA, but the lender has reason to believe that the building and related improvements to the property may be vulnerable to damage from flooding.
  - Coverage must include: residential structures located in the SFHA (any part: including decks, carports, attached garages, etc.). Coverage is not required for additional detached structures from primary residence.
  - Flood insurance must cover the lesser of: 1) loan amount; or 2) maximum coverage allowed under NFIP.
  - Maximum deductible should not exceed the greater of $1,000 or 1% of the face amount of the policy.

The following properties are ineligible:

- Manufactured housing
- Farms
- No land or buildings that will be used principally for income (minimal income producing activity is allowed (i.e. garden, child care, etc.)
- Properties located in a mudslide zone.
- Properties located in an area not designated as rural by RHS.
- Property flip transactions.

CREDIT STANDARDS

- Minimum **620** credit score for all borrowers. Lender must determine that each borrower has an acceptable credit reputation even if they meet or exceed the minimum credit score.
- Credit must not be frozen
- Minimum of 2 tradelines that have existed for 12 months. GUS "Accept" recommendations that cannot meet this guideline must be downgraded to "Refer".
- GUS "Accept" loans do not require credit score validation
- Thin Credit with 3 scores that receives a GUS approval does not need to meet minimum trade requirements
- Collection accounts are factored into the credit score (see Collections Section)
- Federal judgments must be paid (no exceptions)
- Non-federal judgements may remain open if there is a payment arrangement with the creditor and the borrower has made regular and timely payments for 3 months prior to the loan application

Credit history must indicate a reasonable ability and willingness to meet obligations as they become due. The following are indications of unacceptable credit history:

- Foreclosure within the previous 3 years (including pre-foreclosure sale or short sale);
- Late mortgage payments, if any mortgage trade line during the most recent 12 months shows 1 or more late payments
- Late rent payments paid 30 or more days late within the last 12 months
- Outstanding tax liens, regardless of their age, that are currently delinquent
- Previous RHS debt or non-RHS debt that resulted in a loss

Chapter 7 Bankruptcy – permitted with a GUS "Accept" if bankruptcy was discharged at least 1 year

Chapter 13 Bankruptcy

- Bankruptcy plan in progress is permitted with a GUS "Accept" with the following:
  - lender documents 12 months of the debt restructuring plan has elapsed; and
  - the borrower's payment performance has been satisfactory and all required payments were made on time; and
  - the borrower receives written permission from the bankruptcy court/trustee to enter into a mortgage transaction
- Bankruptcy plan completed is permitted with a GUS "Accept". No additional documentation is required.

Consumer Credit Counseling Plans participation in a consumer credit counseling program does not disqualify a borrower from obtaining a mortgage, provided:

- Loan receives a GUS Accept; and

CREDIT STANDARDS (continued)

- The lender documents that one year of the pay-out period has elapsed under the plan; and
- The borrower's payment performance has been satisfactory and all required payments have been made on time.

<u>Credit Exceptions</u>

Credit history problems do not always reflect an unwillingness to meet the financial obligations. If the lender believes that the borrower 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 problem were temporary in nature, beyond the borrower'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 borrower's housing expenses, which will result in improved debt repayment ability. A significant reduction in housing expenses would be 50% or more.

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

<u>Authorized User & Disputed Trade Lines</u>

When a borrower'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 "Refer". For authorized user accounts, the lender must review the credit report trade lines in which the borrower has been designated as an authorized user in order to ensure than any open trade lines are an accurate reflection of the borrower's credit history. Closed authorized trade lines require no consideration.

For loans underwritten with the assistance of GUS that receive an underwriting recommendation of "Accept" and are supported by credit reports that designate the borrower as an authorized user of trade lines, the lender will obtain evidence of one of the following:

1. The trade line(s) in question is owned by another borrower on the mortgage application
2. The owner of the trade line is the spouse of the borrower
3. The borrower has made payments on the account for the previous 12 months prior to the application.

In the event one of the conditions cannot be met, an underwriting recommendation of "Accept" must be downgraded to a "Refer" and the file must be manually underwritten.

Requirement when manually downgrading a GUS Accept to a Refer:

- When a circumstance requires a loan to be downgraded from an Accept (i.e. authorized user, disputed accounts, lack of open trade lines), additional alternative credit references may be required. Two trade references are required when at least 1 of the trade references includes verification of rental housing payments or mortgage loan payments. If unavailable, at least three trade references.

Acceptable forms of documentation for a non-traditional mortgage credit requirements include:

- Cancelled checks;
- Third-party verification; or
- 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 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;
- 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 3 months of proposed mortgage payments (PITI) as a cash reserve post-closing; or • Any other reference which gives insight into the borrower's willingness to make periodic payments on a regular basis for credit obligations. Ineligible Non-Traditional Trade-lines: • Child Support • Alimony • Gym memberships Subscription services and memberships, as they are not credit obligations
COLLECTIONS	For loans underwritten with the assistance of GUS, lenders remain responsible for considering the existence of unpaid collections and the history of the collection accounts in the credit analysis and loan making decision. The lender will document reasons for approving a loan request when collection accounts remain unpaid. The preferred method to record the lenders analysis/reasons for approving the loan is to document their justification on the credit liability line under "notes" on the "Assets and Liabilities" page beside each individual collection. Unpaid open collections could affect the future ability of an applicant to repay the mortgage when creditors pursue collection. 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 2. Remove all medical collections and charge-off accounts from the total balance 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 DTI. c. In the absence of a payment arrangement, the lender will utilize in the DTI a calculated monthly payment. For each collection, utilize 5% of the outstanding balance to represent the monthly payment. 4. If the remaining outstanding balance of collection accounts is less than $2,000, the underwriter determines if payment in full is required and must document that decision. Borrowers who demonstrate a poor repayment of obligations should not be granted underwriting exceptions.

GUARANTEED UNDERWRITING SYSTEM (GUS)	All loans must have a GUS evaluation. GUS is a tool used to assist lenders in evaluating credit risk. It does not replace judgment of underwriters. Manual underwrites are allowed if all eligibility guidelines have been met. GUS cannot "read" the credit report and therefore does not "approve" or "ignore" adverse credit. All instances of adverse credit must be addressed by the lender's underwriter and documentation surrounding this review must be retained in the lender's loan file. When a borrower's current home is entered as a pending sale in GUS, the AUS will take a percentage and auto add it as proceeds. If the borrower is selling their home, it needs to be entered as SOLD and add these assets separately in the bank account OR in the "asset" section as proceeds from sale of the home. IF the "Pending" sale is used, there is a risk that these assets will be counted twice, and may corrupt your GUS approval. Tolerances • It is not necessary to update an underwriting analysis of a loan file that has received a Conditional Commitment when tax and insurance estimates do not increase the PITI and total debt ratios by more than 2% at closing. • RD allows a $50 tolerance threshold for income and asset amounts o If an existing debt increases, a new debt not on the credit report in GUS is identified, real estate taxes increase, hazard insurance increase, HOA fees/special assessments increase, etc.: if the cumulative total increases $51 or more, the issued Conditional Commitment will be void. o A release of GUS must be requested, or update to the manual file. A new final submission must be provided to the USDA and a new Conditional Commitment must be received. Downgrading a GUS Accept to a Refer – the presence of the following requires manual underwrite: • Unable to validate the credit score reflected on the GUS Underwriting Findings Report • Manually input liabilities – accounts that have been manually input into the liabilities section of the GUS and do not appear on the credit report. Exceptions to the downgrade include: manual entry of child support, alimony or garnishments from the borrower's salary. • Authorized user accounts or disputed accounts • Potentially derogatory or contradictory information that is not part of the data submitted to GUS or if there is erroneous information in the data submitted to GUS (i.e. pre-foreclosure sale) • Lack of open tradelines • Supplemental credit accounts (that have been obtained to meet RD requirements) cannot be "read" by GUS • New credit that is not represented on the credit report, even if the payment represents no late payments Compensating factors and FULL underwriting criteria is required for a GUS Refer/Manual UW: • 2 mos. FULL bank statements • Full VOE • VOR Documenting 12 mos. good rent history (if applicable) LOX for all/any derogatory credit
UNDERWRITING TURN TIMES	Loan must be approved by Rural Development, please expect a longer turn time. It will vary based on the turn times being experienced by local RD office.
TAX TRANSCRIPTS	Lenders must require each adult household member as applicable to complete and sign IRS Form 4506-T for the previous two tax years at the time of loan application. • 2 yr. tax transcripts required prior to loan closing • Each adult household member (as applicable) to complete and sign IRS Form 4506-T for the previous two tax years at the time of loan application. The 4506-T must request full transcripts with all schedules. • Full time students age 18 and up that are not the applicant, co-applicant, or spouse of an applicant are not required to sign the 4506-T or have transcripts provided. • Generally, when the documentation used to verify income is from the same calendar period as the tax transcript, the information must match exactly. However, if the income documentation is from the current calendar year and the transcript is from a prior year, there can be acceptable variances. If this variance exceeds 20%, document the rationale for using current income. • If tax transcripts are not available (due to a recent filing) a copy of the IRS notice showing "No record of return filed" is required along with documented acknowledgement receipt (such as IRS officially stamped tax returns or evidence that the return was electronically received) from the IRS and the previous one year's tax transcripts AND a underwriting exception will be required.

ELIGIBILITY INCOME	**Processor – complete *Worksheet For Documenting Eligible Household and Repayment Income (Attachment A)* included in *Request for Single Family Housing Loan Guarantee Form 3555-21*.** **<u>Eligibility Income – used to determine program eligibility</u>** The adjusted household income must be within Rural Development guidelines based on the number of people who will occupy the home. Annual eligibility income includes **income received by the borrowers and all other adult members of the household (exceptions to income that is not counted can be located in Section 9.3A of the RD Handbook)**. Eligibility income is projected forward including projected pay raises. The following items are subtracted from the total income to calculate "Adjusted Income": • $480 per minor child, full time student or disabled family member • $400 for each family member over the age of 62 • Certain child care expenses for children 12 yrs. and under **Shared Custody Applicants with shared custody may include their child(ren), no documentation required An income calculator is available on the Rural Development website at http://eligibility.sc.egov.usda.gov (from the home page, click *Single Family Housing* under *Income Eligibility* and follow the prompts). To ensure all income for program eligibility purposes have been disclosed, lenders must obtain certain documentation from any Non-purchasing spouse or other Adult household members. The level of documentation is determined by whether this individual is earning or not earning income. • Not earning income: IRS tax transcript for 2 years confirming no income and signed statement from non-purchasing spouse that they have no income currently and no employment is being sought. • Earning Income: Current paystub reflecting 30 days of YTD earnings, 2 years W2 for any/all employers, 2 years IRS tax transcripts and verbal VOE. Tax transcripts are required for all household members at time of submission to RD. **Income of Temporarily Absent Family Members:** Household members may be temporarily absent from the household for a variety of reasons, such as temporary employment or students who live away from home during the school year. The income of these household members is considered when computing annual income, except that for full-time students only the first $480 of earnings is counted. A student is considered a member of the household if either of the following conditions is met: 1) student lives or proposes to live in the dwelling at any time during the coming 12 months; or 2) property is listed as student's permanent address. **Living Apart:** Include the income of an applicant's spouse, unless the spouse has been living apart from the applicant for at least three months (for reasons other than military or work assignment), or court proceedings for divorce or legal separation have been commenced. Evidence to support living apart for three months may include but is not limited to an apartment lease, bills, or bank statements, in their name alone delivered to a different address, etc. This guidance applies to domestic partners, significant others, and fiancée's that are currently living with the applicant as a household/family unit. This guidance does not apply to adult dependents age 18 and up. **Child Care** – Documentation of reasonable anticipated child care expenses for the ensuing 12 months. Documentation can be obtained from the provider, or supported by receipts, income tax returns, etc. Third party verifications provided by a licensed childcare facility or provider on official letterhead are acceptable when the document includes 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 and must include evidence of payments made (i.e. canceled checks, money order receipts, bank statement, etc.). With qualifying documentation, reasonable child care can be deducted as long as it enables a family member to work, to actively seek work, or to further a member's education as long as they are not reimbursed or paid by another source and the minor is 12 years of age or younger. The childcare provider cannot be a household member. The deduction cannot exceed the amount of income, including the value of any health benefits, earned by the family member enable to work. To qualify for the deduction, the borrower must: 1) identify the children receiving child care and the family member who can work or go to school as a result of the care; 2) demonstrate there is no adult household member available to care for the children; 3) identify the child care provider, hours of care provided and costs; and identify the educational institution and provide documentation of enrollment (if appropriate). Note child support payments or private school tuition (kindergarten through 12 years of age) paid by a borrower are not eligible child care expenses. **Asset/Non retirement-** $50,000 in assets will be the new limit to require income be calculated and used in RD income calc *(revised from old $5000) Tax-exempt income – Tax-exempt income sources should not be grossed up when calculating eligibility income.

QUALIFYING INCOME	<u>**Qualifying Income – used to determine debt ratios**</u> Qualifying income differs from Eligibility Income in that it is calculated only from the income earned by the borrowers. Projected income cannot be used to qualify. Qualifying income is used to determine debt ratios. The lender must evaluate the stability and dependability of repayment income. Stable monthly income is the borrower's verified monthly income from all acceptable and verifiable sources that can reasonably be expected to continue for the next 3 years. • Verity full 2 years history of income • Paystub cover 30 days of earnings are required • Explain job gaps – the borrower should not have any gaps in employment of more than a month within the 2 year period prior to making the loan application. • Second jobs must have a full 2 year history • Unearned income must have 3 year continuance • Self-employed borrowers must have a minimum 2 year history, Year to date profit and loss required (balance sheets are not required) • Borrowers that have not been employed for 12 months with their current employer or have experienced significant earnings increase are considered high risk. The lender may consider reasonable allowances for borrowers with less than 12 months job time with their current employer under the following circumstances: o The borrower has recently changed jobs but remains in the same line of work, o The borrower frequently changes jobs but demonstrates income continuity, o The borrower 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. o The borrower 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 o A borrower will begin a new job with a firm offer from the employer indicating a start date within 60 days of closing (lenders must verify the borrower 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 a borrower entering a teaching position with a contract from a school district. Other non-employment income sources such as child support, alimony, public assistance payments, social security (including social security received by adults on behalf of minors or by minors intended for their own support – as long as the minor is a member of the household), retirement, etc. can be considered stable to the extent that they are likely to be consistently made by the payor and can reasonably be expected to continue for the next 4 years. **Tax-exempt income** – income that has been verified to be tax-exempt may be "grossed up" by 25% to calculate qualifying income. **Verbal VO**E- Required prior to closing/good for 10 business days
RENTAL INCOME	Rental income received for a property owned and retained by the borrower may be acceptable in limited circumstances. Rental income must be received 24 months or greater to be considered as stable and dependable income for qualification purposes. • 2 years tax returns required to verify • Copy of current lease executed by homeowner and lessee • IRS 1040 Schedule E required. Depreciation or depletion may be added back to net income or loss • Positive rental income may be considered for repayment purposes (always considered for annual income) • Negative rental income is a monthly liability Rental Income for Eligibility Income calculation: • Include in eligibility income regardless of the duration. • Include total rental real estate income reported on most recent IRS Form 1040 Schedule E for previous 12 months. • If no Schedule E, use cancelled checks, money order receipts, bank statements, or other documents to support of rents received. **Long-term current leases** – net rental income, received for 24 months or more may be considered stable and dependable income for repayment purposes. Evidence of long-term leases will be documented with the most recent 2 years of tax returns (including Schedule E) and a copy of the written lease agreement executed by the homeowner and lessee. Net rental income is considered the 2 year average of total rental real estate income reported on IRS Form 1040 Schedule E. A two-year average of depreciation and depletion may be added back to the net income or loss shown on Schedule E less monetary obligations associated with the property. Positive net rental income is considered as gross income for repayment purposes. *Continued on next page*

RENTAL INCOME (Continued)	Negative net rental income must be treated as a recurring liability and not as a deduction from repayment income. Data entry in GUS – complete the following steps: Complete the "Real Estate Owned" (REO) page in GUS to ensure rents are used to offset the existing mortgage obligation when applicable o GUS auto-calculates net rental income by employing a 25% vacancy factor. GUS uses 75% of the lender entered amount for gross rental income and subtracts the lender entered amounts for mortgage payments, insurance, maintenance and taxes. o Lenders may override the auto-calculation on this page when the most recent 2 years of tax returns evidence a more precise amount of income receipt. o On the "Assets and Liabilities" page of GUS, lenders should omit the mortgage obligation for the rental property shown on this page to avoid double counting the debt since it is also reported on the REO page. **Newly signed leases** – a newly signed lease has no historical basis to conclude that the income is likely to continue. Rental income that has been received for less than 24 months will not be considered stable and dependable income for repayment purposes. Borrowers who wish to purchase a new primary residence and retain or rent a residence must qualify with all mortgage liability payments. Income from newly signed leases cannot be used in repayment debt ratio calculations. The exclusion of rental income will ensure the borrower has sufficient monthly income to meet all mortgage and liability payments. Data entry in GUS – complete the following steps: o The REO page, lenders must leave the "Gross Rental Income" field blank when completing the "Mortgage Payments" (if applicable) and "Insurance, Maintenance, and Taxes" data fields. o The mortgage obligation (if applicable) associated with the retained dwelling must be omitted on the "Assets and Liabilities" page in GUS. Omission of the mortgage obligation on the "Assets and Liabilities" page is necessary to avoid duplication/double counting of the debt since it is also reported on the "REO" page.
QUALIFYING RATIOS	DTI: 29/41% Debt ratios exceeding 29/41% may be acceptable with compensating factors. GUS can identify compensating factors, determining if ratio waiver is appropriate. GUS underwritten loans receiving an "Accept" recommendation do not require ratio waivers from RD. **Student Loans** • <u>Fixed payment loans:</u> A permanent fixed payment may be used with supportive documentation in the file evidencing that the interest rate and repayment term are fixed. • <u>Non-Fixed Payment loans</u>: Payments for deferred loans, Income Based Repayment, Graduated, Adjustable and other types of repayment agreements which are not fixed cannot be used in the total DTI calculation. The higher of one half percent 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. **Deferred Payments (non-student loans)** Payments that will come due in the next 24 months, including personal deferred installment and balloon payments should be included in the calculation of the DTI. If the interest rate on a deferred loan is unknown the lender should estimate the monthly payments using an interest rate that is reasonable and customary for the type of loan. **Short-term obligations** DTI calculation should include short-term obligations that are considered to have a significant impact on repayment ability, such as large medical bills, car or other credit payments. **Long-term obligations** DTI calculation should include any long-term obligations with more than 10 months repayment remaining, including installment loans, revolving charge accounts, alimony, child support or separate maintenance payments, student loans, and other continuing obligations. **Revolving Accounts** If the credit report shows an outstanding balance, but no specific minimum monthly payment, the payment will be calculated as the greater of 5% of the balance or $10. If the lender obtains a copy of the current statement reflecting the actual current monthly payment statement, that amount can be used for qualifying purposes. If loan costs paid outside of closing (POC) and early in the application process, such as appraisal fee, are charged to the borrower's credit card, but are not reflected in the remaining balance of the credit report obtained, the lender must recalculate the credit card payment to account for the new changes and include the updated payment in the repayment ratio calculation. **Co-signed obligations** Debts which have been co-signed by the borrower for another party will be considered in the total debt ratio unless the borrower provides evidence another party has made the payment in the previous 12 months prior to the loan application. Acceptable evidence includes canceled checks, money order receipts and/or bank statements of the co-obligor or other third party. 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 borrower. Lenders must confirm the borrower is an actual co-signor as opposed to a joint obligor to the debt. *Continued on next page*

QUALIFYING RATIOS (Continued)	When jointly obligated, the debt will be included in the total debt ratio. Debts identified as "individual" 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 the borrower; loan in borrower's name). The legal obligation resides with the borrower when identified as "individual".
PAYMENT SHOCK	"Payment shock" signifies the increase in housing expenses experienced by a borrower. It is calculated as: PITI of the new home ÷ their previous housing/rent payment minus 1 (represented as a percentage. For example if the PITI on the new home is $1000 and their previous housing/rent payment is $650, the payment shock is 53.8% ($1000 ÷ 650 = 1.538 – 1 = .538 or 53.8% If the borrower does not have a housing expense prior to purchasing a home, such as the borrower was living with relatives, payment shock cannot be measured as a percentage. <u>If the PITI ratio is 29% or less</u>, payment shock is not a risk layer and requires no further supportive documentation. <u>If the PITI ratio exceeds 29% and the proposed mortgage payment is 100% greater than the current housing expense</u>, payment shock is a risk layer for underwriters to consider. In these cases as well as in cases where the borrower did not have a housing expense prior to purchasing a home, no additional risk layering should be allowed without strong compensating factors.
VERIFICATION OF RENT	• Borrowers with credit scores of 680 and above are not subject to verification of rent or housing history. If the borrower's credit score is under 680 and the borrower or co-borrower has a rent payment history, the lender should obtain a rent payment reference either as part of the credit report, or directly from the landlord, or through cancelled checks covering the most recent 12 months prior to the loan application. • When a private individual is the landlord, 12 months' worth of cancelled checks indicating a satisfactory rent payment history is preferred. Written verifications by independent management companies and private landowners may be accepted in lieu of cancelled checks. If the applicant does not have a full 12 month history, verify any previous payment made in the last 12 months. • GUS Underwriting Findings will state if a VOR is required. If a full 12 month history is not available, verify the length of history that does exist. • GUS "Accept" files do not require a Verification of Rent (VOR). A credit exception is not required for an applicant's lack of rental history • GUS "Refer", "Refer with Caution", or manually underwritten transactions with one rent or mortgage payment paid 30 days or more past due is considered significant derogator credit and will require a credit exception.
CASH RESERVES	Although cash reserves after closing are not required, cash reserves are considered in the risk assessment provided by GUS. • Retirement accounts limited to 60% of the vested balance • No gift funds permitted for use as reserves • Recent 2 month average balance of liquid accounts (i.e. checking/savings). The lesser of the two month average balance <u>OR</u> the actual balance (as reported on the most recent statement) will be used.
EARNEST MONEY DEPOSIT	Document source of funds if amount of EMD exceeds 1% of sales price or appears excessive based on the borrower's savings history. Document by obtaining: • A copy of the borrower's canceled check; • Certification from the deposit-holder acknowledging receipt of funds; or • A Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of EMD at the time of deposit • Reserves-Earnest money that will be returned to the applicant at loan closing is eligible to be included in reserves If the source of the EMD was a gift, verify that the gift is in compliance with gift requirements.
GIFTS	A fully completed gift letter stating that no repayment of the gift is required. Evidence of funds must be included in the loan file. Funds may be provided by anyone as long as they are not party to the sale/and will benefit from the sale (Seller, Realtor, Lender). Funds received from non-profit entities may not be used to pay installment loans, credit cards, collections, judgments, or other similar debts of the borrower. • Cash on hand is not an acceptable source of funds. • Gift funds cannot be considered reserves. • Gift funds should be reflected on the application as a separate entry to the borrower's depository account(s). Gift funds should not be reflected in the borrower's depository account balances. **Gift funds in borrower's bank account at time of application:** Document the transfer of the funds by obtaining a copy of the canceled check or other withdrawal document showing that the funds are from the donor's account. Evidence the borrower deposited the gift into their personal account is required. **Gift funds provided at loan closing:** obtain 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: *Continued on next page*

GIFTS (continued)	1. If the transfer of funds is by certified check, evidence the donor as the remitter; <u>or</u> obtain a bank statement to document the withdrawal from the donor's account with a copy of the certified check; or 2. 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 If the transfer of funds is via a wire, a wire transfer confirmation must be obtained to verify the settlement agent received the funds from the donor for the amount of gift.
LARGE DEPOSITS	For loans with bank statements reflecting any deposit or aggregate deposits of $500 or more, require the following: • Borrower letter of explanation; and • Documentation to support the borrower's letter of explanation. If no documentation can be supplied and the letter of explanation is reasonable, then the Underwriter will back out the large deposit(s) from the asset total and re-run DU.
MORTGAGE INSURANCE	• 1% financed upfront • .35% monthly
APPRAISAL REQUIREMENTS and PROPERTY INSPECTIONS	A full URAR is required for both purchase and refinance transactions. The cost approach method is not required. **For Condominiums**: Appraisal data will be collected on Individual Condominium Unit Appraisal Report (FNMA Form 1073/FHLMC Form 465). A Condominium Rider must supplement the Mortgage or Deed of Trust. Insurance and maintenance costs will be the responsibility of the unit owner. • Appraisals must be completed by an FHA Roster appraiser for Rural Housing loans • Appraisal must be ordered through one of ULG's Appraisal Management Companies • Well and Septic Inspections must meet FHA guidelines. For properties serviced by a well, an acceptable water test is required. Water tests are valid for 150 days to coincide with the appraisal validity date. Water test must meet local Health Authority codes and Separation distances must meet the HUD Handbook or be acceptable to local/state health authorities. • Septic: If the FHA approved appraiser certifies on the appraisal that the septic systems meets FHA guidelines no further test is required Appraisers may certify the requirements of "SFH Handbook (HUD Handbook 4000.1) or as superseded by HUD" have been met on page three of the appraisal form in the "comment" section, in an addendum to the appraisal, or elsewhere on the appraisal form. It is not necessary for the appraiser to specifically identify each HUD Handbook by number (4000.1). Appraiser comments that state the property "appears to meet" or "seems to meet" HUD Handbooks are unacceptable. Economic life of property must meet or exceed the term of the proposed loan.
ADDITIONAL DOCUMENTATION	**Request for Single Family Housing Loan Guarantee (Form RD 3555-21)** signed by the borrowers. This form can be signed at initial application BUT every time the 3555 form is updated or corrected the borrower needs to re-sign it.
INTERESTED PARTY CONTRIBUTIONS	Seller or other interested third-party contributions are limited to 6% of the sales price and can be contributed towards the closing costs, escrows, prepaids, etc. Closing costs/prepaids from the lender through premium pricing is not included in the contribution limit.
CASH BACK AT CLOSING	The Closing Disclosure cannot reflect cash back to the borrower <u>except</u> for items prepaid by the borrower outside of closing (which could include: credit report, appraisal, earnest money or pre-paid hazard insurance). Documentation must support items were paid by the borrower. **Indiana – tax proration credit cannot be given back to the borrower. Funds from the credit can be applied to other closing costs, discount points or must be a principal reduction. The funds applied from the taxes are not considered in the maximum concession calculation.**
ESCROW WAIVERS	Escrow accounts are required for property tax and hazard insurance.
DOCUMENT AGE	• Credit Docs, **120 Days** • Appraisal, **150 Days -** Approved lenders must ensure appraisals are completed by a qualified appraiser that is independent and objective. Approved lenders are responsible to review all appraisals for integrity, accuracy, and thoroughness prior to submission of a complete loan application package to USDA. The lender may pass the cost of the appraisal on to the borrower. The appraisal must have been completed within 150 days of loan closing. Appraisals that are older than 150 days prior to loan closing are eligible for an appraisal update.
BOND OR HOUSING LOANS	For all Housing/Bond loans (MSHDA, Escambia): • If renting, 12 month rental/housing verification reflecting 0x30 must be documented with 12 months canceled checks or Verification of Rent (VOR) form, if applicable. • Maximum Total (or bottom) Debt-to-Income Ratio : o Loans with traditional credit - 45% maximum o Loans with non-traditional credit – 36% maximum • 2 months reserves • Soft pull credit report within 10 business days of closing.

POWER OF ATTORNEY	In addition to the requirements detailed in the Mortgage Power-of-Attorney policy/procedure located on the company intranet, the following use of a Power of Attorney (POA) was updated to clarify when it is acceptable for a POA to be utilized: A Power of Attorney (POA) may be used when the Mortgagee verifies and documents that all of the following requirements have been satisfied: • For military personnel, a POA may only be used for one of the applications (initial or final), but not both: o When the service member is on overseas duty or on an unaccompanied tour; o When the Mortgagee is unable to obtain the absent Borrower's signature on the application by mail or via fax; and where the attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings. For incapacitated Borrowers, a POA may only be used where: • A Borrower is incapacitated and unable to sign the mortgage application; • The incapacitated individual will occupy the Property to be insured; and • The attorney-in-fact has specific authority to encumber the Property and to obligate the Borrower. Acceptable evidence includes a durable POA specifically designed to survive incapacity and avoid the need for court proceedings.