



by  First Community Mortgage

 NMLS# 629700

# USDA/RD Underwriting Guidelines

Version 09.01.2019

PURCHASE

NON-STREAMLINE REFINANCE

STREAMLINED-ASSIST REFINANCED

# FCM USDA/RD UNDERWRITING GUIDELINES

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# USDA/RD Underwriting Guidelines

## Section 1.02 Program Overview

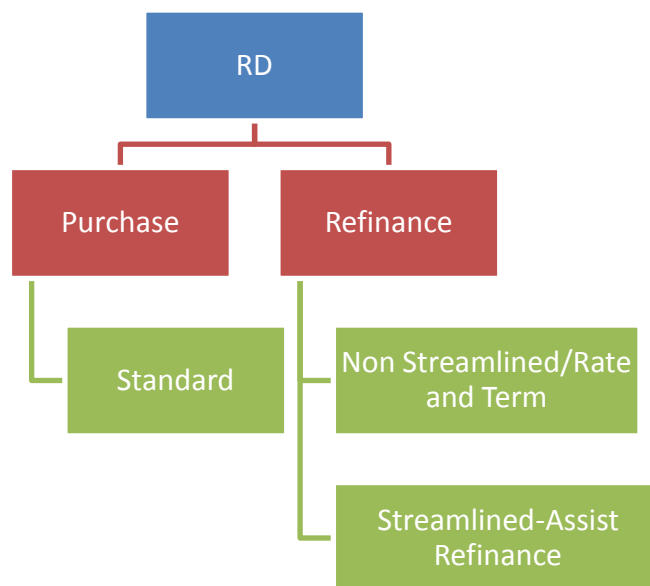
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### 1.02 Program Overview

The Guaranteed Rural Housing (GRH) Loan Program is designed to assist households in obtaining adequate but modest, decent, safe and sanitary dwellings and related facilities for their own use in rural areas. Loans are limited to applicants with incomes that do not exceed Rural Development (RD) [median income limits](#) and [property](#) that is designated as rural by Rural Development.

RD's underwriting standards are intended to provide guidelines for underwriters. Underwriting decisions must be based on sound application of the underwriting standards, and underwriters are expected to use good judgment and flexibility in applying the guidelines set forth in the following pages. This guide should be treated as a supplement to the standard RD Handbook.

The various types of USDA/RD loans covered in this guide can be found on the organizational chart below.



#### 1.02.01 Multiple Risk Layering

Underwriters must take into account the file as a whole when evaluating any file for approval. Although the Guaranteed Underwriting System (GUS) findings are an essential tool in today's mortgage underwriting marketplace, in the end they are just that, tools to be used by the underwriter to help evaluate the overall risk tolerance for any given file. It will always fall back to

the underwriter's experience and seasoned real-world skills in order to determine a file's creditworthiness and viability in the secondary marketplace.

That said, our underwriters are trained to assess the transaction for multiple layers of risk on any given file. Past performance has shown that individual risks and blemishes on a borrower's application may not pose a large potential for lack of repayment, however when multiple layers of risk are combined the performance levels drop significantly.

Some examples of these types of risks are:

- High Debt-To-Income Ratios
- Payment Shock
- Serious Adverse Credit
- Duration of Employment

# USDA/RD Underwriting Guidelines

## Section 1.03 Program Terms

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### 1.03 Program Terms

#### 1.03.01 Program Code

- RD30: RD Purchase & Standard Refinance Programs
- RD30PR: RD Streamlined Assist (SA) Refinance Program

#### 1.03.02 Term

- Purchase: 30 Year Term Only
- Standard Refinance: 30 Year Term Only
- RD SA Refinance: 30 Year Term Only

#### 1.03.03 Loan Type

- Purchase: Fixed Rate Only
- Standard Refinance: Fixed Rate Only
- RD SA Refinance: Fixed Rate Only

#### 1.03.04 Occupancy Type

- Purchase: Primary Residence Only
- Standard Refinance: Primary Residence Only
- RD SA Refinance: Primary Residence Only



# USDA/RD Underwriting Guidelines

## Section 1.03 Program Terms

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### 1.03.05 Loan-To-Value

Maximum Loan-To-Values (LTVs) are determined by using the base loan amount. The base loan amount is the maximum loan amount prior to the addition of the financed [Guarantee Fee](#).

The most recent FCM Credit Score/Loan-To-Value Matrix can be found by referencing the link below:

[FCM CREDIT SCORE/LTV MATRIX](#)

### 1.03.06 Discount Points

Discount points can only be financed into the base loan amount or paid by the seller if the borrower meets the low or very low [income eligibility requirements](#) and the discount points represent a reduction to the interest rate.

Discount points can be paid by the borrower, the seller, the lender via a lender credit, or by using premium pricing.

### 1.03.07 Guarantee Fees

#### 1.03.07.01 Upfront Guarantee Fee

The Upfront Guarantee Fee is a one-time, upfront fee based on a percentage of the loan balance and charged to the borrower. It may be financed into the loan and/or paid in cash. Partial financing of the Upfront Guarantee Fee is not allowed, it must be paid entirely in cash or entirely financed.

#### 1.03.07.02 Annual Guarantee Fee

The Annual Guarantee Fee is calculated based on the outstanding principal balance of the loan and charged for the life of the loan. Two months of the annual guarantee fee payment must be collected at closing. The annual guarantee fee is also collected as part of the borrower's monthly payment and will be placed in an escrow account with the servicing lender.

#### 1.03.07.03 Calculating Guarantee Fees

Transaction Type	Upfront Guarantee Fee	Annual Guarantee Fee
All Loans	1.0	0.35%

Please reference Rural Development's [Guarantee Fee & Annual Fee Calculator](#) for additional information regarding calculating guarantee fees.

# USDA/RD Underwriting Guidelines

## Section 1.03 Program Terms

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### 1.03.08 Maximum Loan Amount

The appraisal determines the maximum loan amount up to the conforming loan limits. The borrower may borrow up to 100% of the appraised value. See the [Refinance](#) section for information regarding determination of maximum loan amount for those types of transactions.

Borrowers may finance other closing costs and fees, but not discount points, up to 100% of the current appraised value. Loans may exceed 100% LTV only to the extent that the excess represents a financed guarantee fee.

### 1.03.09 Acceptable GUS Findings

Refer findings are subject to manual underwriting, additional stipulations, and Underwriting Management approval.

Note that Pilot Refinance transactions should not be run through GUS.

#### 1.03.09.01 Acceptable Recommendations:

- Accept/Eligible
- Accept/Eligible manually downgraded to Refer
- Refer

#### 1.03.09.02 Unacceptable Recommendations:

- Accept/Ineligible
- Refer with Caution – (EXCEPTION: allowed on “no score” files)

For more information on [Credit Waivers](#) please reference that specific section found later in this document.

### 1.03.10 Secondary Financing

Secondary financing is allowed.

#### 1.03.10.01 Purchase Transactions

Secondary financing may only be provided by a valid city, county, state or Federal governmental agency, or a [HUD-approved non-profit](#) that is also considered an instrumentality of government.

#### 1.03.10.02 Refinance

Existing subordinate financing cannot be paid off with the new loan. This includes, but is not limited to, home equity lines of credit, closed-end second liens and down payment assistance “silent” second liens.

# USDA/RD Underwriting Guidelines

## Section 1.03 Program Terms

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### 1.03.11 Escrows

Tax and Insurance Escrows are required on all RD loans regardless of loan characteristics.

Homestead taxes may be used for qualifying and escrow purposes if the amount is verified by the title company and there is a reasonable belief the borrower will qualify for, or continue to qualify for, the exemption based on local and state qualification standards.

### 1.03.12 Repair Escrows

Repair Escrows are reviewed on a case-by-case basis, but as a general guideline, must satisfy at least all of the stipulations below:

- Repairs must be required by the appraiser on the appraisal report.
- Repair Escrows may not cover any repair that would be considered a structural issue or could affect the liability of the subject. In addition, the repairs cannot be for an item that could be safety hazard (i.e. Roof Replacement, Mold removal and mitigation)
- Maximum Repair Amount: \$5,000 or 10% of the final loan amount whichever is less.
- Two Contractor/Professional estimates are required.
- 150% of the highest contractor estimate must be escrowed.
- 100% of the estimate may be included in the base loan amount (up to the appraised value)
- The additional 50% must be funded by another source (borrower, seller, etc.)
- 30 day standard escrow timeframe
- Up to 240 days escrow may be allowed if weather related items cannot be completed in time due to inclement weather
- A Final inspection by the appraiser is required and an Inspection Fee must be added. Final photos must be supplied by the appraiser.

### 1.03.13 Ineligible Transactions

- Refinances of any property listed for sale at the time of application
- Transactions where one or more borrowers have entered into a short refinance or restricted debt on the subject property.
- Refinance transactions where the existing mortgage being refinanced was modified.

# USDA/RD Underwriting Guidelines

## Section 1.04 Borrower Eligibility

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### 1.04 Borrower Eligibility

#### 1.04.01 Eligible Borrowers

Note: An individual/spouse can be listed as a buyer on the sales contract and/or vested as an owner on the title commitment without being listed on the loan application. All household income must be considered for income eligibility.

All of the following must hold true for a borrower to be eligible for an RD loan:

- Borrower must be unable to qualify for conventional credit as defined by RD's definition of traditional conventional credit standards:
  - Applicant has 20% non-retirement liquid funds available for downpayment
  - In addition to down payment, applicant as adequate funds to pay for closing costs
  - Ratios of 28/36%
  - Applicant has qualifying credit for conventional loan
  - Loan Term is for 30 Year fixed rate without mortgage insurance
- Borrower must be a U.S Citizen/[Permanent Resident Alien](#) (see section below).
- Borrower must have the legal capacity to insure mortgage debt.
- Borrower must have the ability to personally occupy the property on a permanent basis.
- A Borrower generally cannot retain ownership in a dwelling and be eligible for a guaranteed loan. A borrower may be considered eligible if all of the following conditions exist:
  - Current dwelling is not financed by an RD loan
  - The homeowner is financially qualified to own more than one house (borrower can only own 1 SFR in addition to the subject for the loan request)
  - The homeowner will occupy the home financed with the RD loan as their primary residence throughout the term of the loan.
  - The current home no longer adequately meets applicants' need. The file must contain documentation that the borrower's situation has had a significant change and requires immediate remedy. Examples:
    - Severe overcrowding. 1.5 persons per room (not bedroom). Must document it is not a temporary situation – existed for more than 90 days and will continue for greater than 9 months.
    - New Disability of limited mobility of a permanent household resident that cannot be accommodated through renovation/retrofitting. Must document change in status/disability, current property deficiencies and the suitability of the new property.
    - Applicant is relocating with a new employer or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance.

# USDA/RD Underwriting Guidelines

## Section 1.04 Borrower Eligibility

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The lender/borrower must document how these changes are a burden on the borrower now and in the future. In addition to these requirements it must be documented why the current home cannot be disposed of prior to/simultaneously with the new purchase.

*Note that in addition to the above items there are also [Income](#) and [Property](#) limitations involved in this program type.*

### **1.04.01.01 Total Number of Borrowers**

The total number of borrowers on an RD loan is limited to 4.

### **1.04.01.02 Valid Social Security number (U.S. Citizens and Non-U.S. Citizens)**

Each borrower on the loan transaction must have a valid [Social Security number](#). In addition, any borrower who is not a U.S. citizen must meet the requirements in the following section.

### **1.04.01.03 Permanent Resident Aliens**

A copy of the Green Card is required for all permanent resident aliens whose income and/or assets are being used to qualify for a loan. A copy of the front and back of the card is required and must be included in the loan file.

While the Green Card itself states "Do Not Duplicate" for the purpose of replacing the original card, U.S. Citizenship and Immigration Services (USCIS) allows photocopying of the Green Card. Making an enlarged copy or copying on colored paper may alleviate any concerns the borrower may have with photocopying.

### **1.04.01.04 Borrowers Not Yet Divorced/Divorce Not Final**

Borrowers who are separated/legally separated and not yet divorced may be eligible to purchase a primary residence prior to finalizing their divorce provided specific documentation is provided:

- **Recorded Legal Separation Agreement:** In states where legal separations are recorded the agreement may be provided to determine assignment of credit obligations, current real estate holding disposition and future alimony/child support obligations. If there are minor children a child support worksheet provided by the court or attorneys must be provided.
- **Marital Dissolution Agreement:** In states where MDAs are prepared, the agreement may be provided to determine assignment of credit obligations, current real estate holding disposition and future alimony/child support obligations. If there are minor children a child support worksheet provided by the court or attorneys must be provided.

# USDA/RD Underwriting Guidelines

## Section 1.04 Borrower Eligibility

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- Notarized Letter from Borrowers and Attorneys: In states where legal separation is not recognized and Marital Dissolution Agreements are not prepared, the borrower may provide a written separation plan signed by both parties and notarized. The attorneys representing each spouse must also submit letters stating this plan has been agreed upon and is likely to be accepted as is by the courts. If there are minor children, a child support worksheet completed by each attorney must be included.

**NOTE:** Please see [Alimony, Child Support or Separate Maintenance](#) section to determine if payments being received may be included in qualifying income.

### 1.04.02 Ineligible Borrowers

#### 1.04.02.01 Non-natural Borrowers

Non-natural Borrowers including LLC's, Corporations, Trusts, Inter-vivo revocable trust.

#### 1.04.02.02 Non-Permanent Resident Aliens

Non-Permanent Resident aliens are not eligible.

Foreign nationals who have no lawful residency status in the U.S. are non-permanent resident aliens and are not eligible for financing.

#### 1.04.02.03 Diplomatic Immunity

Due to the inability to compel payment or seek judgment, transactions with individuals who are not subject to United States jurisdiction are not eligible. This includes embassy personnel with diplomatic immunity. Verification the borrower does not have diplomatic immunity can be determined by reviewing the visa, passport or the U.S. Department of State's Diplomatic List at <http://www.state.gov/s/cpr/rls/>.

### 1.04.03 Non-Occupant Co-Borrowers

Non-occupant co-borrowers are not eligible for RD loans.

### 1.04.04 Power of Attorney (POA)

A power of attorney may be used when properly documented and executed. Additional Restrictions for Military Personnel and Incapacitated borrowers are listed as below the standard requirements:

Standard POA Requirements:

# USDA/RD Underwriting Guidelines

## Section 1.04 Borrower Eligibility

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- Date of POA cannot be dated more than 180 days from the closing date.
- POA must be fully-executed.
- POA must not be expired on the date of the closing.
- POA must be specific to the transaction with the subject property address and authorization for attorney in fact to be able to execute all documents necessary to purchase or refinance the property/mortgage.
- Grantor's Names must be as they will appear on closing documents.
- A separate POA must be used for each borrower unless the borrowers are married.
- The Attorney in Fact cannot have a financial interest in the transaction (i.e. Realtor, Broker, LO, Closing Attorney)
- When using a POA for closing, the borrower's signature must be on the Uniform Residential Loan Application (1003), the initial disclosures and the sales contract/purchase agreement.

For military personnel, a POA may only be used for one of the applications (initial or final), but not both:

- when the service member is on overseas duty or on an unaccompanied tour;
- 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.

### 1.04.05 CAIVRS and LDP/GSA

Borrowers must pass screening through RD's GUS system or the federal [Credit Alert Verification Report System \(CAIVRS\)](#).

In addition, all of the following parties to the transaction must be checked on the [HUD Limited Denial of Participation \(LDP\)](#) and [Excluded Parties List System \(EPLS/GSA\)](#) lists:

- Borrower(s)
- Seller(s)
- Buyers' and Sellers' agents

# USDA/RD Underwriting Guidelines

## Section 1.04 Borrower Eligibility

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- Builders
- Closing Agents
- Brokers
- Loan Originators
- Gift Donors
- Power of Attorney
- Processors (Broker Side)

### 1.04.06 Social Security Number Verification

All borrowers, including United States citizens, must have a valid Social Security Number (SSN) and must provide evidence of that SSN. Tax ID numbers issued by the Social Security Office are unacceptable. Any credit report used in the file must indicate that a Social Security validation vendor has validated the borrower's Social Security Number.

Social Security Number verification may be documented using any of the following:

- W-2, paystub, passport, etc.
- Copies of social security cards
- Direct verification through the Social Security Administration (SSA)
- Tax Transcripts

**Note:** These requirements apply to purchase money loans and all refinances, including Pilot Refinances.

### 1.04.07 First Time Homebuyer Counseling Requirement

If required by the state or local RD office, all first time homebuyers must complete a homebuyer education course and provide a certificate of completion prior to closing.



# USDA/RD Underwriting Guidelines

## Section 1.05 Sales Contract Documentation and Program Specific Disclosures

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### 1.05 Sales Contract Documentation and Program Specific Disclosures

#### 1.05.01 Sales Contract

The sales contract must be fully executed by all parties. All counter offers must be submitted to underwriting.

#### 1.05.02 Contributions by Interested Parties

Seller contributions are limited to 6% of the sales price. Closing costs and/or prepaid items paid by the lender by premium pricing are not included in the seller contribution limitation. Fees towards the applicant's cost to close such as real estate commission or other typical fees paid by the seller or other interested party under local, state law, or local custom are not considered in the maximum contribution calculation.

#### 1.05.03 Electronic Signatures

RD allows electronic signatures on the Sales Contract and loan disclosures except where prohibited by law or regulation. All E-Signatures must meet the standards and requirements set forth in the E-SIGN Act and must adhere to all other applicable federal and state regulations and guidelines.

#### 1.05.04 RD 3555-21

RD Requires the RD 3555-21 form to be completed by the lender and signed by the borrower. It must be submitted with the application package to RD. The form information must match GUS findings/UW transmittal and 1003 Applicant information.

# USDA/RD Underwriting Guidelines

## Section 1.06 Credit

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### 1.06 Credit

#### 1.06.01 Credit Report Requirements

A credit report submitted with a loan application must be one of the following types:

- Automated Merged Credit Report
- Residential Mortgage Credit Report (RMCR)

Note: One report is required for each borrower. The lender may obtain a joint report for individuals with joint accounts.

Incorrect Social Security Numbers and dates of birth will require a new credit report to be pulled with the correct data. Major address inconsistencies, and name extensions (Jr., III, etc.) must match throughout the file and may require a re-pulled credit report. Common shortening of names does not require a re-pulled credit report (e.g. Matt for Matthew).

#### 1.06.02 Age of Credit Documents

- Credit reports cannot be older than 120 days from the Note Date.
- Credit documents, such as income and asset documentation, cannot be older than 120 days (180 days for new construction) from the Note Date subject to underwriter discretion.

#### 1.06.03 Credit Score Requirements

- Minimum Credit Score with GUS APPROVAL: 620
- Minimum Credit Score with GUS APPROVAL W/Manual Downgrade: 620
- Minimum Credit Score with Manual UW due to REFER: 620
- No score borrowers are eligible and must meet minimum the trade line requirements for a manual underwrite.

Regardless of credit score, the minimum trade line requirements in [Section 1.06.04 Trade Line Requirements/Credit Score Validation](#) must be met by at least one applicant. All borrowers individually and collectively must be evaluated for an acceptable credit reputation.

#### 1.06.04 Adverse Credit

Applicants with a **validated** credit score of 640 or greater meet the minimum credit reputation provided the following indicators of unacceptable credit are not present:

- Foreclosure within the previous 3 years
- Pre-foreclosure, Short Sale or Deed-in-Lieu of foreclosure within the previous 3 years

# USDA/RD Underwriting Guidelines

## Section 1.06 Credit

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- Chapter 7 Bankruptcy within the previous 3 years
- Chapter 13 Bankruptcy not yet complete or discharged less than 12 months prior to application
- Late mortgage or rental payments 1x30 in the last 12 months.

All instances of Adverse credit must be explained and documented by the borrower and supported with explanation by the underwriter. If the file is underwritten with a GUS Approval the lender will retain the documentation and notes in the file. If the file is manually underwritten a Credit Waiver is required to be submitted to RD validating the loan approval.

### 1.06.05 Credit Waivers/Exceptions

If a manually underwritten loan is approved by the underwriter with any indicators of [adverse credit](#), the underwriter must document a credit waiver on the underwriting analysis to establish the applicant's intent for good credit. Evidence must be provided to explain how the circumstances of the adverse credit meet the requirements set forth below:

- Temporary Situation: The circumstances that resulted in the borrower's credit problems were temporary and have been resolved for more than 12 months prior to application. Files being considered for this exception should have underwriting pre-approval/review.
- Reduced Housing Expense: The new loan will reduce the borrower's housing expenses by 50%

GUS "Accept" loans that have adverse credit accounts selected as "omit" by the underwriter do not require a documented credit waiver to be submitted to RD. However, the underwriter is required to make notes and/or comments in GUS as to why the account was omitted.

### 1.06.06 Trade Line Requirements/Credit Score Validation

At least one borrower whose income and assets are being used for qualification, must have at least **2** historical trade line payment references that have existed for at least 12 months to establish a credit reputation and validate the credit score. The trade line can be open and active with payment underway OR may be a closed trade line that while open/active was evaluated for at least 12 months.

Authorized user accounts may not be used to establish the minimum trade line requirement. A trade line that was evaluated for 12 months but ended in adverse reporting (collection/charge off) may still be used to meet the minimum trade line requirement.

# USDA/RD Underwriting Guidelines

## Section 1.06 Credit

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If a borrower does not meet the minimum trade line requirements, non-traditional trade lines may be used to establish the minimum. Non-traditional credit may not be used to offset derogatory information or poor credit performance.

### 1.06.07 Establishing Non-Traditional Credit Trade Lines

When utilizing non-traditional credit to establish minimum trade line requirements, one of the following conditions must be met:

- 2-12 Month Trade Lines where 1 of the trade lines is a 12-month housing history
- 3-12 Month Trade lines where a housing history cannot be obtained or applicant is living rent free.

The following trade-line sources may be used to develop the minimum 3 requirement:

- Trade-lines reported on the Credit Report that meet the 12-month minimum
- Utility Payments not included in rent: gas, electric, water, home telephone or cable.
- Insurance Payments other than those payrolls deducted: auto, life, household or renters
- Payments to child care providers: made to business/institution
- School Tuition
- Payments to local stores
- Payments for uninsured portions of medical bills
- Internet/Cell Phone Service
- Auto Leases
- A personal loan from an individual (not a family member) with repayment terms documented in writing and supported by cancelled checks or money order receipts
- A documented 12-month history of saving by regular deposits (at least quarterly, non-payroll deducted/no nsf checks reflected) resulting in a reserve equal to three months of the proposed PITI as a cash reserve post-closing
- Any other reference which gives insight into the applicant's willingness to make periodic payments on a regular basis for credit obligations

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

Cancelled checks, money order receipts, and/or written verifications 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 are required. Subjective statements such as "satisfactory" or "acceptable" are not an acceptable format for repayment history confirmation. RD will accept reports by providers who develop bill payment histories.

# USDA/RD Underwriting Guidelines

## Section 1.06 Credit

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Applicants may only have one 30-day delinquency on one nontraditional trade line within the last 12 months. 60 and 90 day delinquencies or reports of disconnection notices are not acceptable.

### 1.06.08 Inquiries

All credit reports used for underwriting must include all inquiries for a minimum of the most recent 90 days.

Any inquiry that is found within 90 days of the credit report date must be addressed with a specific explanation letter from the borrower. The explanation letter must address the individual inquiry, the date, the reason for the inquiry, and the result. If a new debt was opened, the borrower must provide documentation to verify the payment and balance. The debt must then be added to the 1003, and included in the DTI, file must be manually downgraded unless new credit report is obtained and reports the new debt accurately.

Inquires resulting from the subject mortgage application, for primary or secondary financing, do not require explanation. Should the customer have multiple applications for multiple properties an explanation will be required.

**NOTE:** FCM recommends the [specific inquiry letter](#) located on the FCM Knowledge Center be used to satisfy any credit inquiry explanations.

### 1.06.09 Collections/Charge-offs

Collection accounts may indicate an inability or unwillingness of the applicant to meet obligations as they become due. Payment of the collection is not justification in itself that would establish the borrower's willingness to pay. Requiring the payoff of collections may deplete the borrower's available cash resources for reserves or closing costs. The decision to have collection accounts paid at closing should be based on several factors including but not limited to: applicant's credit score, available resources, future threat to first mortgage lien and the applicant's ability to pay the requested loan in the future.

At the discretion of underwriting, collection balances less than \$2000 may remain open and unpaid at closing. Single or aggregate collection balances greater than \$2000 will be require one of the following actions:

- Payment in full of all collection accounts at or prior to closing
- Payment arrangements must be made (or verified if already existing) 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

# USDA/RD Underwriting Guidelines

## Section 1.06 Credit

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monthly payment for each outstanding collection account will be included in the borrower's debt-to-income ratio.

- In the absence of a payment arrangement, the lender will utilize in the debt-to-income ratio a calculated monthly payment. For each collection utilize 5% of the outstanding balance to represent the monthly payment.

The \$2000 balance does NOT include medical collections and/or charge-offs. The collections must be clearly identified as Medical on the credit report.

For loans underwritten with **GUS** and the underwriting recommendation is "**Accept**"; a letter of explanation or documentation supporting the presence of unpaid collections is not required. The underwriter will document under "notes" on the assets/liabilities page for each collection the justification for approving the loan request when collection accounts remain unpaid.

For a **manually** underwritten loans, the lender must document reasons for approving a loan request when collection accounts are present and remain unpaid on the underwriting analysis. For each outstanding collection account, the applicant must provide a letter of explanation together with documentation supporting the applicant's justification. The supporting documentation and explanation must be consistent with other credit information in the file.

### 1.06.10 Judgments/Liens

Open judgments, garnishments, and all outstanding liens that are in the Public Records section of the credit report will be identified in the Underwriting Findings report, and must be paid off at or prior to closing.

An exception to the paying off the judgment/garnishment/lien prior to closing may be made if all of the following conditions can be met:

- There is an existing payment arrangement (dated at least 3 months prior to loan application) with the creditor that can be documented
- At least 3 payments have been made under the payment arrangements and all 3 payments can be documented with cancelled checks, bank drafts, receipts etc. (Prepaying 3 payments in order to meet this condition is not acceptable)
- The payment is included in the borrower's qualifying DTI

### 1.06.11 Outstanding Federally Insured or Guaranteed Debt

A borrower is not eligible for a RD loan if they have any outstanding Federal debt until the delinquent account is brought current, paid, or satisfied. RD applicants must receive a clear CAIVRS.

# USDA/RD Underwriting Guidelines

## Section 1.06 Credit

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Federal debts include direct loans, HUD-insured mortgage loans, VA-insured mortgages, student loans, Small Business Administration loans, or judgments/liens against property for a debt owed the Federal Government.

The only exception to the above guidelines are for Federal IRS Tax Liens against the property where the IRS has agreed to subordinate the lien.

Prior Federal defaults or claims must be documented with:

- A letter of explanation from the borrower regarding the circumstances surrounding the default or claim.
- A letter on letterhead from the affected agency, signed by an officer and stating that the delinquent debt is now current, paid, or that a satisfactory agreement for repayment has been reached.
- Underwriter or Processor's reason for recommendation of the borrower

### 1.06.12 Disputed Accounts

When an applicant's credit report indicates a trade line or public record is in dispute, a GUS underwriting recommendation of "Accept" will be downgraded to a refer unless the following conditions are met:

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

In the event a GUS underwriting recommendation is downgraded to a "Refer" the lender must remit a fully underwritten case file to the Agency.

For manually underwritten loan files all disputed trade lines must have a letter of explanation and documentation supporting the dispute in the file. The underwriter will analyze the documentation and consistency of documentation and information available in the credit report to determine if the trade line may be excluded from debt to income analysis or whether the trade line would have a significant negative impact on the borrower's credit profile and should be removed from disputed status with new credit obtained.

### 1.06.13 Authorized User Accounts

Open authorized user trade lines reported on the credit report must be an accurate reflection of the applicant's independent approach to credit repayment and credit history. Closed authorized user accounts require no consideration for manual or GUS loan submissions.

## USDA/RD Underwriting Guidelines

### Section 1.06 Credit

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A GUS underwriting recommendation of “Accept” with open authorized user trade lines must include evidence in the lender’s permanent casefile of one of the following:

- Another applicant on the mortgage loan application owns the trade line in question,
- The owner of the trade line is the spouse of an applicant or
- Evidence the applicant has been making payments on the account for the last 12 months.
- There are two or more other trade lines listed on the credit report which are not authorized user accounts, with at least 12 months of payment history listed to validate the credit score.

If one of these conditions cannot be met an underwriting recommendation of “Accept” must be manually downgraded to a “Refer” and the file must be manually underwritten.

#### 1.06.14 Rent History

All loans must contain a 24-month history of residence stated on the 1003.

GUS “Accept” underwriting recommendations **and/or** applicants with credit scores above 680 are not subject to verification of rent or housing history.

GUS “Refer” underwriting recommendations for applicants with credit scores below 680 that currently pay rent/housing expenses require a 12-month payment history verification via an institutional VOR/VOM. Cancelled checks or money order receipts can be used to verify the rental payments. Written verifications by independent management companies may be accepted in lieu of canceled checks. Written verification must include the creditor name, date the rental agreement or contract began, monthly payment due, and payment history reported in 0x30, 0x60, 0x90 day format. Statements such as “satisfactory” or “acceptable” are not acceptable. Rent or mortgage payment histories reported on the credit report for present expenses are acceptable.

#### 1.06.15 Payment Shock

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

Calculation:  $\text{Proposed PITI} \div \text{Current Housing Expense} - 1 = \text{_____} \times 100 = \text{Payment Shock Percent}$

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

#### 1.06.16 Foreclosure

An applicant is generally not eligible for a new guarantee, if during the **prior three years** the applicant’s previous real property was foreclosed on or they have given a deed-in-lieu of foreclosure.



# USDA/RD Underwriting Guidelines

## Section 1.06 Credit

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Exceptions may be granted under certain circumstance see [Section 1.06.05 Credit Waivers/Exceptions](#) for requirements.

The inability to sell the property due to a job transfer or relocation to another area does not qualify as an extenuating circumstance. Divorce is not considered an extenuating circumstance. However, an applicant whose loan was current at the time of a divorce in which the ex-spouse received the property and the loan was later foreclosed may qualify as an exception.

### 1.06.17 Chapter 7 Bankruptcy

Chapter 7 Bankruptcy does not automatically disqualify a borrower from RD financing if at least 3 years has elapsed since the date of discharge to the loan application date. The borrower must have re-established good credit or chosen not to incur new debt. The borrower must document that their situation and the events that led to the bankruptcy are not likely to reoccur.

A period of less than 3 years may be acceptable in certain circumstances, see [Section 1.06.05 Credit Waivers/Exceptions](#). The borrower must have demonstrated the circumstances were beyond their control and have demonstrated an ability manage their financial affairs since the bankruptcy.

When a Chapter 7 bankruptcy absolved the mortgage debt for the applicant, any foreclosure or remaining foreclosure pending is an action against the property, not the applicant. The foreclosure action is not considered as adverse credit in the applicant's evaluation. A loan underwritten with the assistance of GUS will not be required to be manually down-graded when the bankruptcy discharge included the mortgage debt. The property must have been transferred through foreclosure and not still remain in the borrower's name. If title is not transferred the borrower is required to meet the requirements for retention of a property and taxes and insurance must be included in the long term debt to income calculation.

In ALL manually underwritten cases and some GUS-approved cases the following documentation is required:

- Copy of the bankruptcy petition
- Schedule of Debts and Discharge

### 1.06.18 Chapter 13 Bankruptcy

A Chapter 13 bankruptcy plan in progress does not disqualify an applicant from obtaining a mortgage loan, provided the lender documents 12 months of the debt restructuring plan has elapsed, the applicant's payment performance has been satisfactory, and all required payments were made on time. The applicant must receive written permission from the bankruptcy court/trustee to enter into a mortgage transaction.

# USDA/RD Underwriting Guidelines

## Section 1.06 Credit

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A credit waiver by the lender will be required for a manually underwritten loan. A completed Chapter 13 bankruptcy plan will not require a credit waiver provided the applicants have demonstrated a willingness to meet obligations when due for the 12 months prior to the date of loan application

In ALL manual underwrite cases and some AUS-approved cases the following documentation is required:

- Copy of the bankruptcy petition
- Schedule of Debts and Discharge
- Written explanation from the borrower

### 1.06.19 Consumer Credit Counseling (CCC)

Applicants participating in a Consumer Credit Counseling Program are not disqualified from obtaining a guaranteed loan.

Twelve months of the repayment period must have elapsed under the plan with all payments made on time and the applicant must have received written permission from the counseling agency to enter into a mortgage transaction.

GUS “Accept” loans are not subject to additional documentation because the credit scores already reflect degradation in the applicant’s credit history.

Lenders must ensure all liabilities are accurately reflected in GUS.

### 1.06.20 Short Sale

An applicant is ineligible for a mortgage loan if they pursued a short sale agreement on their principal residence to take advantage of declining market conditions and purchases at a reduced price a similar or superior property within a reasonable commuting distance.

If an applicant was current at the time of short sale, they may be eligible for a new mortgage loan. The prior mortgage payment history must reflect all mortgage payments due were made on time for the 12-month period preceding the short sale and all installment debt payments for the same period were also made within the month due.

An applicant in default at the time of a short sale requires a 3-year waiting period.

# USDA/RD Underwriting Guidelines

## Section 1.07 Ratio Analysis

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### 1.07 Ratio Analysis

#### 1.07.01 Maximum Debt Ratio

The maximum debt-to-income (DTI) ratio is evaluated by GUS in the case of Approve/Eligible findings.

When GUS returns a Refer and/or the file is manually underwritten the DTI is limited to a 41% back end ratio and a 29% front end ratio.

DTIs exceeding 29%/41% on these types of loans are only allowed on an underwriting exception and with RD Approval for a Debt Ratio Waiver when all of the following conditions are met:

1. The PITI is between 29 and 32 percent or the TD ratio is between 41 and 44 percent;
2. The credit score of all applicant(s) is 680 or greater; and
3. At least one of the acceptable compensating factors listed below is identified and supporting documentation is provided to the Agency.

#### 1.07.01.02 Acceptable Compensating Factors and Supporting Documentation

- The proposed PITI (proposed housing expenses) is equal to or less than the applicant's current verified housing expense for the 12-month period preceding loan application. Verification of housing expenses may be documented on a Verification of Rent (VOR) or credit report. The VOR or credit report must include the actual payment amount due and report no late payments or delinquency for the previous 12 months. Rent or mortgage payment histories from a family member will not be considered.
- Accumulated savings of liquid assets or cash reserves available post loan closing are equal to or greater than 3 months of PITI payments. A Verification of Deposit or two consecutive bank statements, dated within 45 days of loan application, that document the average balance held by the applicant is required. Cash on hand is not eligible for consideration as a compensating factor.
- The applicant(s) (all employed applicants) has been continuously employed with their current primary employer for a minimum of 2-years. A "Request for Verification of Employment" (VOE) (Form RD 1910-5, equivalent HUD/FHA/VA or Fannie Mae form, or other equivalent), or VOEs prepared by an employment verification service (The

# USDA/RD Underwriting Guidelines

## Section 1.07 Ratio Analysis

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Work Number, etc.) must be provided. This compensating factor is not applicable for self-employed applicants.

### 1.07.02 Installment Debt

All installment debts not secured by a financial asset with 10 or more remaining payments must be included in the borrower's debt ratios unless otherwise excluded for another satisfactory reason.

Installment debts with less than 10 remaining payments may be excluded from the borrower's debt ratio under certain circumstances. These payments may still be required by the underwriter if they deem the existing payment could have an adverse effect on the borrower's repayment ability.

Generally underwriting will require the borrower have sufficient funds in reserves to pay off the debt in full. Note that it is not a requirement to pay off this debt but the existence of reserves adds a level of assurance that the borrower's repayment ability would not be hindered by the existing debt.

Installment debt which does not list a payment on the credit report must have verification of the actual payment along with the term of the loan. Using percentages of outstanding balances to determine an estimated payment is not acceptable.

#### 1.07.02.01 IRS Installment Debt

Borrowers with approved IRS installment agreements are eligible for financing. The installment agreement must be in writing and have a determined payment amount included in the borrower's qualifying DTI. The following documentation is required:

- Letter from IRS stating terms and approval of Installment Agreement
- Evidence 3 payments have been paid under the agreed terms

### 1.07.03 Open Charge / Revolving Accounts

Open charge accounts, also known as Revolving Accounts, must have their payments included in the DTI calculation regardless of the number of payments remaining to pay off the debt.

If the credit report shows a revolving account with an outstanding balance but no specific minimum monthly payment, the payment must be calculated as the greater of:

- 5% of the outstanding balance, or
- \$10

# USDA/RD Underwriting Guidelines

## Section 1.07 Ratio Analysis

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Note: If the actual monthly payment is documented from the creditor or a copy of the current statement reflecting the monthly payment is obtained, that amount may be used for qualifying purposes.

### 1.07.04 Alimony, Child Support or Separate Maintenance

When the borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement the payments must be considered in the debt-to-income ratio. The alimony payments may be deducted from income. Child support and maintenance payments may not be deducted from income. Voluntary payments do not need to be taken into consideration.

One of the following is required to document the payment:

- A copy of a written legal agreement or court decree describing the payment terms for the obligation, the amount of the award and the period of time over which it will be received
- Any applicable state law that mandates the obligation document, which must specify the conditions under which payments must be made

### 1.07.05 Student Loans

Student Loan payments must be included in the total debt ratio. Payments may be calculated according to loan payment type:

#### **Fixed payment loans:**

A permanent amortized, fixed payment may be used in the debt ratio when the lender retains documentation to verify the payment is fixed, the interest rate is fixed, and the repayment term is fixed.

#### **Non-Fixed payment loans:**

Payments for deferred loans, Income Based Repayment (IBR), Graduated, Adjustable, and other types of repayment agreements which are not fixed cannot be used in the total debt ratio calculation. 1% of the loan balance reflected on the credit report must be used as the monthly payment. No additional documentation is required.

### 1.07.01 Contingent Liabilities / Co-Signed Loans

A contingent liability/Co-Signed Loan may only be excluded under the following conditions:

- Verification it is a joint/cosigned debt (individual accounts in the borrower's name cannot be excluded regardless of who is paying the debt)
- Verification the joint obligor has made the payment for the last 12 months through cancelled checks, bank statement, money orders etc.

# USDA/RD Underwriting Guidelines

## Section 1.07 Ratio Analysis

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- Verification there have been no delinquent payments in the 12 months preceding the application, if delinquent payments are found the payment must be included in the borrower's DTI.

If joint obligations are listed in the final divorce decree and/or separation agreement as being the responsibility of the ex-spouse then they can be omitted from the qualifying DTI calculation with proof the responsible spouse has been making timely payment for 12 months. The divorce decree or separation agreement must be finalized by the court and recorded.

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

### 1.07.02 Business Debt

When a self-employed borrower claims that a monthly obligation that appears on his or her personal credit report is being paid by the borrower's business, the lender must confirm that it verified that the obligation was actually paid out of company funds and that this was considered in its cash flow analysis of the borrower's business.

The account payment does not need to be considered as part of the borrower's individual recurring monthly debt obligations if:

- the account in question does not have a history of delinquency,
- the business provides acceptable evidence that the obligation was paid out of company funds (such as 12 months of canceled company checks), and
- the lender's cash flow analysis of the business took payment of the obligation into consideration.

The account payment does need to be considered as part of the borrower's individual recurring monthly debt obligations in any of the following situations:

- If the business does not provide sufficient evidence that the obligation was paid out of company funds.
- If the business provides acceptable evidence of its payment of the obligation, but the lender's cash flow analysis of the business does not reflect any business expense related to the obligation (such as an interest expense—and taxes and insurance, if applicable—equal to or greater than the amount of interest that one would reasonably expect to see given the amount of financing shown on the credit report and the age of the loan). It is reasonable to assume that the obligation has not been accounted for in the cash flow analysis.

# USDA/RD Underwriting Guidelines

## Section 1.07 Ratio Analysis

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- If the account in question has a history of delinquency. To ensure that the obligation is counted only once, the lender should adjust the net income of the business by the amount

### 1.07.03 Loans Secured by Liquid Assets

Payments on a loan secured by liquid assets (i.e., 401k/IRA accounts, CDs, stocks, bonds, marketable securities, etc.) may be excluded from the DTI.

### 1.07.04 30-Day Charge Accounts

30-day accounts, or accounts where the balance is required to be paid off in full each month, do not require a monthly payment to be included in the debt-to-income ratio.

For open 30-day charge accounts that do not reflect a monthly payment on the credit report, or 30-day accounts that reflect a monthly payment that is identical to the account balance, borrower funds to cover the account balance must be verified. The verified funds must be in addition to any funds required for closing costs and reserves.

If the borrower paid off the account balance prior to closing, proof may be provided of payoff in lieu of verifying funds to cover the account balance.

### 1.07.05 HELOC Accounts

Payments on Home Equity Lines of Credit must be verified with either an account statement or a credit supplement. Using percentages of outstanding or credit line balances is not acceptable.

### 1.07.06 Lease Payments

Lease payments must be included in the borrower's recurring monthly debt obligations, regardless of the number of months remaining on the lease.

### 1.07.07 Paying Accounts Prior to Closing

Paying down debt for the purpose of qualifying for the loan is not acceptable.

Paying off debt at or prior to closing, either installment or revolving, is acceptable.

### 1.07.08 Past Due Accounts

For loans receiving a GUS underwriting recommendation of "Accept", delinquencies on consumer credit accounts is evaluated by GUS. The underwriter must still take these delinquencies into consideration when evaluating the entire file as a whole.

Past due or delinquencies within the previous 12 months on consumer credit accounts are generally not permitted on manually underwritten files. Note that Collection accounts and Past Due accounts are two separate classifications of debt. A collection account, by definition, is always

# USDA/RD Underwriting Guidelines

## Section 1.07 Ratio Analysis

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past due and follows specific guidance found in the Collection/Charge-offs section below instead of the Past Due Account section.

### 1.07.09 Community Property States

Purchase and refinance transactions for properties located in a Community Property State have additional underwriting and closing requirements when a non-purchasing spouse exists. The following states are Community Property states, please check the [Retail Standard Lending Footprint](#) or [Wholesale/NDC Standard Lending Footprint](#) to verify loan availability in each state:

Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

#### 1.07.09.01 Underwriting Requirements

- Debts and obligations from a non-purchasing spouse must be counted in the qualifying ratios.
- Credit from a non-purchasing spouse must be reviewed in order to determine outstanding debts to be factored into the qualifying ratios.
- Non-purchasing spouse credit history and performance is not to be considered a reason for credit denial. The non-purchasing spouse's credit score is not a factor.
- The non-purchasing spouse's collections and/or judgment totals must be included in the aggregate amount when determining program-specific payoff and/or payment amounts regarding these types of accounts.
- CAIVRS is not required on the non-purchasing spouse.

#### 1.07.09.02 Closing Requirements

ALL SPOUSES OF:	ARE REQUIRED TO SIGN THE:
<ul style="list-style-type: none"><li>• Borrowers</li><li>• Non-borrowing title holders, and</li><li>• Trustees</li></ul>	<ul style="list-style-type: none"><li>• Security Instrument</li><li>• Truth In Lending Disclosure, and</li><li>• Notice of Right to Cancel</li></ul>

### 1.07.10 Compensating Factors for Manually Underwritten Loans

Manually underwritten loans must document compensating factors which influence the approval of the loan. A list of common compensating factors can be found below.

- **Housing Expense Payments** – The borrower has successfully demonstrated the ability to pay housing expenses greater than or equal to the proposed monthly housing expenses for the new mortgage over the past 12-24 months.



# USDA/RD Underwriting Guidelines

## Section 1.07 Ratio Analysis

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- **Down Payment** – The borrower makes a large down payment of 10% or higher toward the purchase of the property.
- **Accumulated Savings** – The borrower has demonstrated an ability to accumulate savings and a conservative attitude toward using credit.
- **Previous Credit History** – A borrower’s previous credit history shows that they have the ability to devote a greater portion of income to housing expenses.
- **Compensation or Income Not Reflected in Effective Income** – The borrower receives documented compensation or income that is not reflected in effective income, but directly affects their ability to pay the mortgage. This type of income includes food stamps and similar public benefits.
- **Minimal Housing Expense Increase** – There is only a minimal increase in the borrower’s housing expense.
- **Substantial Cash Reserves** – The borrower has substantial documented cash reserves (at least three months worth) after closing.
- **Substantial Non-Taxable Income** – The borrower has substantial non-taxable income. (applies if no adjustment was previously made when computing debt ratios)
- **Potential for Increased Earnings** – The borrower has a potential for increased earnings, as indicated by job training or education in their profession.

# USDA/RD Underwriting Guidelines

## Section 1.05 Employment & Income

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### 1.08 Employment & Income

#### 1.08.01 Overview

It falls to the underwriter to determine if GUS is correctly reading and accounting for the particular income situation on any given file.

RD has specific income eligibility requirements which differ from other financing programs.

##### 1.08.01.01 Adjusted Annual Income or Eligibility Income

The Adjusted Annual Income is used to determine program eligibility and is calculated by taking all the income received by adult household members that will reside in the home and subtracting any allowable adjustments. The adjusted annual income along with values for the allowable adjustments can be determined by using [USDA's Income Eligibility Calculator](#). It should be noted that any expenses including in the allowable adjustments mentioned above should not be considered as a recurring liability when calculating the repayment or qualifying income.

The following are special RD documentation requirements which are above and beyond standard conventional and/or government documentation requirements:

- VOE(s) on all prior employment in the past calendar year to verify income is no longer being received.
- Amount on line 7 of tax returns, "Wages, salaries, tips, etc.", must match provided W-2 documentation through the last verifiable tax year.
- Any disclosed and/or discovered bank account which belongs to the borrower must have an acceptable bank statement to verify the current balance. All large deposits must be documented as with a standard bank statement. This verification is required by RD in order to determine if the borrower has the means to obtain conventional financing which may disqualify them from RD financing.

##### 1.08.01.02 Repayment Income or Qualifying Income

In considering whether the borrower has adequate repayment ability, it must be determined that the verifiable income is stable and dependable. This calculation is the standard income calculation used in other programs to determine the DTI ratios.

Income may not be used in calculating the borrower's debt-to-income ratios if it comes from any source that cannot be verified, is not stable, or will not continue.

# USDA/RD Underwriting Guidelines

## Section 1.05 Employment & Income

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### 1.08.02 Length of Employment

All borrowers with qualifying income must have an acceptable and stable employment history to be considered effective income for qualifying purposes.

Borrowers that have not been employed for 12 months with their current employer are considered high risk. Borrowers must have minimum of 1 year with current employer or employment continuity. Applicants with job gaps due to maternity leave, medical leave, relocation etc. are considered to have employment continuity.

Applicants returning to the workforce after leaving a previous job to care for a child/family member, complete education, etc. will require a 12-month employment history without any gaps.

Schooling and Educational training time cannot be used to fulfill the employment history requirement.

### 1.08.03 Salaried or Hourly Wage Earner

#### 1.08.03.01 Documentation Requirements

Generally salaried or hourly wage earner income requirements are as follows:

- Verification of Employment that reflects complete earning information/responses to questions AND the most recent paycheck stub with year to date earnings OR
- Paycheck stubs or payroll earnings statements covering the most recent 30-day period with YTD earnings, W-2 forms for the previous 2 tax years AND a telephone verification of current employment.

Paystubs and W-2s should:

- Clearly identify the employer's name
- Clearly identify the borrower as the employee
- Be computer-generated or typed by the borrower's employer
- Be complete and legible
- Contain year-to-date earnings (paystubs)
- Contain one full month's earnings at a minimum (paystubs)

***Handwritten paystubs are allowed provided a copy of the cancelled checks covering a 30 day period is reviewed by underwriting along with a full Verification of Employment.***

# USDA/RD Underwriting Guidelines

## Section 1.05 Employment & Income

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### 1.08.03.02 Additional Notations

Teachers must have a full VOE completed in order to determine the proper pay schedule unless the pay schedule can be deduced from existing documentation.

Salaried or Hourly Wage Earners cannot own 25.00% or more interest in the business.

### 1.08.04 Self-Employed

A borrower is considered self-employed if they own 25.00% or more interest in a business or if they are a 1099 employee which files a Schedule C. The four basic types of business structures are: sole proprietorships, corporations, limited liability or "S" corporations, and partnerships.

#### 1.08.04.01 Documentation Requirements

- The borrower must provide two years of individual federal tax returns and corporate partnership federal tax returns (if applicable to business).
- A profit and loss statement (P&L)
- For additional requirements regarding Tax Transcripts and returns please see the [IRS Tax Transcript Requirements](#) section.

FCM Verbal VOE requirements for Self-employed Borrowers:

- The existence of the borrower's business must be verified by a third party, such as a CPA, regulatory agency, or the applicable licensing bureau if possible.
- The borrower's business address and phone listing must be verified by using a telephone book, the internet or directory assistance.
- If the contact is made verbally, then a Verbal Verification of Employment must be completed to document the source of the information. The VVOE form must indicate the title of the individual verifying the employment.
- CPA letters must be dated within 30 days of the NOTE date

#### 1.08.04.02 History

Self-employed borrowers are required to have a minimum of 2 years consecutive self-employment in the same business and geographic area.

#### 1.08.04.03 Analysis

FCM requires self-employed income to be calculated using [Fannie Mae Cash Flow Analysis Form 1084](#).

Business income is averaged over a two-year period using Federal Tax Returns.

# USDA/RD Underwriting Guidelines

## Section 1.05 Employment & Income

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In the case of declining income, significant compensating factors must exist to consider the income in the qualifying ratios. A significant decline in income is not acceptable, even if the current income and debt ratios meet agency guidelines.

### *(1) Business Types for Self-Employed Borrowers*

Sole Proprietorships: the total net profit of the business with depreciation or depletion added back to the adjusted gross income.

Partnerships: the amount of the draw or bonus taken from the capital account plus the borrower's share of the net profit.

Corporations: the amount of wages or salary as shown on the W-2 plus any bonus or other compensation, deducting any spousal income.

### 1.08.05 Commission Income

- Commission income may only be considered in the repayment income calculation if evidence of all of the following is provided:
  - The borrower must furnish the most recent two years' Federal tax returns, along with his/her most recent pay stub.
  - The commission income must be averaged over that two-year period.
  - Any un-reimbursed business expenses must be deducted from the borrower's income.
- Commission income showing a decrease requires significant compensating factors to justify loan approval.

### 1.08.06 Rental Income

#### 1.08.06.01 Eligible Properties

Rental income on a home being converted to an investment property will not be considered in qualifying income. Borrower's must meet the exceptions to own another dwelling as stated in section 1.04 Borrower Eligibility.

Rental income is an acceptable source of stable repayment income if it can be established that the income is likely to continue. The income must have been received for 24 months or more in order for it to be considered in the repayment income calculations.

# USDA/RD Underwriting Guidelines

## Section 1.05 Employment & Income

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In regards to the annual/eligibility income calculation; all positive net rental income must be included in the annual income and all negative net rental income is treated as a recurring liability – therefore it is included in DTI - it is not subtracted from income for RD Annual Income Eligibility purposes.

### 1.08.06.02 Ineligible Properties

Rental income from the borrower's principal residence (a one-unit principal residence or the unit the borrower occupies in a two- to four-unit property) or a second home cannot be used to qualify the borrower.

Boarder income is not an acceptable source of income.

### 1.08.06.03 General Requirements for Documenting Rental Income

If a borrower has a history of renting a property, generally the rental income will be reported on Schedule E of the borrower's personal tax returns.

### 1.08.06.04 Rent Loss Insurance Requirement

First Community Mortgage requires rent loss insurance to cover at least six months of gross monthly rent when rental income is being used to qualify and the subject property is a 2-4 unit primary residence. Rent loss insurance must be included as part of the hazard insurance policy as an endorsement and included in the yearly premium amount.

## 1.08.07 Other Types of Income

### 1.08.07.01 Alimony, Child Support or Separate Maintenance

Alimony, Child Support, or Maintenance income may be considered only if evidence of all of the following is provided:

- Payments are likely to be received consistently for the first three years of the mortgage;
- A copy of the divorce decree, legal separation agreement, voluntary agreement, or court order specifying the amount of support and the period of time over which it will be received is required; and
- Evidence that the funds have been received for the last 6 months using cancelled checks, deposit slips, Federal tax returns, or court records.

Non-taxable child support income may be grossed up under the same provisions as other [non-taxable sources](#).

# USDA/RD Underwriting Guidelines

## Section 1.05 Employment & Income

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### 1.08.07.02 Capital Gains

Capital gains or losses generally occur only one time and should not be considered when determining effective income.

However, if the individual has a constant turnover of assets resulting in gains or losses, the capital gain or loss must be considered when determining the income. Two years' tax returns are required to evaluate an earnings trend. If the trend:

- results in a gain, it may be added as effective income, or
- consistently shows a loss, it must be deducted from the total income.

The lender must document anticipated continuation of income through verified assets.

**Example:** A lender can consider the capital gains as income for an individual who purchases old houses, remodels them, and sells them for profit.

### 1.08.07.03 Car Allowances

- Only the amount that an auto allowance and/or expense account exceeds actual expenditures can be considered as income.
- Income must be documented with the most recent two years' tax returns.
- The employer must verify that the continuance of the allowance.
- The borrower's car payment is treated as a recurring debt and cannot be offset by the car allowance.
- If there is a loss between the allowance and actual expenditures, that amount is considered a recurring debt and counted in the total debt ratio.
- If the borrower uses the standard per-mile rate in calculating auto expenses, as opposed to the "actual cost" method, the portion that the IRS considers depreciation may be added back to income.

### 1.08.07.04 Employer Differential Payments

If the employer subsidizes a borrower's mortgage payment through direct payments and it is documented that said payments will continue for a minimum of 3 years, the amount:

- Is considered gross income, and
- Cannot be used to offset the mortgage payment directly, even if the employer pays the servicing lender directly.

# USDA/RD Underwriting Guidelines

## Section 1.05 Employment & Income

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### 1.08.07.05 Employment by Family-Owned Business

In addition to normal employment verification, a borrower employed by a family-owned business is required to provide evidence that he/she is not an owner of the business. This evidence may include one of the following:

- a copy Federal personal tax returns, and/or
- a signed copy of the Federal corporate tax return showing ownership percentages (usually evidenced on the Schedule K-1), if applicable

In addition to the above items, a current VOE showing the borrower does not own more than 25% of the business is required and any recent increases in income must be closely reviewed.

### 1.08.07.06 Government Assistance Programs

Government assistance in the form of workman's compensation, welfare programs, unemployment income, etc. may be used to qualify the borrower.

- Documentation must be provided from the agency paying benefits to verify that the benefits are likely to continue for at least three years after closing. If continuance of such income is not expected for three years, it may be considered as a compensating factor.
- Past receipt of unemployment income must be documented for two years. Reasonable assurance of its continuance is also required. This applies to individuals employed on a seasonal basis, such as farm workers, resort employees, etc.
- Applicant's with a sole source of unemployment benefits as their earnings are ineligible for a guaranteed loan.

### 1.08.07.07 Interest and Dividend Income

Interest and Dividend Income are acceptable sources of income subject to the following conditions:

- Evidence required showing that the borrower still owns the assets generating the income used to qualify.
- Interest and dividend income must be documented as received for the past two years.
- A two year average is required to use such income to qualify for the mortgage.
- Two years Federal tax returns or account statements must be provided. Funds used for down payment and/or closing costs must be subtracted before the interest is calculated.



# USDA/RD Underwriting Guidelines

## Section 1.05 Employment & Income

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- Income cannot be counted if the borrower is using the interest-bearing or dividend-producing asset as the source of the down payment or closing costs.

### 1.08.07.08 Net Family Assets and Annual/Eligibility Income

RD requires net family assets with a cumulative non-retirement total of \$50,000 or greater to be considered in the annual or eligibility income calculation. The greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate must be considered when calculating annual income.

Verification documents must coincide with the type of asset identified for income purposes. RD defines net family assets as the value of equity in real property, savings, demand deposits, the market value of stocks, bonds, other forms of non-retirement capital investments and business or household assets disposed of for less than fair market value for two years preceding the date of the loan application.

### 1.08.07.09 Long-Term Disability Income

Long-term disability income applies to income received from long-term disability insurance or benefits and does not include income received from the Social Security Administration. Long-Term Disability income must be verified from the third-party source (insurance company, employer, or other qualified disinterested party) to determine:

- The borrower's current eligibility for the disability benefits,
- The amount and frequency of the disability payments, and
- If there is a contractually established termination or modification date.

Generally, long-term disability will not have a defined expiration date and must be expected to continue. The requirement for re-evaluation of benefits is not considered a defined expiration date.

If a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three years because they are being converted to long-term benefits, the amount of the long-term benefits must be used as income to qualify the borrower.

Non-taxable disability income may be grossed up under the same provisions as other [non-taxable sources](#).

# USDA/RD Underwriting Guidelines

## Section 1.05 Employment & Income

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### 1.08.07.10 Military Income

In addition to base pay, military personnel may be entitled to additional forms of pay provided its continuance is verified in writing:

- flight or hazard pay,
- BAS, Basic Allowance for subsistence (rations),
- clothing allowance,
- proficiency pay, and
- BAH, Basic Allowance for housing.

Allowances are non-taxable may be grossed up under the same provisions as other [non-taxable sources](#).

Additional pay, such as pro-pay, hazard pay, etc. is taxable and may not be grossed up.

### 1.08.07.11 Overtime, Bonus, and Tip Income

Overtime, Bonus, and Tip income are acceptable sources of income subject to the following conditions:

- Verified two-year history of receiving the income from the same employer; and
- A two-year average using Federal Tax Returns unless the income is declining. In the case of declining income, significant compensating factors must exist to consider the income in the qualifying ratios and if considered the lesser of the two-year average or the year-to-date shall be used.
- Full VOE showing probability of continuance is required.

Inconsistency in this type of income from year to year will require additional years to be verified to determine a valid average.

### 1.08.07.12 Part-Time/Second Job Income

If a borrower's regular employment is less than the typical 40-hour work week, the stability and calculation of that income should be evaluated as you would any another regular, on-going primary employment.

Income from a second job, whether it is full time or part-time, may only be evaluated if it can be verified with an uninterrupted two-year history with a strong likelihood of continuance. The only exception to the exclusion of interrupted income is when the job is seasonal and it can be documented that the borrower has worked in the same "seasonal" position for at least the past two years and is expected to be hired again for the next "season".

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## Section 1.05 Employment & Income

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Negative income from a second job should be shown on the 1003 as a reduction in income from the primary job, not as secondary line item or “other income”.

### 1.08.07.13 Retirement Income

Retirement income refers to income derived from a privately-held retirement account or an employer-sponsored pension. For information on [Social Security Retirement Income](#) please refer to that particular section.

Retirement must be verified from the third-party source (former employer) or from the most recent two years’ Federal tax returns. The income must continue for at least three years after closing; otherwise, it will be used only as a compensating factor.

If the income is paid in the form of a monthly distribution from a 401(k), IRA, or Keogh retirement account, determine whether the income is expected to continue for at least three years after the date of the mortgage application. In addition, the borrower must have unrestricted access without penalty to the accounts and if the assets are in the form of stocks, bonds, or mutual funds, 70% of the value must be used to determine the number of distributions remaining to account for the volatile nature of these assets.

### 1.08.07.14 Section 8 Home Ownership Vouchers

A monthly subsidy may be treated as income if a borrower is receiving subsidies under the housing choice voucher home ownership option from a public Housing Agency.

Procedures for loan applications where the homebuyer receives a monthly homeownership assistance payment under the housing choice voucher homeownership program (Section 8) are shown below.

- The homeownership assistance payment must be paid directly to the homeowner/borrower.
- The amount of the [non-taxable subsidy](#) that is received directly by the homeowner may be grossed up by 25% and added to the borrower’s income from employment and/or other sources in calculating the qualifying ratios.

**Note:** Although RD allows the homeownership assistance payments to be made directly to the servicing lender to offset the mortgage payment, First Community Mortgage is unable to facilitate the procedure for receiving or allocating these funds. Therefore, the requirements shown above must be adhered to for eligibility purposes, without exception.

# USDA/RD Underwriting Guidelines

## Section 1.05 Employment & Income

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### 1.08.07.15 Social Security Income

Social Security Income must be verified by:

- A copy of the most recent Social Security Administration's award letter, or
- Copies of federal income tax returns, or
- Social Security Benefit Statement (Form SSA-1099), or
- Copies of the borrower's recent bank statements.

Social Security income for retirement or long-term disability will not have a defined expiration date and must be expected to continue. However, if the Social Security benefits are not for retirement or long-term disability, it must be confirmed that the remaining term is at least three years from the date of the mortgage application.

### 1.08.07.16 Trust Income

A copy of the Trust Agreement or the Trustee's statement confirming the amount, frequency, method and duration of payments must be provided.

- The income must continue for at least three years from the date of the mortgage application.
- Must document 6-month history of receipt

### 1.08.07.17 VA Benefits

Income received in the form of VA benefits must be documented by a letter or distribution form from the Veterans Administration.

- The income must continue for at least three years from the date of the mortgage application. (Note that verification is not required for VA retirement or long-term disability benefits.)
- Education benefits paid to a Veteran for use in meeting the costs of tuition, fees, books and equipment may be considered for repayment income.

### 1.08.08 New Employment

Income from a new job the borrower has just started must be documented with a full 30 days worth of paystubs. Contracts and offer letters for employment not yet begun are not acceptable.

### 1.08.09 Non-Taxable Income

Non-taxable income may be "grossed-up" by 125%.

# USDA/RD Underwriting Guidelines

## Section 1.05 Employment & Income

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### 1.08.10 Temporary Leave/Short Term Disability

Temporary leave from an employer may encompass various circumstances (e.g., family and medical, short-term disability, maternity, other temporary leaves with or without pay). Temporary leave is generally short in duration. The period of time that a borrower is on temporary leave may be determined by various factors such as applicable law, employer policies and short-term insurance policy and/or benefit terms. Leave ceases being considered temporary when the borrower does not intend to return to the current employer or does not have a commitment from the current employer to return to employment. A loan should not be denied specifically because a borrower is on temporary leave or short-term disability.

#### 1.08.10.01 Documentation Requirements for Temporary Leave/Short Term Disability

Documentation must be provided from the current employer confirming the following:

- Borrower's statutory right to return to work (or the employer's commitment to permit the borrower to return to work) and
- Borrower's confirmed date of return, and
- Borrower's post-leave employment and income and
- Written statement signed by the borrower confirming that the borrower will return to current employer and stating the confirmed date of return that has been agreed upon between the borrower and the employer.

In addition, if the borrower is returning to the current employer AFTER the first mortgage payment is due the following additional documentation is required:

- Documentation evidencing amount, duration and consistency of all temporary leave income sources being used to qualify the borrower (e.g., short-term disability benefits or insurance, sick leave benefits, temporarily reduced income from employer) that are being received during the temporary leave and
- All available liquid assets used to supplement the reduced income for the duration of the temporary leave must meet the requirements found below and be verified and
- Written rationale explaining the analysis used to determine the qualifying income.

# USDA/RD Underwriting Guidelines

## Section 1.05 Employment & Income

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### 1.08.10.02 Determining Qualifying Income for Temporary Leave/Short Term Disability

#### *(1) Borrowers returning to their current employer PRIOR to the first mortgage payment due date:*

Qualifying income from the borrower's gross monthly income amount that will be received upon the borrower's return to the current employer may be used.

#### *(2) Borrowers returning to their current employer AFTER the first mortgage payment due date:*

Qualifying income used must be the lesser of the qualifying income amount that will be received upon the borrower's return to the current employer or the borrower's gross monthly income being received for the duration of the temporary leave. In the event that the income has been reduced or interrupted, available liquid assets may be used as a partial or complete income supplement up to the amount of the income reduction. Assets that are required for the transaction (e.g., down payment, Closing Costs, Financing Costs, Prepaids/Escrows and reserves) may not be considered as available assets in determining the supplemental income amount.

**Total qualifying income = lesser of (supplemental income + temporary leave income) or (qualifying income received after borrower's return to work)**

**Supplemental income = available liquid reserves divided by the number of months from the first mortgage payment due date to the date the borrower will begin receiving his or her regular employment income, rounded up to the next whole number.**

### 1.08.11 Income Types Not Addressed

Income types not specifically addressed in this guide will be evaluated on a case-by-case basis by underwriting management.

### 1.08.12 Unacceptable Sources of Income

The following types of income are unacceptable for qualifying purposes:

- Trailing Spouse Income
- Boarder Income
- Non-VA Education Benefits
- Per Diem Income

# USDA/RD Underwriting Guidelines

## Section 1.05 Employment & Income

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- Gambling Income
- Temporary Income
- Temporary Leave Income
- Short-Term Disability Income
- Non-verifiable Income
- Unstable Income
- Projected Income
- Reverse Mortgage Income
- Income from Foreign Employers not included on US Federal Tax Returns
- Income for the care of foster children
- Student financial aid in any form
- Lump Sum Gifts, Inheritances, Capital Gains, Insurance Payments and or Personal/Property Settlements

### 1.08.13 4506-T Requirements

A fully executed IRS Form 4506-T must be included in all loan files.

### 1.08.14 IRS Tax Transcript Requirements

Tax transcripts are required for all adult household members, except full-time students.

Tax Transcript requirements can change based on the application date and whether an extension has been filed.

*Note that Tax Transcripts are not an adequate substitute for Tax Return Schedules and should only be used to support the validity of the actual Tax Returns. In instances in these guidelines where it is specified that Tax Returns are required, actual Tax Returns including all schedules should be provided.*

#### 1.08.14.01 Documentation requirements for Self-Employed income when an extension has been filed:

Self Employed borrowers will need P&L if more than a calendar quarter has elapsed since date of most recent calendar or fiscal-year end tax return was filed by the borrower – with no exceptions.

Additionally, if income used to qualify self-employed borrower exceeds a two-year average, an audited Profit and Loss Statement or signed quarterly tax returns obtained from the IRS are required. Additional requirements are determined by the application date.

# USDA/RD Underwriting Guidelines

## Section 1.05 Employment & Income

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Application Date between Jan 1<sup>st</sup> – June 14<sup>th</sup>:

- Most recent year(s) available tax transcripts for the number of years required
- Prior calendar year W-2s for a corporation
- Prior calendar year 1099s for commission income
- After April 17<sup>th</sup>, copy of filed extension for prior calendar year with any tax payment made, if applicable. Must also have IRS notification of “no record found”

Application Date between June 15<sup>th</sup> to October 14<sup>th</sup>:

- Most recent year(s) available tax transcripts for the number of years required
- Copy of the filed extension for the prior calendar year with any tax payments made
- Prior calendar year year-end profit and loss statement
- IRS notification of “no record found” for prior calendar year
- Prior calendar year W-2s for corporations
- Prior calendar year 1099s for commission income

Application Date between October 15<sup>th</sup> to November 14<sup>th</sup>:

- Most recent year(s) available tax transcripts for the number of years required
- Copy of the filed extension for prior calendar year with any tax payments made
- Copy of the prior calendar year tax returns
- IRS notification of “no record found” for prior calendar year

Application Date after November 15<sup>th</sup>:

- Most recent year(s) available tax transcripts for the number of years required
- Copy of the filed extension for prior calendar year with any tax payments made
- Copy of the prior calendar year tax returns
- Transcripts from the IRS to verify the prior calendar year tax returns (regardless of the type of income used to qualify)

### **1.08.14.02 Documentation requirements for Self-Employed income when tax returns have been filed**

Application Date between Jan 1<sup>st</sup> – June 14<sup>th</sup>:

- Most recent year(s) available tax transcripts for the number of years required by AUS
- Copy of the prior calendar year returns



# USDA/RD Underwriting Guidelines

## Section 1.05 Employment & Income

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- Must have IRS transcripts of prior calendar year tax returns if using income to qualify

Application date on and after June 15<sup>th</sup>:

- Must have IRS transcripts of prior calendar year tax returns

### 1.08.14.03 FCM Documentation requirements for Salaried Borrowers

Application date on and after June 15<sup>th</sup>:

- Must have IRS transcripts of prior calendar year tax returns

### 1.08.14.04 SSN Misuse For Tax Filing Purposes

IRS tax transcripts may not match loan documentation due a borrower's SSN being used fraudulently by another individual for tax filing purposes.

If IRS tax transcripts cannot be obtained or do not agree with income documentation, FCM advises the following action steps:

- Obtain 6C Record of Account
- Obtain and execute a Social Security Consent form to validate the borrower's SSN.
- If the borrower is a wage earner, order W-2s transcripts from the IRS to support the income documentation received. If there is 1099 income, order the 1099 transcripts.
- If the borrower is a non-wage earner, request prior year 1040s to compare against current income documentation received. This is used to see if the borrower's current income is consistent with the prior year. If the borrower's SSN misuse has occurred over multiple tax filing years, this action step will not work.
- The borrower should be advised that there is a discrepancy with their tax information and the IRS. Once the borrower has gone to the IRS documentation should be requested. The IRS or a tax advocate will issue a letter acknowledging the case and at that point the IRS will most likely explain to them they have been a victim of identity theft. This letter must be validated by the party which completed it. There is usually a contact phone number in the letter. The phone number should be reverse searched prior to calling to verify the number goes to the IRS or tax advocate.
- The IRS should confirm that revised returns are not being accepted for the borrower until the conclusion of the identity theft case. If the IRS is accepting the borrowers' modified tax returns then a copy of the revised returns, stamped by the IRS, should be provided in addition to the information outlined above.

# USDA/RD Underwriting Guidelines

## Section 1.05 Employment & Income

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It should be noted that FCM must still have a reasonable and verifiable justification for all income calculations used to determine the final qualifying income. If sufficient valid documentation is not available and an income determination cannot be made the income may not be used to qualify the borrower.

### 1.08.15 Unreimbursed Business Expenses

When a borrower has non-reimbursed business expenses such as classroom supplies, uniforms, meals, gasoline, automobile insurance and/or automobile taxes, the borrower's recurring monthly obligation for such expenses must be determined by developing a 24-month average. This average is developed using information from the borrower's Tax Returns including all schedules (Schedule A, Itemized Deductions and IRS Form 2106, Employee Business Expenses) and netting out any automobile depreciation claimed on IRS Form 2106. The final developed recurring monthly obligation for the unreimbursed business expenses is then deducted from the borrower's qualifying income.

If the borrower has less than a 25% ownership interest in the business then Tax Returns are not necessary unless the underwriter is attempting to exclude the expenses from the income calculation

# USDA/RD Underwriting Guidelines

## Section 1.06 Assets & Reserves

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### 1.09 Assets & Reserves

All assets entered in GUS must be verified regardless of their use as cash to close or to fulfill reserve requirements. See section on [Net Family Assets and Annual/Eligibility Income](#) for specific requirements on income calculations when net family assets are in excess of \$50,000.

#### 1.09.01 Cash on Hand

Cash on hand is not an acceptable source of funds for reserves or closing costs.

#### 1.09.02 Liquid Assets

Checking, Savings, Certificate of Deposits, and all other liquid assets must be verified with one of the following:

- Verification of Deposit (VOD) showing current and 2-month average balance
- Most recent two months statements to include beginning and ending balances.
- Most recent quarterly statement, if received quarterly
  - Online printouts covering 60 days must show all of the information on a normal bank statement as well as the http web address at the bottom or top of the page

Assets entered on the 1003 and considered in underwriting are to be calculated as the **lessor** of the two-month average balance or the actual balance on the most recent statements.

In addition to cash to close and required reserves, bank statements will be reviewed for undisclosed debt, overdraft/nsf activity and large deposits. Any indication of undisclosed debt (ie. IRS Tax payments, child support/alimony) will require documentation and explanation of the payments made on the bank statement. Overdraft/NSF activity can be an indicator of financial mismanagement and credit risk; Overdrafts/NSF activity may require explanation and if severe, could warrant a decline. See the [Large Deposit](#) section for documentation requirements.

Bank Statements are required to contain, at a minimum, the following information:

- Account Number
- Account Holder Name
- Account Holder Address
- Beginning and Ending Balance
- All pages
- Blacked-out information is not acceptable
- Bank printouts must cover at least 60 days and must be signed and stamped by a Bank Representative.

# USDA/RD Underwriting Guidelines

## Section 1.06 Assets & Reserves

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### 1.09.03 Stocks, Bonds, and Mutual Funds

Stocks, Bonds, and Mutual Funds must be verified with all of the following:

- The most recent monthly or quarterly statement provided by the stockbroker or financial institution managing the portfolio to verify the value of stocks and bonds.
- The borrower's actual receipt of funds must be verified and documented.

When used for reserves, the value of the stocks, bonds and mutual funds must be discounted by 30% but proof of actual liquidation is not required.

### 1.09.04 Retirement Accounts (Employer Held)

Retirement funds must be verified with all of the following:

- Copy of the most recent retirement account statement.
- Evidence that the account allows for withdrawals for conditions other than those related to the borrower's employment or death.
- Evidence of liquidation is required if the funds are being used for down payment or closing costs.

When calculating the asset value of retirement accounts, 60% of the borrower's vested interest in the account may be used unless the borrower provides documentation that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.

Any outstanding loans on the retirement account must be subtracted from the principal balance before using them as an asset.

### 1.09.05 Retirement Accounts (Privately Held)

Retirement funds must be verified with all of the following:

- Copy of the most recent retirement account statement.
- Evidence of liquidation is required if the funds are being used for down payment or closing costs.

When calculating the asset value of retirement accounts, 60% of the value of the account may be used unless the borrower provides documentation that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.

# USDA/RD Underwriting Guidelines

## Section 1.06 Assets & Reserves

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### 1.09.06 Gift Funds

#### 1.09.06.01 Overview

Gift funds from an eligible donor may be used for 100% of the borrower's closing costs or down payment. Gift funds may not be considered as cash reserves.

A [sample gift letter](#) can be found by clicking the hyperlink. The source of the donor's gift funds must be verifiable.

#### 1.09.06.02 Eligible Donors

Eligible donors include the following:

- Federal/State/Local government agency or instrumentality.
- [Family member](#).
- Close friend with a clearly defined and documented interest in the borrower.
- Corporation established for humanitarian, welfare, or charitable purposes
- Borrower's employer or labor union.

The gift funds may not be provided, either directly or indirectly, by a person or entity with an interest in the transaction, such as a realtor, seller, or builder. Gifts from these entities are considered inducements to purchase and must be subtracted from the contract sales price.

#### 1.09.06.03 Documentation Requirements

The following documentation is required to document gift funds:

- A [gift letter](#) with donor's and borrower's signature that specifically states the following information:
  - The donor's name, address, telephone number, and relationship to the borrower
  - The exact dollar amount of the gift funds
  - The address of the subject property
  - No repayment is necessary
  - The donor's signature
  - The statement: "Our signatures above indicate that we fully understand that it is a Federal Crime punishable by fine, imprisonment, or both to knowingly make any false statement concerning any of the above facts as applicable under the provision of Title 18, United States Code, Section 1012 and 1014."
- If the gift funds transfer before closing, the following documentation is required:

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### Section 1.06 Assets & Reserves

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- A copy of the donor's canceled check or other withdrawal document showing that the withdrawal is from the donor's account, and
  - The borrower's deposit receipt and bank statement showing the deposit.
  - Any large deposits may need to be sourced
- If the gift funds are transferred at closing, the following documentation is required:
    - The closing agent's receipt of the gift funds from the donor for the amount of the gift.
    - Checks and cashier's checks may be made payable to the title company or the borrower.
    - If the donor borrowed the gift funds and therefore cannot provide the documentation from their bank account, the donor must provide evidence that those funds were borrowed from an acceptable source (i.e. a party without interest in the transaction). Funds borrowed by the donor are acceptable so long as the borrowers are not obligors on any note used to secure the borrowed funds.
    - If the transfer of funds was by a cashier's check, money order, official bank check or wire the donor will need to provide proof of availability and withdrawal of funds.

For Example

- Gift Letter and Wire Confirmation showing donor's account
- Gift Letter and Cashier's Check showing withdrawn off donors account

#### 1.09.07 Gift of Equity

Only family members may provide equity credit as a gift on a property being sold to other family members. The equity credit must be reflected on the HUD-1 and all other stipulations regarding gift funds must be satisfied. Please see the aforementioned [Gift Funds](#) section for more information.

#### 1.09.08 Proceeds from the Sale of Property

Proceeds from the sale of other property may be used to fulfill cash to close requirements if the sale occurs on or before the closing of our transaction.

The borrower must provide verification and documentation of the actual sale and the net sale proceeds by obtaining a fully executed Closing Disclosure, it must be signed by the borrower/owner

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## Section 1.06 Assets & Reserves

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even if it was not signed at the time of closing. Dating at the time of submission to FCM is acceptable as certification the document is accurate.

### 1.09.09 Borrowed Funds

Borrowed funds may only be used to fulfill cash to close and down payment requirements if satisfactory evidence is provided that the funds are fully secured by investment accounts or real property (i.e. cars, trucks, boats) and the borrower can qualify with the repayment. This payment must be included in the borrower's debt ratio.

### 1.09.10 Earnest Money Deposit

The deposit on the sales contract (earnest money) for the purchase of the security property is an acceptable source of funds for both the down payment and the closing costs.

A cancelled check is required to evidence earnest money has been given and received. Current bank statements covering 2 months or Verification of Deposit from the source account must be included in the file. The average balance from the VOD or bank statements must be greater than the amount of earnest money given. In the case of "seasoned" earnest money the bank statements do not need to reflect the time period the earnest money cleared, instead, they should cover the most recent 60 days.

If the current balance does not support the earnest money then the bank statement for the month in which the earnest money cleared is required.

Underwriter has the ability to request additional documentation as needed.

### 1.09.11 Seller-Funded Down Payment Assistance

Seller-Funded Down Payment Assistance is not permitted.

### 1.09.12 Ineligible Funds

All of the following are unacceptable sources of funds:

- Foreign Assets
- Unsecured Borrowed Funds
- Seller Funded Down Payment Assistance
- Sweat Equity
- Undocumented funds
- Cash on hand
- Illegally obtained funds

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## Section 1.06 Assets & Reserves

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### 1.09.13 Large Deposits

A large non-payroll deposit could be a single non-payroll deposit or multiple non-payroll deposits over a period of time, which in aggregate, results in a large non-payroll deposit. "Period of time" equals the period covered by the bank statements reviewed by the underwriter which, in aggregate, results in a large non-payroll deposit.

- The following are considered large non-payroll deposits and should be further documented and/or explained:
  - ALL non-payroll deposits above \$300 or any recurring deposit regardless of amount.
  - If a Verification of Deposit is utilized and the current account balance is greater than the average balance over the previous two months by a percentage of 10% or more of either the borrower or joint borrower's gross monthly income.

### 1.09.14 Reserve Requirements

RD does not require the applicant to have additional cash to cover a certain number of mortgage payments, unplanned expenses, or other contingencies. However, the applicant's ability to accumulate liquid assets and the current availability of liquid assets for unplanned expenses should be considered in the overall credit analysis.



# USDA/RD Underwriting Guidelines

## Section 1.08 Property

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### 1.10 Property

#### 1.10.01 Geographical Restrictions

To be eligible for an RD loan the property must be located in an eligible rural area as defined by the [USDA website](#).

In addition, FCM has its own standard lending footprint which must be adhered to:

[Retail Standard Lending Footprint](#)

[Wholesale/NDC Standard Lending Footprint](#)

Note that additional products used in conjunction with RD products, such as THDA or Georgia Dream, may have their own proprietary lending territories.

#### 1.10.02 Maximum Number of Properties

RD restricts the total number of properties owned by all applicants. The applicants may own one dwelling (one unit) in addition to the new dwelling (primary residence) purchased with a guaranteed loan. It should be noted that the additional dwelling may not be within local commuting distance of the borrower's place of employment.

The dwelling retained may not be financed with a Section 502 Direct or Guaranteed loan, or have a Section 504 repair loan or active grant.

Manufactured homes that are not on a permanent foundation are considered functionally inadequate housing and therefore are not counted in the total property calculation above.

#### 1.10.03 Title Commitment

- Amount of policy may not be less than the original principal balance of the mortgage.
- Named Insured must be : First Community Mortgage, Inc., ISAOA/ATIMA\*
- ICL/CPL must be loan specific and include the subject property address or borrower name.
- Final Title Policy Requirements:
- ALTA standard (1990 ALTA policies are not permitted) or ALTA Expanded Coverage Residential Policy is acceptable in all states. The modified ALTA Short Form Residential loan policy approved by the State of Florida is acceptable on Florida properties only.
- ALTA Endorsement 4 (condominium) – required on all condominium properties.
- ALTA Endorsement 5 (PUD's) – required on all PUD properties.
- ALTA Endorsement 6 (ARM's) – required on all ARM transactions.

# USDA/RD Underwriting Guidelines

## Section 1.08 Property

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- ALTA Endorsement 8.1 (environmental hazards) – required on all properties.
- ALTA Endorsement 9 (restrictions, encroachments, minerals) – required on all properties.
- Title policy must include, as an informational note, (a) the recorded plat number(s), if any, and (b) the property parcel number(s), or tax identifying number(s), as applicable, if available.
- Any Survey Exception must be deleted.
- The legal description on the policy must conform to the legal description contained in the Security Instrument.
- Tax information including next due and amount to be included on the title commitment.
- Florida properties require Florida Endorsement Form 9 (aka ALTA 9-06) as well as a property survey. If an existing survey is being utilized a Survey Affidavit must be completed.

### 1.10.04 Hazard, Flood and Condo Insurance

Please see FCM's [Insurance Policies and Requirements](#) document for all insurance related information.

### 1.10.05 Occupancy Types

#### 1.10.05.01 Overview

RD loans are limited to owner-occupied principal residences only.

#### 1.10.05.02 Primary Residence

A primary residence is defined as a property that will be occupied by the borrower for the majority of the calendar year.

RD security instruments require the borrower to establish bona fide occupancy in a home as the borrower's principal residence within 60 days of signing the security instrument, with continued occupancy for at least one year.

#### 1.10.05.03 Secondary Residence

A secondary residence is defined as a property that a borrower occupies in addition to his/her principal residence. Second homes are not eligible for RD loans at First Community Mortgage.

#### 1.10.05.04 Investment Property

An investment property is defined as a property that is not occupied by the borrower as a principal or secondary residence. Investment properties are not eligible for RD loans at First Community Mortgage.

# USDA/RD Underwriting Guidelines

## Section 1.08 Property

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### 1.10.06 Property Evaluation

#### 1.10.06.01 Eligible Properties

First Community Mortgage accepts the following property types for RD loans:

- One unit
- Townhomes/PUDs
- [Condominiums](#) that are approved by FHA, VA or Fannie Mae.
- Properties with swimming pools are allowed and may have contributory value.
- Properties must meet current requirements of HUD Handbooks 4000.1.
- Properties with Leased Mineral Rights may be acceptable with prior jurisdictional RD Office Approval and lender consent. Additional conditions may apply.

#### 1.10.06.02 Ineligible Properties

First Community Mortgage does not accept the following property types for RD loans:

- Co-ops
- Non-Owner Occupied
- Second Homes
- Income Producing Properties
- Manufactured Homes
- Mixed-Use Properties
- Commercial Enterprises
- Boarding Houses
- Tourist Houses
- Private Clubs
- Bed and Breakfast Establishments
- Fraternity or Sorority Houses
- Sinkhole Homes
- Berm Homes
- Non-Warrantable Condos
- Life Estate
- Working Farms
- Leasehold Estates
- Properties with farm service buildings
- Hotel or Motel Condominium Conversions (or conversions of other similar transient properties)

# USDA/RD Underwriting Guidelines

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### 1.10.06.03 Appraisal Requirements

- A full appraisal must be completed for all RD loans (except where noted for [Rate/Term Refinances](#) and [Streamlined-Assist Refinances](#)).
- The following appraisal forms are required based on property type:
  - 1 unit single family dwellings: Uniform Residential Appraisal Report (Fannie Mae Form 1004)
  - Condominium units: Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073)
- Appraisals are valid for 150 days from the date of inspection to the Note date. Validity period may be extended to 240 days with an Appraisal Update Report. A 30-day extension without an update may be granted under certain conditions.
- All property conditions, including repairs, alterations and/or required inspections must be reported within the appropriate section of the applicable Fannie Mae appraisal reporting form.
- See the [New Construction](#) section for information regarding property inspections on those types of loans.
- The appraiser must state that the property meets current requirements of HUD Handbooks 4000.1. Appraiser comments that state the property “appears to meet” or “seems to meet” HUD Handbooks are unacceptable.
- An REO appraisal may not be used, a new appraisal must be obtained.

### 1.10.06.04 Access to Property

There must be vehicular access to the property via an all-weather public or private street. If a private street is the only form of access there must be a permanent recorded easement (non-exclusive, non-revocable roadway, drive-way easement without trespass from the property to a public street/road.) Shared driveways must also meet these requirements requiring a permanently recorded easement for ingress and egress

Private road maintenance agreements are not required.

### 1.10.06.05 Pest Inspections

Termite inspections are required on RD Purchase and Refinance transactions in the following situations:

- Appraiser notes a termite infestation (current or previous)
- Mandated by a local or state jurisdiction
- New construction (see [New Construction](#) section for more information)

# USDA/RD Underwriting Guidelines

## Section 1.08 Property

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If a termite letter shows there are any current infestations then treatment is required.

If a termite letter or appraisal notates any damage due to termites, FCM will require proof the damage was repaired or a licensed inspector, contractor, or structural engineer will need to verify the damage is minor. Also, the letter must clearly state the evidence observed has not affected the structural soundness of the home.

Termite inspection letters must be dated within 90 days of closing. Soil treatment letters must be dated within 12 months of the day of closing.

Note: If Termite Letter Invoice is to be paid on the HUD underwriter review will be required.

### 1.10.06.06 Wells & Septic Systems

Properties located within a reasonable distance from public water or sewer systems may be required to connect to public utilities if the cost to connect is less than 3% of the value used to determine LTV or if the appraiser states it is not feasible to connect to the public utilities.

#### *(1) Community Wells & Septic Systems*

Community well and/or septic systems must be owned, operated, and maintained by a private corporation or a non-profit property owners association.

#### *(2) Shared Wells*

The following requirements must be met for a shared well:

- The well must be capable of providing a continuing supply of safe and potable water to each property simultaneously, so that each dwelling will be assured a sufficient quantity for all domestic purposes.
- There must be a permanent easement which allows access for maintenance and repair.
- There must be a well-sharing agreement which
  - makes reasonable and fair provisions for maintenance and repair of the system and the sharing of those costs
  - is binding on the signatory parties and their successors in title, and is recorded in local deed records.

#### *(3) Private Septic Systems*

Waste water systems must be determined to be free of observable evidence of system failure. Certification can be provided by the local health department, a septic system

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professional, a qualified home inspector, or can be evidenced on the appraisal if completed by a FHA roster appraiser. A septic system test is only required when:

- Evidence of system failure is present,
- If mandated by local or state jurisdiction,
- If customary to area,
- If required by lender, or;

All new systems must be accompanied by a permit and local health department approval.

### **(4) Private Wells**

For private wells a test of the well water is always required. Water quality tests are valid for 150 days. The local health authority or a state certified laboratory must perform a water quality analysis. The water quality must meet state/local standard. The Safe Water Drinking Act does not apply to private wells. Contact the Environmental Protection Agency (EPA) at (800) 426-4791 for referrals to certified labs and other inquiries.

### **(5) Cisterns**

Cisterns are eligible. A water quality test is required.

#### **1.10.06.07 Easements**

If any part of the residential structure lies within utility or drainage easement boundaries, the property is ineligible for financing. The residential structure includes attached improvements such as decks or patios.

#### **1.10.06.08 FEMA Disaster Areas**

FEMA announces major disaster areas for specific counties after a significant event has occurred which the President of the United States has declared a disaster area. The [FEMA website](#) lists these disaster areas and has a searchable feature to determine the Incident Begin and End dates. The following procedures will be followed for any properties located in a county declared a disaster by the President of the United States.

To pass along the cost of the re-inspection to the borrower a Change In Circumstance form must be completed and submitted to FCM for approval within 3 days of the announcement by FEMA.

# USDA/RD Underwriting Guidelines

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### ***(1) If the original appraisal was performed ON or Before the Incident Period End Date:***

- Property must be re-inspected by the original appraiser or, if not available, another licensed appraiser. The appraiser must provide the following commentary/evidence:
  - Property is free from damage and the disaster had no effect on value or marketability.
  - Photos provided of exterior only.
- If the re-inspection indicates damage, the extent of the damage must be addressed along with the following:
  - Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report prior to closing.
  - Photos are provided of interior, exterior and neighborhood.

### ***(2) If the appraisal is performed after the Incident Period End Date:***

- Appraisal must include written certification by the appraiser that:
  - Property is free from damage and the disaster has no effect on value or marketability.
  - All Comparables should be post-disaster; however, if sufficient comparables are not available, the appraiser must provide current photos of the subject property and comparables. MLS photos or photos used for previous appraisals are not acceptable.
- If appraisal indicates damage, the extent of the damage must be addressed, along with the following:
  - Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to closing.
  - Photos are provided of interior, exterior and neighborhood.

Additional Considerations:

All loans with a property inspection waiver including Streamlined Assist, that are located in a FEMA Declared Disaster Area will require a disaster inspection with exterior photos for a period of 90 days after the Incident Period End Date declared by FEMA.

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### 1.10.06.09 Condominiums

A condominium is a multi-unit project that has individually-owned units, which may be either attached in one or more structures or detached from and each other and is essentially residential in use.

All condominiums must be on either [HUD's approved list](#), [VA approved list](#), FNMA-approved or FHLMC-approved. RD does accept Fannie Mae's CPM Approval.

FCM does not allow non-warrantable condominiums.

Please see the [previous section](#) on insurance requirements for specific insurance guidelines on condominiums.

### 1.10.06.10 Planned Unit Developments (PUDs)

A PUD is a mixed-use residential development of single-family dwellings in conjunction with rental, condominium, cooperative or town house properties. A residential development should be processed as a PUD if it has the following minimum characteristics:

- a homeowner association that holds either title in fee or a lease of prescribed length on the common area,
- mandatory membership of all unit owners (or units) in the association,
- the right of all unit owners to participate by vote in the operation of the association,
- lien supported assessment of the members to meet the association's budgeted operating costs (special assessments may be handled differently), and
- the appraisal for a detached PUD must be ordered as a detached PUD, not as a single family residence.

Homeowner's assessments must be subordinate to the mortgage. Provide one of the following items as documentation of HOA assessment subordination (required for all loans except Streamlined refinances):

- PUD by-laws indicating all homeowner's association assessments are subordinate to mortgage liens (At minimum, First Community Mortgage must review the title page, table of contents and corresponding HOA lien subordination section reflecting the page(s) indicated in the table of contents) or
- Subordination agreement executed by a representative of the homeowner's association or



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- Title commitment stating that the title company will insure over any homeowner's association assessment liens or
- Letter on letterhead from the title company indicating that PUD liens cannot take first lien position in the state in which the property is located or
- ALTA 9 or ALTA 5 title endorsement
- 60-Day letters may not be provided in lieu of one of the documents above

Please see the [previous section](#) on insurance requirements for specific insurance guidelines on attached PUDs.

### 1.10.07 New Construction

#### 1.10.07.01 Overview - New Construction

RD defines New Construction as a dwelling which has been built for less than 12 months and has never been occupied.

Properties built one year or more prior to the date of the appraisal, regardless of whether or not they were previously owner occupied, are considered as "existing" for RD documentation purposes.

#### 1.10.07.02 Re-sales of New Construction Properties

The re-sale of a property less than one year old, one sold from a builder to an owner-occupant and then subsequently to another borrower, is generally exempt from the new construction documentation requirements listed below when the following condition is met:

- Property is 100% complete, including all on and offsite improvements and

#### 1.10.07.03 Documentation Requirements for New Construction

Evidence of certified plans and specifications by any one of the following methods is required:

- Copy of certification from a qualified individual
- Building Permit
- Certificate of Occupancy

Evidence of construction inspections by any one of the following methods is required:

- Certificate of Occupancy and one year insured builder warranty acceptable to RD
- Three construction phase inspections
- Final Inspection and a ten-year insured builder warranty plan acceptable to RD

# USDA/RD Underwriting Guidelines

## Section 1.08 Property

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New construction dwellings must meet the 2006 International Energy Conservation Code (IECC). Typically, the building code, to which the home was built, includes the thermal specifications. When evidence that the home was built to an acceptable building code is secured, that requires a thermal specification of 2006 IECC or greater, the thermal requirement has been met.

A [Soil treatment letter](#) dated within 12 months of the closing date is required on all new construction.

### 1.10.07.04 Appraisal Requirements for New Construction

- New construction properties must have at least one comparable from outside the subdivision. All builder sales must not be used in the same subdivision.
- New construction properties that are approximately 90%-95% complete, with only minor finish work remaining, may be appraised without the appraiser having plans and specifications.

#### Notes:

- "Complete" means everything is complete including the installation of buyer preferences (flooring, appliances, etc.), utilities are on and fully functioning and all site improvements completed at the time of appraisal (Ready for Occupancy).
- If the appraiser makes no repair or correction conditions, the appraisal serves as the final inspection.

### 1.10.07.05 Calculating Tax Estimates for New Construction

The borrower must qualify with the monthly payment based on improved property taxes, not on the vacant land.

Realistic estimates for the improved property taxes used for loan qualification purposes as well as setup of monthly escrow accounts must come from a reliable source such as:

- The Appraiser
- Comparable Sales Data
- The Title Company as determined by the Assessor's Office

### 1.10.08 Declining Markets

If the appraisal indicates that the property is located within a declining market a detailed explanation by the appraiser on the effect of the declining market on the subject

# USDA/RD Underwriting Guidelines

## Section 1.08 Property

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neighborhood values and how the appraiser determined the property to be in a declining market are required. Additional comparables may be required by the underwriter on a case-by-case basis.

### 1.10.09 Right of Redemption Transactions

#### 1.10.09.01 Overview

Certain state laws provide a “redemption period” after a foreclosure or tax sale has occurred, during which time the property may be reclaimed by the prior mortgagor or other party upon payment of all amounts owed. The length of the redemption period varies by state and does not expire automatically upon sale of the property to a new owner.

#### 1.10.09.02 Property Restrictions

- No Manufactured Homes
- Surety Bonds are required in some states – consult with your title company for further details

# USDA/RD Underwriting Guidelines

## Section 1.09 Refinance Transactions

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### 1.11 Refinance Transactions

Below are general guidelines specific to RD refinance transactions. Please note that all of the previous guidance in the above sections apply to refinance transactions as well unless specifically stated.

First Community Mortgage offers the following two types of RD refinance programs:

- Non-Streamlined Refinance/Rate and Term
- Streamlined-Assist Refinance

**\*\*Note:** If refinancing a DIRECT loan from RD – guidelines may differ. Please contact underwriting for additional information on DIRECT RD loans.

#### 1.11.01 Non-Streamlined Refinance/Rate and Term

##### 1.11.01.01 Requirements

- A new Appraisal is required
- Maximum loan amount not to exceed the new appraised value except by the upfront guarantee fee. The following may be included in the new loan amount: Existing principal and interest, closing costs and fund for new escrow account.
- Discount point may be charged up to 2%. All discount fees must be used to permanently reduce the interest rate for the term of the loan.
- The existing loan must have closed 12 months prior to request for a refinance and must be current for the 180-day period prior to RD's receipt for conditional commitment (Application date to Final to RD date)
- Applicant must meet all credit and income requirements as stated in the guidelines
- GUS may be used for loan approval
- DTI Ratios are 29%/41%. DTI exceptions may be requested when strong compensating factors exist (ie. Current satisfactory mortgage payment history)
- Additional Borrowers may be added to the new guaranteed loan. Existing borrowers on the current mortgage note may be removed, however, at least one of the original borrowers must be an applicant for the new refinance.

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## Section 1.09 Refinance Transactions

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### 1.11.02 RD Streamlined-Assist Refinance (Formerly RD Pilot Program)

#### 1.11.02.01 Requirements

- Income documentation is required. Borrowers must still meet the income limits of the RD Program. The RD Income calculation worksheet is required.
- A new appraisal is not required.
- The maximum loan amount may include the principal and interest balance of the existing loan, eligible loan closing costs, funds for new escrow accounts and the USDA Guarantee Fee.
- Discount points may be charged up to 2%. All discount fees must be used to permanently reduce the interest rate for the term of the loan.
- The borrowers must have a net tangible benefit of at least \$50 per month reduction in Principal and Interest (taxes and insurance may not be included in this comparison) and annual fee when compared to the existing payment.
- The existing loan must have closed 12 months prior to application for a refinance. (Note Date to Application Date)
- The borrower is not required to meet all of the credit requirements as laid out in the handbook. A credit report with a minimum score of 640 and the existing mortgage reported is required. (Mortgage Only with Score is acceptable)
- Borrowers may be added but not removed.
- DTI is calculated. Because income is reported and the housing payment is known, DTIs are calculated. If a mortgage only credit report is in the file, matching Front End and Back End Ratios are acceptable.
- All loans are manually underwritten.

# USDA/RD Underwriting Guidelines

## Section 1.10 Definitions

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### 1.12 Definitions

**Automated Underwriting System (AUS):** General term for automated underwriting tools acceptable to First Community Mortgage, that includes:

- Fannie Mae’s Desktop Underwriter® and
- Freddie Mac’s Loan Prospector®

**Combined Loan-To-Value or CLTV:** The ratio calculated by adding the HELOC credit line limit to the mortgage amount plus any secondary financing and dividing that total by the value of the mortgaged premises.

**Co-op or Cooperative Project:** A structure of two or more Cooperative Units in which a borrower obtains the right to occupy one of the Cooperative Units by purchasing stock in the Corporation that owns the structure and by executing a Proprietary Lease for the Cooperative Unit.

**Debt to Income or DTI ratio:** A borrower’s DTI generally includes a “front-end” and “back-end” ratio. The front-end ratio, also known as a mortgage payment expense to effective income ratio, is calculated by taking the total mortgage payment and dividing it by the gross effective income. The back-end ratio, also known as the total fixed payments to effective income ratio, is calculated by taking the total obligations and dividing it by the gross effective income.

**Family Member:** A family member is defined as a borrower’s child, parent, grandparent, spouse, foster child, or legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption. *Note:* A child is defined as a son, stepson, daughter, or stepdaughter.

**Fannie Mae (FNMA):** The Federal National Mortgage Association, a federally chartered and privately-owned corporation, organized and existing under the Federal National Mortgage Association Charter Act, or any successor thereto.

**Federal Debt:** A Federal debt is defined as

- a Veterans Affairs guaranteed mortgage
- a Title I loan
- a Federal Student loan
- a Small Business Administration (SBA) loan
- delinquent Federal taxes, or
- a lien, including taxes, placed against the borrower’s property for a debt owed to the U.S.

# USDA/RD Underwriting Guidelines

## Section 1.10 Definitions

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**FHA:** The Federal Housing Administration

**First Time Homebuyer:** An individual who has had no ownership in a principal residence in the three years prior to the closing date of the loan OR an individual who, though having owned a home in the previous three years, owned a home with a former spouse while married and is no longer living in the property as evidenced by the divorce decree and/or separation agreement.

**Freddie Mac (FHLMC):** The Federal Home Loan Mortgage Corporation, a corporate instrumentality of the United States created and existing under Title III of the Emergency Home Finance Act of 1970, as amended, or any successor thereto.

**Gift Funds:** Gift funds are assets provided by a non-interested third party to the borrower.

**Guaranteed Underwriting System(GUS):** USDA/RD's proprietary automated underwriting system.

**Interested Party:** Interested parties include real estate agents, builders, developers, or anyone with an interest in the sale or refinance of the property.

**Loan-to-Value or LTV:** The loan-to-value of a mortgage loan at the time of its origination, which shall be the ratio, expressed as a percentage, that the mortgage loan bears to the lesser of (i) the appraised value of the mortgaged property at origination (as determined by a true and accurate appraisal that satisfies the procedural and substantive requirements of the underwriting guidelines) or (ii) if the mortgage loan was made to finance the acquisition of the mortgaged property, the sales price of the mortgaged property.

**Manufactured Home:** A manufactured home, including all accessions thereto, that is legally classified as real property under applicable state law.

**Monthly Payment:** The scheduled monthly payment of principal and/or interest, and any escrow payment, that is due each month on a mortgage loan.

**Mortgage:** The mortgage, deed of trust or other security instrument creating a first lien on an estate in real property.

**Mortgage Loan:** An individual Loan that is evidenced by a Mortgage Note and secured by a Mortgage and made in connection with the other documents included in the Mortgage Loan file (all of which are deemed included in the definition of "Mortgage Loan").

**Mortgaged Property:** The property pledged as security for the debt evidenced by a Mortgage Note.

**Mortgagee:** The originator of any Mortgage Loan, as lender thereunder, together with its successors and assigns, as mortgagee thereunder.

**Mortgagor:** The obligor on a Mortgage Note.

# USDA/RD Underwriting Guidelines

## Section 1.10 Definitions

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**Non-occupying borrower transaction:** A non-occupying borrower transaction is a transaction involving two or more borrowers where one or more borrower will not occupy the property as the principal residence.

**Note:** Document signed by a borrower as acknowledgment of the debt, and is, by inference, a promise to pay.

**Self-employed borrower:** For FHA mortgage loan underwriting purposes, a self-employed borrower is a borrower with a 25 percent or greater ownership interest in a business.

**Third party contribution:** A third party contribution is a payment by an interested third party, or a combination of parties, toward the borrower's

- Closing costs, per ML 06-04
- Prepaid expenses
- Discount points, and
- Other financing concessions

**USDA/RD:** United States Department of Agriculture/Rural Development