

Rural Development Guidelines

Table of contents

Chapter 1: Product Overview	5
Product Overview	5
Documentation Options	5
State Restrictions	5
Eligible Areas	5
Chapter 2: Investor Codes	6
Terms	6
Product Code Tables	6
Chapter 3: Full/Alternative Documentation	7
Documentation Requirements	7
Maximum Loan Amounts and LTVs	7
Maximum Cash-Out Restrictions	7
Qualifying Ratios	7
Reserve Requirements	7
Chapter 4: Qualifying Payment and Additional ARM Information	8
Adjustable Rate Mortgage	8
Qualifying Payment	8
Loan Assumptions	8
Chapter 5: Prepayment Penalty	9
Restrictions	9
Chapter 6: Borrower Eligibility	10
Ineligible Borrowers	10
U.S. Citizens	10
Permanent Resident Aliens	10
Chapter 7: Occupancy Eligibility	11
Primary Residences	11
Second Homes	11
Investment Properties	11
Number of Properties Owned	11
Chapter 8: Property Eligibility	12
Ineligible Properties	12
Condominiums (Condos)	12
PUDs	12
Modular Housing	12
Townhouses/Rowhouses:	12
Leaseholds	12
Acreage	12
Legal Non-Conforming Zoning	13
New Construction	13
Additional Property Requirements	13
Flood/Mud Slide Hazard Requirements	14

Thermal Standards	14
Chapter 9: Construction-Perm Option	15
Construction-Perm Option	15
Chapter 10: Special Product Options	16
Rural Energy Plus Pilot Program	16
Chapter 11: Refinance Requirements	17
Introduction	17
Term	17
Interest Rate	17
Property	17
Guarantee Fee	17
Household Income	17
Property Ownership Requirements	17
Loan Amount	17
Borrower Receiving Cash-out	18
Rural and Non-Rural Areas	18
Processing Requirements	18
Chapter 12: Subordinate Financing	20
Definition	20
Chapter 13: Temporary Buydowns	21
Restrictions	21
Chapter 14: Appraisal Requirements	22
Overview	22
Vacant Properties	22
Acceptable Appraisal Forms	22
Cost Approach	22
Additional Appraisal Analysis	23
Condition of Property	23
Remote Rural Areas	23
Chapter 15: Survey and Inspection Requirements	24
Survey Requirements	24
Inspection Requirements	24
Chapter 16: Escrow	26
Introduction	26
Postponed Improvement Escrow	26
Chapter 17: Guarantee Fee	27
Guarantee Fee	27
Chapter 18: Underwriting – General Guidelines	28
Introduction	28
Package Submission	28
Automated Underwriting Eligibility	28
Selecting the Score	28
Credit History	29
Non-Traditional Credit	29
CAIVRS	29
Rental History	29

Homebuyer Counseling.....	30
Paying off Collections, Charge off and Judgments.....	30
Contingent Liabilities.....	30
Payment Shock.....	31
Examples of Compensating Factors.....	31
Chapter 19: Income/Asset Documentation Requirements	32
Introduction	32
Salaried Borrowers.....	32
Self-Employed Borrowers.....	32
Asset Requirements.....	32
Unacceptable Sources of Down Payment.....	33
Gift Fund Requirements.....	33
Interested Party Contributions.....	33
Chapter 20: Closing Requirements	34
Closing Requirements	34
Special Closing Documents.....	34
Additional Closing Requirements Table.....	34
Interim Interest Credits.....	34

Chapter 1: Product Overview

Product Overview

This loan program provides rural residents with better access to decent housing. Each state has its own Rural Development office. Contact them for questions, application packets, exceptions and training.

Documentation Options

The following are the available documentation options:

- Full/Alternative Documentation

State Restrictions

At this time, only Texas properties are eligible for Rural Development programs.

Eligible Areas

The program is limited to rural areas having a population not in excess of 10,000, or not in excess of 20,000 if outside any Metropolitan Statistical Area (MSA)

- Your local RD office should provide you with maps or information concerning population in rural areas

Chapter 2: Investor Codes

Terms

The following terms apply:

- 30-year terms only
- 1-unit properties only

Product Code Tables

This table identifies the fixed rate Rural Development product and product code

Product	Product Code
30 Year Fixed	CRD30

Chapter 3: Full/Alternative Documentation

Documentation Requirements

- Income must be verified using Full or Alternative documentation
- Assets must be documented with a Verification of Deposit

Maximum Loan Amounts and LTVs

- The maximum mortgage loan amounts for the Guaranteed Rural housing program will be dictated by an applicant's income and loan repayment ability, but not to exceed the FHA maximum loan amount for the area where the property is located
- Loan amounts greater than the FHA maximum loan amounts are only permitted by the amount of guarantee fee that is financed
- Closing costs may be financed where there is equity above the contract price as supported by the appraisal
- Financing points or lender fees is not permitted
- The LTV may exceed 100% of the appraised value of the subject property only when the Guarantee Fee is financed into the loan amount, up to a maximum LTV of 102%

Maximum Cash-Out Restrictions

Borrowers are not eligible to receive cash-out from a refinance transaction. However, the Borrowers may receive reimbursement for fees that are a part of the refinance transaction, such as an appraisal or credit report fee. Any excess funds must be used to pay down the principal balance.

Minimum FICO Score

The minimum FICO score for NexBank Rural Development products and programs is 620.

Qualifying Ratios

The qualifying ratios are as follows: 29%/41%

- In order to exceed the maximum housing debt ratio, a waiver must be obtained from the local RD office
- A Waiver may be granted based on compensating factors such as history over the previous 12 months of devoting a similar percentage of income to their housing expenses, etc.
- If using GUS (Government Underwriting System) and an approval is issued with higher ratios, GUS will automatically include the debt ratio waiver

Reserve Requirements

There are no reserve requirements for this program.

Chapter 4: Qualifying Payment and Additional ARM Information

Adjustable Rate Mortgage

Not permitted

Qualifying Payment

The borrower will be qualified using a full PITI payment.

Loan Assumptions

Rural Development loans are assumable under specific RD and Investor guidelines.

Chapter 5: Prepayment Penalty

Restrictions
Not permitted

Chapter 6: Borrower Eligibility

Ineligible Borrowers

- LLC (Limited Liability Corporation)
- Trusts
- Foreign Nationals
- Non-occupant co-borrowers

U.S. Citizens

Permitted with no restrictions

Permanent Resident Aliens

Verification that the borrowers are legally residing/working in the U.S. must be supplied. (Diplomatic Visas are unacceptable)

Chapter 7: Occupancy Eligibility

Primary Residences

A Primary Residence is defined as a one unit property that will be occupied by the owner for the majority of the calendar year.

- At least one borrower must occupy the property and sign the Security Instrument and the Mortgage Note for the property to be considered a Primary Residence
- The Security Instrument requires a borrower to establish bona fide occupancy in the home as the borrower's Primary Residence within 60 days after signing the Security Instrument with continued occupancy for at least one year

Second Homes

Not permitted

Investment Properties

Not permitted

Number of Properties Owned

Borrowers may not own a dwelling in the local commuting area.

- Consideration may be given if the dwelling is not structurally sound or functionally adequate

Chapter 8: Property Eligibility

Ineligible Properties

- Condos with Leaseholds
- Manufactured Homes
- Native American Leasehold Estates
- Cooperatives
- Commercial properties
- Working Farms
- Orchards

Condominiums (Condos)

Lenders may warrant/certify Condo projects based upon review of the condominium documentation, and that the condominium is in compliance with HUD, VA, FNMA or FHLMC guidelines

- Lenders may provide a Condominium Certification to warrant the review and compliance of the condo or must submit all condominium documentation used in making their determination to Rural Development

PUDs

- Please submit all PUDs through proper channels to obtain PUD approval
- All projects must meet either VA, FNMA/FHLMC or HUD requirements

Modular Housing

- Building which consists of prefabricated components that are transported to the property site for final assembly. Although a modular home may be transported on a steel undercarriage, the undercarriage is not a permanent structural component and is removed when the home is placed on the foundation.
- Built to the state building code requirements of the state in which it is to be installed.
- Conforms to industrialized building codes, Building Officials and Code Administrators (BOCA), and local zoning requirements

Townhouses/Rowhouses:

Defined as a residential unit on a small lot that has coincidental exterior limits with other similar units. Title to the unit and its lot is vested in the individual buyer with a fractional interest in common areas, if any.

Leaseholds

Addressed on a case-by-case basis

Acreage

- Limited acreage is a RD requirement
- Contact your local RD office for possible waivers

Legal Non-Conforming Zoning

If the appraisal indicates a property's zoning is of a legal non-conforming (grandfathered use) nature, one of the following must be obtained:

- The appraiser must address the issue within the body of the appraisal, specifically state the property may be rebuilt "as is" in the event of a loss and indicate the source of the information, or
- A letter of addendum from the appraiser must be obtained addressing the issue, specifically stating the property may be rebuilt "as is" in the event of a loss and indicate the source of the information, or
- A letter from the county or governing municipality must be obtained stating the property may be rebuilt "as is" in the event of a loss

New Construction

New construction must meet the following requirements:

- Builders are required to give certifications that the dwelling was built in accordance with building plans and specifications that contain approved building code certifications including insulation standards according to CABO Model Energy Code (MEC-92).
- The builder must provide a minimum one-year warranty and the following inspections must be made:
 - When footings and foundations are ready to be poured but prior to back-filling
 - When shell is closed in but plumbing, electrical and mechanical work are still exposed
 - When construction is completed prior to occupancy
- If the builder supplies an insured 10 years warranty plan, the first two inspections above are not required
- Properties less than one year old are considered new construction and must comply with these requirements

Documentation Requirements

Lenders are required to maintain copies of the following documentation in their files, as RD maintains the option to request this information for review in certain situations:

- Copies of plans, drawings, and specifications
- Certifications regarding the plans, drawings and specification
- Building permits
- Copies of new construction inspections
- Occupancy Certificates
- Copies of construction warranties

Additional Property Requirements

- Property cannot have an in-ground swimming pool
- Properties with private water and water/waste disposal systems must meet approval by the local government agency having jurisdiction and written approval must be obtained

Flood/Mud Slide Hazard Requirements

Dwellings and building improvements located in special flood or mud slide hazard areas, as designated by FEMA may be financed if the following is met:

- The community, as a result of such designation by FEMA as a special flood or mud slide prone area, has an approved flood plain area management plan
- The dwelling location and construction plans and specifications for new buildings, or improvements to existing buildings comply with an approved flood plain area management plan
- Potential environmental impacts and feasible alternatives have been fully considered by RD
- The first level elevation is above the 100-year flood zone elevation

Thermal Standards

Effective January 10, 2008 the program's thermal performance standards apply only to new construction.

Thermal Standards:

- Ceiling – R30
- Walls – R16
- Floor – R19
- Roof – R31

Note: Please check your local RD office for your state's specific thermal requirements. There are certain states that will not permit the appraiser to do the Thermal Certifications.

Chapter 9: Construction-Perm Option

Construction-Perm Option
Not Permitted

Chapter 10: Special Product Options

Rural Energy Plus Pilot Program

The Rural Energy Plus Pilot Program allows a 2% increase in the qualifying ratios for the following:

- New construction or retrofitted homes that meet certain energy conservation codes

Notes:

- This program is available through December 31, 2008
- Contact your local RD office for a list of the energy conservation codes

Chapter 11: Refinance Requirements

Introduction

A refinance of an existing Guaranteed Rural Development loan is permitted.

Term

The term of the new loan will be 30 years.

Interest Rate

- The interest rate of the new loan must be at least 100 basis points(1.0%) below the interest rate of the existing loan to be refinanced
- Funded buydown accounts are not permitted

Property

- The property must be owned and occupied by the Borrowers as their Primary Residence
- The existing loan to be refinanced must be current for the previous 180 days prior to application. No loan can be refinanced unless 6 payments have been made
- No properties with in-ground swimming pools are permitted

Guarantee Fee

The guarantee fee will be .5% of the total principal obligation

Household Income

Total adjusted income for the household cannot exceed the moderate income level for the area established in the Rural Development Income Limits

Property Ownership Requirements

Refinance Transactions:

- At least one borrower must be an Owner of Record at the time of Application

Loan Amount

- 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 a home equity seconds and down payment assistance "silent" seconds cannot be included in the new loan amount. Any existing secondary financing must be subordinate to the new first lien

Streamlines Refinance

- On Streamlined refinances where no appraisal is required, the maximum amount to be financed can be no greater than the principal balance of the existing loan. The guarantee fee may be financed up to the original loan amount of the existing loan being refinanced. In summary, the new loan amount cannot exceed the old loan amount on streamlined refinances.
- For non-streamlined refinances, a new appraisal is required whenever the refinanced loan amount exceeds the original loan amount regardless of the age of the loan, or if the application date is greater than 12 months from the original date of the loan in all cases.

Borrower Receiving Cash-out

Borrowers are not eligible to receive cash-out from the refinance transaction but may receive reimbursement for fees that are part of the refinance transaction, such as:

- An appraisal or credit report fee
- At loan closing, a nominal amount of cash-out to the applicants may occasionally result due to final escrow and interest calculations
 - This amount if any, must be applied to a principal reduction of the new loan

Warning: Unpaid fees, such as late fees due the servicer, are not eligible to be included in the new loan amount.

Rural and Non-Rural Areas

Refinances are permissible for properties in areas that have been determined to be non-rural since the existing loan was made.

Adding/Deleting Borrowers

- Additional borrowers may be added to the loan or existing borrowers may be deleted from the current loan.
- All borrowers on the new loan must meet all eligibility requirements

Processing Requirements

All normal Rural Development requirements are required, with the exception of the following:

- A full appraisal will be required in cases when any accrued interest, closing costs, .5% Guarantee Fee and/or fees will be financed into the loan.
- No new appraisal is needed if only refinancing the principal balance and the .5% guarantee fee.
- No property inspections or thermal certification are necessary on Refinance Transactions

- Discount points paid to the originator representing application fees, of broker fees cannot be assessed to the borrower. Discount points associated with a permanent interest rate reduction may be assessed to the borrower. These points may not be financed, however, unless the applicants have household incomes defined as “RHS Low-Income.”
- Reasonable and customary closing costs may be collected from the borrower, but may not exceed the actual cost incurred for the service provided. The maximum for all origination related fees paid to the Lender and the Lender’s originators is 1.0%.

Chapter 12: Subordinate Financing

Definition

Contact your local RD office for information.

Warning: Effective with loans closing on May 16, 2008 or later, in instances where subordinate financing exists in conjunction with our first mortgage lien, we will require documented evidence of subordination at settlement. It is no longer acceptable for title companies to insure over this subordinate lien.

Chapter 13: Temporary Buydowns

Restrictions

Not permitted at this time

Chapter 14: Appraisal Requirements

Overview

- The information in the report must be accurate, internally consistent, written in clearly understandable language, fully supported, and sufficiently documented
- All appraisers must include a copy of their state license in every loan package
- The appraisal must be dated and completed within six months of requesting a loan guarantee commitment from RD
- Specific thermal and construction standards must be met

Vacant Properties

Appraiser must state if all utilities (including water) are on and working. RD requires the utilities be on regardless of the winterization, for the appraisal to be complete.

Acceptable Appraisal Forms

Form 1004 MC is required on all appraisals.

The table below reflects the correct appraisal forms that should be used.

Appraisal Report Name	Freddie Mac/Fannie Mae Form Number
Uniform Residential Appraisal Report	Form 70/1004
Appraisal Update and/or Completion Report	Form 442/1004D
Individual Condominium Unit Appraisal Report	Form 465/1073

Cost Approach

- The cost approach to valuation will be mandatory for:
 - Dwellings less than one year old
 - Unique properties because of style or construction method
 - Properties that have functional obsolescence
- Whether or not the cost approach is required, the estimated site value must be included for all detached properties
- Generally, the value of the site must not exceed 30% of the total value of the property
- When the value of the site is typical for the area, as evidenced by the appraisal, and the site cannot be subdivided into two or more sites, the 30% limitation may be exceeded, subject to RD approval

Additional Appraisal Analysis

The review and acceptability of each appraisal report should include:

- an analysis and review of any prior sales of the subject property and
- Review of any prior sales of the subject property and
- The sale price trend in relation to the appraiser's estimate of value to confirm that it is reasonable and representative of the market

The subject property and comparable sales should be analyzed to evaluate the time elapsed between the date(s) the property was acquired and the date(s) resold, or the date of the current resale contract, if applicable.

If the sales history of the subject property or the comparable sales indicates current or prior sale prices may be excessive, and resale dates occurred shortly after the property seller's acquisition of the property, the appraisal report should provide

- Evidence to support a rapidly appreciating real estate market
- Significant improvements that resulted in a corresponding increase in the property value or
- A previous sale that was below market value due to a distress or tax sale

There is no set limit to the distance of comparable properties; however comparable distance guidance will remain in the Property Evaluation Guidelines as general direction. The clear goal is to determine that we have the best comparable properties available

Condition of Property

- Properties appraised in "Fair Condition" are unacceptable. The property must be brought up to at least "Average Condition", prior to closing
- Escrow holdbacks are not permitted
- A final inspection showing the work has been completed must be included in the file

Remote Rural Areas

Certain RD designated Remote Rural Areas exist and allow for different appraisal practices. If you have a borrower building new construction in a designated remote rural area please see AN #4365.

Reference: To access AN #4365, click the following link:

http://www.rurdev.usda.gov/regs/an_list.html

Chapter 15: Survey and Inspection Requirements

Survey Requirements

If the title company insuring the mortgage requires a survey to remove exception to survey matters, the survey must conform to the requirements of the title insurance company’s standards, or any applicable legal standards relating to surveys.

Note: A copy of the required survey, whether new or existing, must be in the closed loan package

Inspection Requirements

- Inspections must be done by a qualified person, such as a HUD approved fee inspector
- The purchase contract must identify whether the Purchaser or the Seller is responsible for obtaining and paying for the required inspections and certifications
- For existing dwellings, inspections must be made to determine the dwelling meets the current requirements of HUD Handbook 4150.2 and 4905.1
- Home inspections that have been signed off by an appraiser are not acceptable.

The table below details inspections that might be required.

Type of Inspection/Test	When Required
Wood Destroying (Termite)	If required by the appraiser, inspector or state law
Well (Individual Water System)	<p>If property is serviced by an individual well:</p> <ul style="list-style-type: none"> • The local health authority or state certified laboratory must perform a water analysis. • The water quality must meet state and local standards <p><u>Note:</u> The Safe Drinking Water Act does not protect private wells. The rules of the Environmental Protection Agency (EPA) only apply to “public drinking water systems” government or privately run companies supplying water to 25 people or 15 service connections.</p> <ul style="list-style-type: none"> • Most states regulate private household wells, and most health department, environmental offices, and county governments should have a list of state certified testing laboratories.

Septic	<p>If the property is serviced by an individual septic system, the septic system must be free of observable evidence of system failure.</p> <p>A FHA roster appraiser, a government health authority, a licensed septic system professional or a qualified home inspector may perform the septic system evaluation</p>
Distances between Well and Septic	<p>The separation between a well and septic tank, the drain field, and the property line should comply with HUD guidelines or state well codes.</p>
Thermal Certification	<p>Required if the appraisal is not completed by an FHA Approved appraiser</p>

Chapter 16: Escrow

Introduction

An escrow account must be established for real estate taxes, hazard insurance, and if applicable, flood insurance. NO EXCEPTIONS.

Postponed Improvement Escrow

Not permitted

Chapter 17: Guarantee Fee

Guarantee Fee

A Guarantee Fee is charged on all loans:

- Purchase = 2.00% (can be financed and if so, the fee must be based upon the final full loan amount including any fee financed)
- Refinance = .5%

Chapter 18: Underwriting – General Guidelines

Introduction

Generally, all loans will be underwritten to RD guidelines with the following considerations

Note: These guidelines are not inclusive of each and every individual State requirement. Check with your local RD office.

- It will be each originator's responsibility to obtain and carefully review the local Rural Housing manual, forms, maps, income limits and guidelines in order to originate insurable, saleable loans.
- The use of FNMA/FHLMC waivers is not permitted with this product

Package Submission

All loans must be underwritten by the lender, as well as Rural Development

- Submit one copy file and original photos to your local RD office with instructions to send the underwriting decision to NexBank
- At the time the loan file is submitted to Rural Development it must contain your Underwriting Approval Notice and a copy of the flood certification
- If the approval is subject to conditions, then those conditions must be included

Underwriting Conditions

- NexBank conditions – conditions are sent to your local Underwriter.
- Rural Development conditions – the original conditions are sent to your local RD office with copies sent to NexBank

Automated Underwriting Eligibility

The use of GUS, the automated Government Underwriting System is permitted with this product.

Minimum FICO Score

The minimum FICO score for NexBank Rural Development products and programs is 620.

Selecting the Score

The procedure to establish Underwriting Scores should be used for each borrower on the loan.

- If three usable FICO scores are received, the Underwriting Score would be the middle score.
- If only two usable FICO scores are received, the lower of the two would be the Underwriting Score.
- If more than one applicant, the credit score of the primary wage earner would be given the most emphasis.
- If only one score is received, use that score.
- If no FICO score exists, non-traditional credit histories may be accepted

Credit History

Although Rural Development does not have a minimum credit score, they have established underwriting guidelines to determine if the borrower has an acceptable credit history. Any of the following are indicators of an unacceptable credit history unless the cause of the problem was beyond the applicant's control:

- Incidents of more than one secured or unsecured debt payments being more than 30 days late if the incidents have occurred within the last 12 months. This includes more than one late payment on a single account
- Loss of security due to a foreclosure if the foreclosure has occurred within the last 26 months
- Outstanding tax liens or delinquent Government debts with no satisfactory arrangement for payments, no matter what their age, as long as they are currently delinquent and/or due and payable
- A court-created or affirmed obligation (judgment) caused by non-payment that is currently outstanding within the last 12 months
- Two or more rent payments paid 30 days or more past due that have occurred within the last three years
- Accounts which have been converted to collections within the last 12 months
- Collection accounts outstanding with no satisfactory arrangements for payments, no matter what their age as long as they are currently delinquent and/or due and payable
- Non-RD debts written off within the last 36 months

The following DOES NOT indicate an unacceptable credit history:

- No credit history. NOTE: Although RD does not consider this as unacceptable, NexBank is not accepting borrowers without an established credit history.
- A bankruptcy discharged more than 36 months prior to the application date
- A satisfied judgment or foreclosure with no loss of security which was completed 12 months before the date of application
- CCCS – Must have a satisfactory pay history on the CCCS plan as well as the accounts included in the CCCS. Do not have to payoff/cancel the CCCS to obtain loan approval.

Non-Traditional Credit

Not permitted at this time.

CAIVRS

All loan files must show the CAIVRS (Credit Alert Interactive Voice Response System) has been checked.

Note: This must be clearly documented by showing the CAIVRS identifying number for the borrower and co-borrower(s) near the signature line on the 1003.

Rental History

- First Time Homebuyers without a verifiable housing or rental payment history, rental history is not required.

•
Homebuyer Counseling

Homeownership counseling is required.

Paying off Collections, Charge off and Judgments

- Collection accounts are not required to be paid, but the amount of the collections or derogatory accounts must be considered in the analysis of the loan
- All judgments, tax liens and mechanics' or material men's liens must be paid in full at or before the loan closing
- An exception may be made if the borrower has agreed with the creditor to make regular and timely payments on the judgment, and documentation is provided that the payments have been made in accordance with the agreement provided our mortgage lien will be in first lien position

Bankruptcy

All bankruptcies must be discharged at least 36 months prior to application date.

Contingent Liabilities

This table identifies contingent liabilities used in determining qualifying ratios

Contingent Liabilities	Consideration
Liability on a previous mortgage	When the borrower has disposed of a property through a sale, trade, or transfer without a release of liability, the debts must be considered unless: <ul style="list-style-type: none"> • Evidence is provided (usually canceled checks from new owners) showing the new owners have made payments successfully over the past twelve months
Co-Signed Obligations	If the borrower is a co-signer or is otherwise co-obligated on a car loan, student loan, mortgage, or any other obligation, the liability will still be counted as debt unless documented proof is obtained evidencing the primary obligor: <ul style="list-style-type: none"> • has been making payments during the previous 12 months on a regular basis, and • does not have a history of delinquent payments on the loan

Student Loan Payments	Student loan payments will be included in DTI regardless of whether they are deferred
-----------------------	---

Payment Shock

In cases where payment shock is 100% or higher as well as in cases where the applicant did not have housing expenses prior to purchasing a home, no additional risk layering should be allowed without strong compensating factors

Examples of Compensating Factors

This table identifies examples of acceptable compensating factors that may be considered by the underwriter when a favorable decision is made on a loan containing multiple layers of risk

Compensating Factor	Consideration
Ability to pay Housing	The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new mortgage over the past 12-24 months
Savings	The borrower has demonstrated an ability to accumulate savings and a conservative attitude toward the use of credit
Previous Housing Expense	Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses
Increased Housing Expense	There is only a minimal increase in the borrower's housing expense
Increased Earnings	The borrower has a potential for increased earnings, as indicated by the job training or education in the borrower's profession
Credit History	Borrower has an excellent credit history reflecting timely repayment of credit obligations
FICO	Borrower has a FICO credit score of 660 or greater

Chapter 19: Income/Asset Documentation Requirements

Introduction

The applicant's adequate and dependable income must be determined to evaluate repayment ability. Adjusted annual income must be determined to consider eligibility for the RD Guaranteed loan program. The income limitations for each area can be assessed via RD's website at

<http://www.rurdev.usda.gov/rhs/sfh/sfh%20guaranteed%20loan%20income%20limits.htm>

Note: For sources of income other than those listed below, please contact your local RD office guidance

Salaried Borrowers

Documentation Required:

- Pay stubs for the most recent 30 day period showing year-to-date income; and
- W-2 forms for the past 2 years; and
- Verbal VOE

Self-Employed Borrowers

- A signed 4506T is required at time of application and at closing
- The Lender must send the 4506T to the IRS during the processing of the loan application. RD does not require the information back from the IRS before closing the loan.
- Signed copies of individual Federal tax returns including all appropriate schedules for the most recent two years (the type of self-employment will typically determine which schedules are appropriate); OR
- Lender obtained IRS-issued transcripts of the borrower's tax returns, as long as the transcripts include the information from all of the applicable schedules, and
- YTD Profit and Loss and Balance Statements

Asset Requirements

1980.346 (b) states the applicant must be without sufficient resources to secure the necessary conventional credit without an RHS guarantee upon terms and conditions which the applicant could reasonably be expected to fulfill.

- In some states a 20% down payment is used as a benchmark for referral to conventional credit; therefore borrowers having available assets for a 20% down payment may be rendered ineligible for the RD program
- • Contact your RD office for instructions

Unacceptable Sources of Down Payment

- Funds from Non-Profit Organizations such as Nehemiah, AmeriDream or any other program to which the seller contributes the funds.
- Cash on hand
 - Only permitted if borrower has a history of paying all bills in cash and can provide receipts

Gift Fund Requirements

100% Gift funds are acceptable.

- Document transfer and receipt of Gift Funds.
- Regardless of when the gift funds are made available to the homebuyer, the lender must be able to determine that the gift funds ultimately were not provided from an unacceptable source and were indeed the donor's own funds.
- When 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 those funds came from an acceptable source

Interested Party Contributions

Interested parties include but are not limited to, the builder, the developer, seller of the property and the real estate agent

Contributions from interested parties for closing costs and prepaids are acceptable with the following limitations:

- 6% Maximum Contribution

Chapter 20: Closing Requirements

Closing Requirements

Please use the most current of the forms listed below:

- FNMA/FHLMC Multistate Note – Form 3200 or the appropriate FNMA/FHLMC Note where the property is located
- FNMA/FHLMC Mortgage for the state where the property is located
- Environmental Lien Endorsement ALTA 8.1
- Initial Escrow Account Statement
- Settlement Costs – A HUD Guide
- Standard 30 year Fixed Rate Truth-In-Lending Disclosure
- Servicing Transfer Disclosure
- Good Faith Estimate of Closing Costs
- RD Certification Worksheet for Adjusted Income
- Life of Loan Flood Certification

Special Closing Documents

Refer to the loan closing checklist which is included in your application packet.

- 1980-11 Guaranteed Rural Housing Lender Record Change
- Copy of Note and Mortgage
- A copy of any conditions that were listed on the RD Conditional Commitment
- 1980-19 Guaranteed Loan closing report signed by NexBank
- 1980-18 Lender Certification signed by NexBank
- Guarantee Fee Check

Note: RD will issue and send to you a Loan Note Guarantee which should be sent and placed in the file

Additional Closing Requirements Table

Document Name	Form Name
Condo Rider	Form 3140
Condo Endorsement	ALTA 4
PUD Rider	ALTA 5
Location Endorsement	ALTA 9 (required in areas where surveys are not necessary)

Interim Interest Credits

Borrower may receive an interest credit if the loan closes within the first five days of the month