

REMN WHOLESALE USDA PRODUCT GUIDELINES



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LTV/CLTV CREDIT SCORE MATRIX Full Doc Primary Residence 1 Unit				
Purpose	Max LTV ¹	Max CLTV	Loan Amount ²	Minimum Credit Score ³
Purchase	100.00%	100.00%	No Set Limit	Per USDA
Non-Streamline Refinance ⁴	100.00%	100.00%	No Set Limit	Per USDA
Streamlined-Assist Refinance ⁵	110.00%	110.00%	No Set Limit	Per USDA
Streamline Refinance ⁴	100.00%	100.00%	No Set Limit	Per USDA
Footnotes:	¹ The maximum LTV when financing the guarantee fee can exceed 100%: - Guaranteed loans allow REMN WS to lend up to 100% of the APPRAISED VALUE, plus the one time guarantee fee may be rolled into the loan ABOVE the appraised value. - Eligible closing cost (including discount points to buydown the interest rate), REMN WS fees, repairs, etc. may be rolled into the loan amount. 100% LTV may only be exceeded when financing the upfront guarantee fee. - Existing subordinate financing must be resubordinated; no new subordinate financing. ² A borrower's maximum loan amount is determined by their ability to repay the loan. ³ Wholesale Credit Score Overlays Apply ⁴ Loan being refinanced must be a USDA Guaranteed Rural Housing loan. - Conventional, FHA & VA loans cannot be refinanced under this program. ⁵ Streamlined-Assist Refinance – See State Eligibility to determine if program available in state.			
Program Overview	» REMN WS follows the HB-1-3555; where guidelines are silent follow 7 CFR 3555 » Underwriting and Loan Closing Documentation Matrix			
USDA Guaranteed Rural Housing Program Highlights	» GRH program offers 100% financing for low to moderate income buyers in rural areas subject to availability of funds from the USDA » Income must be ≤ 115% of the area median » No maximum purchase price » Not limited to first-time homebuyers » No down payment required » No reserves required			
AUS	» Approve/Eligible – Underwritten by REMN WS Underwriter » Refer/Eligible – Full file submitted to USDA for underwriting and approval » Minimal documentation provisions apply to GUS underwriting recommendations that receive an ACCEPT. REMN WS may submit the following completed documents to obtain a Conditional Commitment, unless a quality control message on the GUS Underwriting Findings Report indicates a full documentation file is required. A quality control message requiring a full documentation file will appear on the GUS Underwriting Findings Report upon final submission. A complete file will need to be submitted to USDA for review. » Origination Stacking Order Checklist must be utilized when submitting the loan file to USDA.			
GUS	» Accept Recommendation Received - REMN WS must retain all documentation to support the credit decision - RD may request evidence from Underwriter to support 7 CFR Part 3555 is met if eligibility is questionable - GUS cannot “read” the credit report, and GUS does not “approve” or “ignore” adverse credit, data must be considered and entered correctly. » Refer Findings – it is mandatory that the underwriter lists the specific compensating factors on the 1008 when approving a USDA loan that has a refer decision from GUS.			

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Eligible Transactions	» Per the 7 CFR 3555 (Guaranteed) except those shown as ineligible in these guidelines.
Ineligible Transactions	» Cash-Out » Refinance of any loan that is not a current Rural Development loan – no pay offs of subordinate financing including Property Assessed Clean Energy (PACE) loan » Rural Housing Direct Loan (purchase transactions) » Loans with qualifying income earned from state-legalized marijuana businesses, as this is not considered as legally-derived income based on Federal law. » Loans where a borrower(s) has a Deferred Action for Childhood Arrivals (DACA) status
Occupancy	» Owner Occupied Primary Residence
Assumption	» Permitted, but REMN WS must obtain Agency approval before consenting to a transfer with an assumption of outstanding debt » Rural Development may approve a transfer with an assumption if certain conditions are met. » Please reference USDA Handbook 7 CFR Part 3555, Sec. 3555.256 – Transfers and Assumptions – to reference these conditions.
Prepayment Penalties	» Not Permitted
Temporary Buydown	» Not Permitted
Escrow / Impounds	» Required
Guarantee Fee	<u>October 1, 2018 – September 30, 2019</u> » Upfront guarantee fee for conditional commitments issued on or after October 1, 2018 = 1.00% of the total loan amount. » Annual Fee = 0.35% for life of the loan.
Eligible Properties	» Must meet HUD Handbooks 4000.1 » Property must be eligible based on USDA Rural Area Maps updated effective 02/02/2015; verification can be found at: http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do » Single Family 1 Unit Properties » Condominiums; FNMA/FHLMC/HUD or VA Approved » Townhomes & PUD's – Attached/Detached » Modular – Existing and New Construction
Ineligible Properties	» Income producing properties » Properties with buildings or equipment for specific income producing purposes » Properties with large farm service buildings » Properties with windmills, wind turbines or cell phone towers located on the property » Properties identified by Rural Development as “remote” rural » Properties located in Lava Zone 1 (Hawaii) » Manufactured Homes » 2-4 Unit properties » Existing properties located in Special Flood Hazard Areas are ineligible unless; – Flood insurance through FEMA's NFIP program is available. » New or proposed home is SFHA will not be guaranteed unless; – REMN WS obtains LOMA to remove property from SFHA – REMN WS obtains LOMR to remove property from SFHA; OR – FEMA flood elevation certificate confirms lowest habitable floor (including basement) for dwelling and all related improvements is at or above the 100-year flood plain elevation. – See Flood Insurance: HB-1-3555 Chapter 12 for further information.

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Power of Attorney	» A Power of Attorney may be used for loan closing documents however Borrowers must provide a valid reason that prevents them from attending the closing or performing borrower requirements. Click here for the Wholesale Power of Attorney policy.
Fax Headers	» Income, Employment or Asset documents sent to REMN WS by fax must clearly identify: » Name of employer or depository/investment firm and the source of information; and, » Name and telephone number of the individual at the employer or financial institution responsible for verifying the accuracy of the data.
Previous USDA Loan	» Borrower incurred a loss on a previous RD loan that is settled or is subject to settlement: » Rural Development determines eligibility for the new loan. » Borrower must provide REMN WS with evidence to support the extenuating circumstances for RD's review.
State Eligibility	» With the replacement of Rural Refinance Pilot program with Streamlined-Assist refinance, there is no longer a restriction on eligible states. » Properties do not have to be located in an area currently identified as an eligible rural area. If the property was eligible at the time of the original loan closing, a Streamlined-Assist refinance is allowed.
Federal Debts	» All Federal debts / judgments (U.S. Tax Court exempt) must be satisfied (paid in full) or have an official release of liability.
Non-Arm's Length	» A non-arm's' length transaction is a purchase transaction where the relationship of business affiliation between the buyer and seller of the property. » Non-Arm's Length transactions are eligible for re-sales only.
Identity of Interest	» An identity of interest transaction involves parties who are not related and do not have close personal ties; however, they have a strong interest in the transaction. » Identity of interest transactions is eligible on owner occupied transactions; however, additional review will be required to ensure validity of the transaction, value, etc. Additional documentation and/or a desk review or second appraisal may be required at underwriter discretion.
Tax Liens and Eligibility	» The IRS routinely takes a second lien position without the need for independent documentation. For this reason, eligibility for USDA Guarantee is not jeopardized by outstanding IRS tax liens remaining on the property; Unless REMN WS has information, the IRS has demanded a first lien position. Tax liens may remain unpaid if the lien holder subordinates the tax lien to the USDA-guaranteed mortgage. » Tax liens must be paid or subordinate to the REMN WS first lien with verified 0x30x12 payment history. NOTE: Payments for tax liens (if applicable) must be included in the borrower monthly debt ratio.
Lava Zone Properties	» Not eligible for properties located in Lava Zone 1 » Properties in Lava Zone 2 are eligible if lava insurance for at least the amount of the mortgage can be obtained. » No restrictions for properties located in Lava Zone 3 or higher.

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Complete Loan Guarantee Request	Transaction Type: Purchase and Standard Non-Streamlined Refinance – Guaranteed Underwriting System (GUS) Accept Underwriting Recommendation – Form 3555-21, "Request for Single Family Housing Loan Guarantee" which includes the "Worksheet for Documenting Eligible Household and Repayment Income" – Final GUS Underwriting Findings and Analysis Report – Evidence of qualified alien, as applicable. – FEMA Form 086-0-32, "Standard Flood Hazard Determination Form." – Uniform Residential Appraisal Report (URAR) with Market Condition Addendum C 1004).
	Transaction Type: Purchase and Standard Refinance* – Manually Underwritten, without assistance of the GUS; or – GUS Refer or Refer with Caution Underwriting Recommendation; or – GUS Accept Underwriting Recommendation subject to full documentation review (<i>Lender Message 31063, 31113 or 60020 triggered on GUS Findings Report</i>) – Form 3555-21, "Request for Single Family Housing Loan Guarantee." – A copy of the final GUS Underwriting Findings Report (if applicable) – Evidence of REMN WS's loan underwriting analysis. (FNMA 1008/FHLMC 1077 or similar; <i>does not apply to GUS Accept subject to full documentation review</i>) – Uniform Residential Loan Application (URLA). (FNMA 1003/FHLMC 65; <i>does not apply to GUS Accept subject to full documentation</i>) – Evidence of qualified alien, non-purchasing spouse credit report, etc. (if applicable). – Credit report (<i>non-GUS loans</i>) and any credit documentation (<i>explanation/compensating factors/credit waiver documents</i>) supporting the underwriter's decision (<i>not required to be submitted to Rural Development for a GUS ACCEPT underwriting recommendation subject to full documentation review</i>) – Income verification documents for all adult household members – Documentation evidencing stable and dependable income to support REMN WS's determination of repayment income. – Asset Verification Documentation: (all household members) – Ratio waiver request and documentation of compensating factors, if applicable. (<i>Not required to be submitted to Rural Development for a GUS Accept underwriting recommendation subject to full documentation review unless required by the GUS underwriting findings report</i>) – Purchase contract and any addenda, as applicable. – FEMA Form 086-0-32, "Standard Flood Hazard Determination Form." – Uniform Residential Appraisal Report (URAR) with Market Condition Addendum (MC 1004). (A URAR is not required for a streamlined refinance transaction). * Refinance transactions for the rural refinance pilot will follow AN 4749 or replacement guidance for a list of complete documents. – To assist Rural Development in processing your loan guarantee request expeditiously, REMN WS should ensure only the documentation noted above is submitted to Rural Development for review. Excessive documentation will cause delays in reviewing your loan guarantee request.

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Obtaining USDA Credit	» Form RD 3555-21, "Request for Single Family Housing Loan Guarantee" requires both REMN WS and the borrower to certify that the borrower is unable to secure credit from other sources upon terms and conditions which the borrower can reasonably fulfill. The certification can be made if the borrower does not meet the requirements to obtain a traditional conventional credit loan. Traditional conventional credit is defined for Agency purposes as: – The borrower has available personal non-retirement liquid verifiable asset funds of at least 20% of the purchase price that can be used as a down payment; – The borrower can, in addition to the 20% down payment, pay all closing costs associated with the loan; – The borrower can meet qualifying ratios of no more than 28% PITI and 36% TD when applying the 20% down payment; – The borrower demonstrates qualifying credit for such a loan. ▪ The conventional mortgage loan term is for a 30- year fixed rate loan term without a condition to obtain private mortgage insurance (PMI). » If the borrower meets the cumulative criteria of traditional conventional credit, as defined by the Agency above; the borrower is ineligible for the SFHGLP. » It remains the underwriter's responsibility to support the criteria of this section. Documentation to support ineligibility for conventional credit will be retained in REMN WS's permanent case file. » Liquid assets for conventional credit down payment purposes typically consist of cash or cash equivalents. Cash or cash equivalents include funds in the borrower's checking or savings accounts, or investments in stocks, bonds, mutual funds, certificates of deposit, and money market funds, unless they were encumbered (pledges as collateral) or otherwise inaccessible without substantial penalty. Cash equivalents do not include funds in Individual Retirement Accounts, 401(k) accounts, Keogh accounts, or other retirement accounts that are restricted and may not be accessed without incurring substantial monetary penalties. Educational college savings plans, such as a 529 Plan, which incur a penalty to withdraw, is not considered a cash equivalent. Owning land is not considered a liquid asset. Land cannot typically be converted to cash quickly without minimal impact to the price received and ease in transfer of ownership.
LDP/GSA	» The following parties must be checked against the LDP & GSA List (First, Middle, Last) – Borrower(s) – Seller(s) – Listing Realtor/Agent – Loan Officer & Broker Company – Appraiser – Selling Realtor/Agent » The HUD LDP List can be found at https://www5.hud.gov/ecpcis/main/ECPCIS_List.jsp » The GSA List can be found at https://www.sam.gov/portal/public/SAM/ » FHFA's Suspended Counterparty Program List can now be verified within the DataVerify report.
CAIVRS	Previous Rural Housing and Community Development (RHCDS) Loans » Rural Housing shall determine whether the borrower has had a previous USDA mortgage debt which was settled, or is subject to settlement, or whether RHCDS otherwise suffered a loss on a loan to the borrower. If RHCDS suffered any loss related to a previous loan, a loan guarantee shall not be issued unless RHCDS determines the RHCDS loss was beyond the borrower's control and any identifiable reasons for the loss no longer exists. » USDA requires that a clear CAIVRS report be included in each loan file. If CAIVRS identifies a delinquent federal debt, REMN WS will immediately suspend processing of the loan application. » When the borrower provides REMN WS with official documentation that the delinquency has been paid in full or otherwise resolved, processing of the application will be continued. » An outstanding judgment obtained by the United States in a Federal Court (other than the United States Tax Court), which has been recorded, shall cause the borrower to be ineligible to receive a loan guarantee until the judgment is paid in full or otherwise satisfied. » RHCDS loan guarantee funds may not be used to satisfy the judgment. » If the judgment remains unsatisfied or if the borrower is delinquent on a Federal debt and is unable to resolve the delinquency, REMN WS will reject the borrower. » CAIVRS can be found on FHA Connection or at https://entp.hud.gov/caivrs/public/home.html

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Retaining a Dwelling		» Current homeowners are eligible for a guarantee if all of the following are met: – Borrowers not financially responsible for another RD direct or guaranteed loan at closing. – Current home no longer meets borrowers' needs – Occupy as primary residence – Borrowers are without sufficient resources or credit to obtain the dwelling on their own without the guarantee. – Only one single family home may be retained. Cannot have a multi- family – Borrowers must be financially qualified to own more than one (1) home. » Rental income from retained home cannot be used unless 1040's evidence receipt of rental income for a minimum of two (2) years. » All cases involving retaining a dwelling: – REMN WS must provide explanation of borrower burden imposed by status change in near and long term; and, – Document reasons beyond homeowner convenience, why the purchase of a new home must occur <u>prior</u> to the sale of existing home.
Current Dwelling Inadequate		Document significant status change of borrower that requires immediate remedy. » Severe overcrowding – Defined as more than 1.5 household members per room. Room count generally includes a living room, dining room, kitchen, den, recreation room and bedroom(s). Room counts do not include the bathroom or an entry hall/foyer. – Document overcrowding has existed for more than 90 days and will persist for nine (9) months into future. » Disability/Limited Mobility of Permanent Household Member – REMN WS must document substantial retrofitting of current dwelling would be required (ramps, elevators, stair-lift, wider door frames/hallways, etc.) – REMN WS must verify change in borrower status, existing property deficiencies and suitability of new property. » The applicant is/has relocated with a new employer or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance.
Tax Exemptions / Abatements		» There can be no uncertainty about whether the borrower qualifies for the homestead, abatement or other tax exemption or reduction. » In order for the lower amount to be used for qualifying purposes; the abatement, homestead or exception must remain in place for a minimum of three (3) years after closing. Note: If the Underwriter has knowledge that a "Homestead" is considered "Permanent" (example: Florida – OR – Single Family in IL), the time period does not need to be documented and the UW can note the same on the VA 26-6393 Loan Analysis.
Subordinate Financing	New Subordinate Financing	» Not eligible
	Existing Subordinate Financing	» Existing subordinate financing may remain in place, must be subordinate to new USDA guaranteed mortgage regardless of the total CLTV ratio.
Transaction Types	Purchase	» Mortgage Amount Limited to: 100.00% of the appraised value + upfront guarantee fee (if financed). » The borrower cannot receive any cash back from the transaction with the exception of out of pocket money (with supporting documentation) as follows: – Earnest money deposit – First year of homeowner insurance paid – Loan application fees (if paid by check and verified) – Appraisal/Inspection fees (if paid by check and verified) – Paid repairs ▪ Tax credits, excess loan funds, excess seller contributions and paid items with credit cards cannot be refunded to the borrower, a principal reduction is required. » If the subject property is purchased at auction, the buyer's premium can NOT be included in the calculation of the final sales price.

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	Non-Streamline Refinance	» Mortgage Amount Limited to: 100.00% of the appraised value + upfront guarantee fee (if financed). » Non-Streamlined refinance transactions require an appraisal. » Loan amount may include; principal and interest balance of existing loan, closing costs, lender fees and the current guarantee fee to the extent sufficient equity in the property exists. » The appraised value may be exceeded only to the amount financing represents the prevailing guarantee fee. » GUS may be utilized when requesting non-streamlined refinances. » The loan is subject to the annual fee. » Subordinate financing cannot be included in the new loan amount. Any existing secondary financing must subordinate to the new first lien. Note: Property Assessed Clean Energy (PACE) loans cannot be resubordinated. » Cash back to the borrower not allowed, with the exception of out of pocket money (with supporting documentation) as follows: – First year of homeowner insurance paid – Loan application fees – Appraisal/Inspection fees – Paid repairs
	Streamline Refinance	» Mortgage Amount Limited to: 100.00% of the appraised value + upfront guarantee fee (if financed) » The maximum loan amount cannot exceed the original amount of the loan to be refinanced. This includes financing of the principal amount of the loan being refinanced, current accrued interest, plus a reasonable customary re-conveyance fee plus the guarantee fee up to the original purchase loan amount. » Eligible for Section 502 Guarantee Loans only. » REMN WS must manually underwrite the file, use of GUS is not allowed. » Mortgage history verified at 0x30x12; minimum of 6 months history required. » Not eligible if current mortgage being refinanced is a Section 502 Direct Loan. » Cash back to the borrower not allowed, with the exception of out of pocket money (with supporting documentation) as follows: – First year of homeowner insurance paid – Loan application fees – Appraisal/Inspection fees – Paid repairs » REMN WS may offer this option without obtaining a new appraisal. All other costs, documentation and underwriting requirements remain consistent with a purchase guarantee loan.
	Streamlined-Assist Refinance Non-REMN WS to REMN WS	Non-REMN WS to REMN WS Streamlined-Assist refinance program will be considered with the following overlays. If the following overlays cannot be met, then the loan must be fully credit qualified. » Mortgage Only credit report with minimum credit score of 640 – Loans between 600 – 639 considered on an exception basis; must follow existing REMN WS OVERLAY and be fully credit qualified. » A net tangible benefit must be received, defined as a \$50.00 or greater reduction in the new PITI payment, which includes the annual fee payment, when compared to the existing PITI payment (annual fee included). » Appraisal Requirements – Initial Appraisal request for an automated valuation model (AVM) must be ordered only through MMC. The appraisal order request MUST SPECIFY: USDA APPRAISAL – AVM. – If REMN WS is still the servicer on the transaction, there will be no need for an AVM and the loan can proceed without an appraisal. » 110% maximum LTV/CLTV » Seasoning Requirement » All loans should have at least 12 or more payments made; particularly if the loan is not being credit qualified. If less than 12 payments have been made an exception by the REMN WS Underwriting Helpdesk Manager is required. For loans that are not being credit qualified, it is unlikely that an exception will be given. » 2-4 Unit properties are not permitted.

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	Streamlined-Assist Refinance	» Existing loan must be Section 502 Direct or Guaranteed loan. » New interest rate must be a fixed rate and must not exceed the interest rate of the original loan that is being refinanced. » A net tangible benefit must be received, defined as a \$50.00 or greater reduction in the new PITI payment, which includes the annual fee payment, when compared to the existing PITI payment (annual fee included). » New term of the loan must be 30 years. » The existing loan must have closed twelve (12) months prior to request for a refinance. » Verified mortgage history of 0x30x12 required. » Borrower may be added but not removed (unless deceased) from the current loan. » Streamlined-assist refinance may include the following: – The principal balance of the loan being refinanced – Upfront guarantee fee, – Accrued interest – Funds to establish an escrow account for real estate taxes and homeowners' insurance and eligible loan closing costs. » No cash-out is permitted to the borrower. – Subsidy recapture due for Direct loan borrowers is not eligible to be part of the refinance loan. Subsidy recapture must be paid in full by the borrower or subordinated. » The applicable annual fee applies » Home must remain the borrower's primary residence » New appraisal, HUD Handbook minimum property determinations or any additional property inspections are not required. – REMN WS requires an automated valuation model (AVM) to be ordered – A Direct loan borrower will be required to obtain a new appraisal if they have received payment subsidy to determine the amount of subsidy recapture due. ▪ The cost of the appraisal is an eligible loan closing cost. ▪ If the Direct Loan borrower has never received subsidy and the statement of loan balance from the Centralized Servicing Center (CSC) confirms that subsidy was not utilities at any time for the loan, a new appraisal will not be required. » DTI ratio calculations are not required; therefore, debt ratio waiver requests will not be necessary. » Streamlined-assist refinance loans must be manually underwritten; they cannot be process through GUS. » Customary and reasonable closing costs and other fees may be collected from the borrower by REMN WS. Such charges may not exceed the cost paid by REMN WS or charged to REMN WS by the service provider. Loan Documentation Requirements » Form 3555-18 "Request for Single Family Housing Loan Guarantee". » Full income verifications/documentation for all adult household members. » Uniform Residential Loan Application. » Evidence of qualified alien status (as applicable). » FEMA Form 81-93 – Appropriate flood insurance must be obtained if the property is in a flood zone at the time of the new loan closing, even if the area was not in a flood zone at the time of the original loan closing. A flood elevation survey is not required for this pilot. » Mortgage only credit report to evidence of previous 12-month mortgage payment history verifying 0x30x12. » All additional requirements or RD Instruction 1980-D and applicable Administrative Notices continue to apply.

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BORROWER	
Eligible Borrowers	» To be eligible for USDA assistance, the borrower must be a U.S. Citizen, a U.S. non-citizen national or a qualified alien and provide acceptable evidence of eligible immigration status. Any borrower who is not a U.S. Citizen, a U.W. non-citizen national or a qualified alien should be rejected. » Borrowers who do not qualify for conventional credit and whose income does not exceed the maximum limit set the by USDA for the applicable area. » Borrower must be a person who does not own a dwelling in the local commuting area or owns a dwelling which is not structurally sound, functionally adequate. » Be without sufficient resources to provide the necessary housing and be unable to secure the necessary conventional credit without an RHCDs guarantee upon terms and conditions which the borrower could reasonably be expected to fulfill. » U.S. Citizen » Permanent Resident Alien » Unexpired Green Card issued by the U.S. Citizenship and Immigration Services (USCIS). A copy of both the front and back of the card is required. » All borrowers are required to have a valid social security number; a TIN is not acceptable. » Active Duty Military Borrowers – Must occupy as primary residence – Must express intent to meet the occupancy requirements upon his/her discharge from the service and, – Serviceperson who cannot physically reside in a property because they are on active duty will be considered to meet occupancy requirements if: ▪ Serviceperson's family will continue to occupy property as their primary residence. – See Military Income section for additional information regarding calculation of military income for repayment of the loan request.
Ineligible Borrowers	» Foreign Nationals » Borrowers with diplomatic immunity » Borrowers without a social security number » Non-U.S. Citizens with no lawful residency in the U.S. » Borrowers with a Deferred Action for Childhood Arrival (DACA) status » Non-Occupant Co-Borrowers » Co-Signers » Borrowers who qualify for Conventional financing.
Prior Mortgage Fraud	» REMN WS will not lend to any borrower(s) who has been previously convicted of mortgage fraud. » For all other interested parties in the transaction, if any one of the parties has been previously convicted of mortgage fraud, REMN WS will not provide financing for the transaction. » There are NO exceptions to the aforementioned criteria.
Non-Purchasing Spouse	» The debts of the non-purchasing spouse must be included in the borrower's debt ratios unless specifically excluded by state law; if: – The borrower resides in a community property state, or – The property being purchased is in a community property state. ▪ The credit of a non-purchasing spouse is not considered a reason to deny a loan; however, their obligations must be considered in the DTI unless excluded by state law. A full credit report for the non-purchasing spouse must be obtained to determine if the obligations should be included in the DTI. – Community Property States – Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington & Wisconsin. » NOTE – Loans that receive "Accept" findings in GUS do not require a downgrade to "Refer" when manually inputting and capturing debts of a non-purchasing spouse.
First Time Homebuyer	» First Time Homebuyer may be required to complete homebuyer education at the discretion of Rural Development.

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CREDIT & UNDERWRITING	
Age of Documents	» Credit, Income & Asset Documentation – 120 days. » Appraisal – 150 days.
Credit Eligibility Requirements	» REMN WS must investigate all major indications of derogatory credit to determine whether the reported information is accurate, and whether there is an acceptable explanation for the problem that may justify an exception. Failure to understand the nature of a credit problem could cause an application to be rejected on the basis of inaccurate or incomplete information. See Credit Underwriting for Manual Underwrite to evaluate a borrower's credit history when a loan is manually underwritten by an approved lender and does not qualify for streamlined abbreviated documentation. » In addition to analyzing the credit report and borrower is automatically ineligible for a guaranteed loan if they are presently delinquent on a non-tax Federal debt. » If the borrower(s) has had a previous Agency loan that resulted in a loss to the Government, has been settled, or is subject to settlement, additional documentation may be required of the borrower(s) to determine if the loss incurred was beyond the control of the borrower and if any identifiable reasons for the loss still exist. » REMN WS must verify that the borrower has no delinquent Federal debt through the Credit Alert Verification Reporting System (CAIVRS). A borrower with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court, is not eligible for a guarantee. » The presence of delinquent non-tax Federal debt cannot be waived by REMN WS.
Validating the Credit Score to Establish Borrower Credit Reputation	» At least one borrower whose income or assets are used for qualification must have at least two (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 tradelines may be open, closed and/or paid in full by the borrower. Eligible tradelines include: – Loan (secured or unsecured); – Revolving (generally a credit which is not repaid by a certain number of installments); – Installment credit (generally repaid through a specified number of installments, such as automobile, recreational vehicle or student loans); – Credit card (offered by banking institutions, commercial enterprises and individual retail stores. Consumers make purchases on credit and if payment is made within a stipulated period of time, no interest is charged); – Collection (an account whereby an original creditor transfers an unpaid, delinquent balance to a collection agency to retrieve any monies owed); – Charge-off (is the declaration by a creditor that an amount of debt is unlikely to be collected) – Authorized user accounts may not be considered in the credit score and credit reputation analysis unless the borrower provides documentation that they have made payments on the account for the previous twelve (12) months prior to application » The following are not considered as eligible tradelines to validate the credit score: – Public records such as bankruptcies, tax liens and judgments that appear on the credit report are not considered an extension of credit and therefore not included in this credit analysis step – Disputed accounts are not considered in the credit score and are not considered an eligible tradeline to validate credit. » If the credit report cannot establish the required number of eligible tradelines to validate the credit score, establish a minimum payment history through use of a non-traditional report. A combination of eligible tradelines reported on the credit report and eligible non-traditional tradelines may represent the minimal number of tradelines necessary to validate the credit score. Non-traditional credit may not be used to enhance poor payment records or low credit scores. » Loans underwritten with the assistance of the Agency's automated underwriting system that receive an "Accept" recommendation are also subject to the credit score validation by REMN WS. GUS applications receiving an "Accept" underwriting recommendation that fail to meet the credit score validation test using a traditional credit report, must be downgraded to a "Refer" by REMN WS. In these instances, the use of a non-traditional credit history will be required.
Underwriting Consistency	» Inquiry explanation REMN WS credit report. – If a credit report shows an inquiry from REMN WS; and the inquiry date is the same date as the credit report we are utilizing, and the Processor does a certification that there is no other application, then no further explanation is required from the borrower.
Borrower Debt Certification	» Borrowers will be required to sign an affidavit at closing attesting that no new debt has been taken out since the initial 1003 and that the final 1003 is accurate. – This closing document will not be required on Non-Credit Qualifying Streamline transactions.
New Credit Charges	» Borrower pays for application fee / closing costs / appraisal with credit card – New charges are not reflected in credit report balance – REMN WS must include these debts in the balance and recalculate the payment due – Include new payment in total debt

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CREDIT & UNDERWRITING	
Obtaining Non-Traditional Credit History	» Some borrowers may not have an established credit history, but credit verified through alternative sources may indicate a willingness to pay recurring debts. Neither the lack of a credit history on a traditional credit report nor the borrower's decision to not use traditional credit can be used as a basis for rejection. For these borrowers, REMN WS will utilize alternative credit verification to establish the applicant's willingness to repay the requested loan. The alternative credit tradeline may be open, closed and/or paid in full by the borrower. It must have at least twelve (12) months of repayment history reported to be a valid alternative source to support validation of a credit score. REMN WS may develop a Non-Traditional Mortgage Credit Report (NTMCR). A NTMCR may be used as a substitute for an RMCR or MMCR/TRMCR. An NTMCR may not be used to offset derogatory references found in the borrower's RMCR or MMCR/TRMCR; it should not be utilized to enhance the credit history of a borrower with a poor payment record or to manufacture a credit report for a borrower without a verifiable credit history. » The preferred method is all nontraditional credit references be verified by a credit bureau and reported back to REMN WS as a nontraditional mortgage credit report in the same manner as traditional credit references and uploaded into GUS. Supplemental credit reports cannot be uploaded into GUS. » If a NTMCR is impractical, or such a service is unavailable, a lender may choose to obtain independent verification of trade references. Two (2) trade references are required when at least one of the trade references includes verification of rental housing payments or mortgage loan payments. If unavailable, at least three (3) trade references must be used to determine if a borrower has a sufficient credit history. Traditional tradelines, with a twelve (12) month payment history listed on the credit report, can be combined with eligible non-traditional tradelines to obtain the required number of tradelines noted in this paragraph. » Acceptable forms of documentation for a NTMCR include; – Canceled checks, – Third-party verifications; or, – Non-traditional credit report for the following non-traditional credit sources that include the creditor's name, date the account was opened, account balance, monthly payment due and payment history reported in 0x30, 0x60, 0x90 format. Subjective statements such as "satisfactory" or "acceptable" are not an acceptable format for repayment history confirmation. RD will accept reports by providers who develop bill payment histories. » Acceptable non-traditional trade-line sources include an open and recent 12-month payment record of the following: – Rent payments; – Utility payment records (if utilities were not included in any rent payments) such as gas, electricity, water, land-line home telephone service or cable TV; – Insurance payments (excluding those premiums paid through payroll deductions – for example, employee group health plans) such as medical (other than those provided as an employee benefit through salary), automobile, life and household, or renter's insurance. Insurance premiums paid other than monthly, such as quarterly or annually, will require documentation that meet a full 12mos payment history; – Payments to child care providers – made to a business providing such a service; – School tuition; – Payments to local stores (department, furniture, appliance and specialty stores); – Payments for the uninsured portions of any medical bills; – Internet/cell phone services; – Automobile leases; – A personal loan from an individual (other than a family member) with repayment terms in writing and supported by cancelled checks or money order receipts to document repayment; – A documented 12-month history of saving by regular deposits (at least quarterly/non-payroll deducted/no NSF checks reflected), resulting in a reserve account equal to three months of proposed mortgage payments (PITI) as a cash reserve post-closing; or – Any other reference which gives insight into the borrower's willingness to make periodic payments on a regular basis for credit obligations. » Payments made to relatives for credit sources are ineligible as a non-traditional trade reference. » A recent account is defined as an account which was closed no more than six (6) months from the guaranteed loan application with REMN WS. » Lenders should exercise caution when evaluating borrowers with non-traditional credit histories. Generally, these borrowers may be considered a higher risk than borrowers who have credit scores meeting the criteria in this Chapter. Borrowers may only have one 30-day delinquency on any non-traditional trade line within the last 12 months. 60 and 90-day delinquencies, as well as reports of disconnection notices or collection accounts/court records (other than medical) filed in the past 12 months are unacceptable. Ratios for housing expense and debt-to-income expense should be minimal.

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CREDIT & UNDERWRITING									
Credit Scores	» A credit score is a numeric representation of financial behavior, based on information found in a credit report. Credit scores are primarily based on five factors: – Payment history – Amounts owed – Length of credit history – New Credit, and, – Types of credit used. » A lower score represents a higher credit risk, while a higher score indicates a lower credit risk. » Credit scores are an effective tool in evaluating a borrower's credit reputation. As a quantitative measurement of risk, credit scores enable an underwriter to process mortgage applications more accurately and quickly, and with a greater degree of confidence. The use of credit scores speeds up the approval process for a borrower who represents a low credit risk and allows the underwriter more time to analyze the creditworthiness of a higher-risk borrower. These scores objectively evaluate all the information in the borrower's repository credit file at the time the credit score was created. A strong correlation between mortgage performance and credit scores has been identified. The use of credit scores in underwriting can reduce the risk of originating mortgages with unacceptable credit risk. » Accompanying reason codes with reported credit scores indicate why a credit score is not higher and can assist REMN WS in identifying credit factors that need to be addressed in determining the applicant has an acceptable credit reputation. » For manually underwritten loans or loans underwritten with the assistance of the Agency's automated underwriting tool, GUS, REMN WS must satisfactorily establish the applicant's willingness and ability to repay and manage obligations in accordance with 7 CFR 3555. » Wholesale Credit Score Overlays								
Determining Representative Credit Score	<table border="1"> <thead> <tr> <th colspan="2">Determining the Individual Borrower Representative Score when duplicate scores exist from three (3) repositories</th></tr> </thead> <tbody> <tr> <td>Scores Received:</td><td>USDA Representative Score: (use the duplicate score)</td></tr> <tr> <td>700, 700, 680</td><td>700</td></tr> <tr> <td>700, 640, 640</td><td>640</td></tr> </tbody> </table>	Determining the Individual Borrower Representative Score when duplicate scores exist from three (3) repositories		Scores Received:	USDA Representative Score: (use the duplicate score)	700, 700, 680	700	700, 640, 640	640
Determining the Individual Borrower Representative Score when duplicate scores exist from three (3) repositories									
Scores Received:	USDA Representative Score: (use the duplicate score)								
700, 700, 680	700								
700, 640, 640	640								
Underwriting with Credit Scores	» When manually underwriting with credit scores, REMN WS must not use offsets for weaknesses in the borrower's credit reputation as they have already been considered in creating the credit score. Such offset factors include: – The age of derogatory information; – The number or types of accounts paid as agreed versus delinquent accounts; – Recent pay-down or pay-off of account balances by the borrower; and – Any combination of the above factors. » Determining the credit score for manual underwriting: – If the borrower's credit report has three (3) scores, the middle score should be used as the representative score. – If the borrower has two (2) scores, the lower of the two should be used as the representative score. – If the borrower has a repeating score, that score will be utilized. – If the borrower has one (1) score, a NTMCR must be developed for manually underwritten loans. Each borrower must be evaluated separately. » REMN WS's underwriting decision to approve a mortgage must be based on an overall evaluation of the risks documented in the mortgage file. Underwriters must consider the entire credit profile of each borrower and not approve a loan based upon a single component. REMN WS may consider the strength of some components against the weakness of one component to arrive at a conclusion. REMN WS must document the evaluation in REMN WS's permanent mortgage file. Whenever there is evidence of layered risk, more conservative underwriting standards must be utilized. » A score factor accompanies each borrower's credit score. The codes are useful in understanding which factors are most responsible for arriving at the borrower's credit score. In cases where a borrower is determined to be too great a risk for approval at the present time, REMN WS can use the score factor to assist the borrower with the appropriate path to follow to achieve homeownership in the future.								

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CREDIT & UNDERWRITING	
Acceptable Credit Score for Manually Underwritten Loans	» REMN WS must perform a detailed review of all aspects of the borrower's credit history. Credit scores will be utilized to underwrite manually underwritten loans. » Borrowers with validated credit scores of 640 or greater meet the minimum credit reputation provided indicators of unacceptable credit, as addressed below, are not present in the borrower's credit file. The presence of collections, charge-offs, judgments, disputed accounts, authorized trade lines and payment shock in the credit analysis may require further evaluation and documentation by REMN WS. Indicators of unacceptable credit: – Foreclosure within three (3) years: ▪ Including pre-foreclosure activity, such as a pre-foreclosure sale or short sale in the previous 3 years; – Bankruptcy within three (3) years: ▪ Chapter 7 bankruptcy discharged in the previous three (3) years; ○ An elapsed period of less than three (3) years, but not less than twelve (12) months, may be acceptable if the borrower meets the criteria in the Credit Exceptions section. ▪ Chapter 13 bankruptcy that has yet to complete repayment (repayment plan in progress) or has completed payment in the most recent twelve (12) months; ○ Plans that are completed for twelve (12) months or greater do not require a credit exception. – Late mortgage payments if any mortgage trade line during the most recent twelve (12) months shows one (1) or more late payments of greater than thirty (30) days. – Late rent payments paid thirty (30) or more days late within the last twelve (12) months. » When indicators of unacceptable credit are present and REMN WS proposes to approve a credit exception, REMN WS will refer to Section 10.8 of HB-1-3555 to determine if an exception can be granted. REMN WS is required to obtain documentation to support an approval of the loan request. Documentation will be retained in REMN WS's permanent loan file. » A credit exception with supportive documentation confirming the circumstances leading to derogatory credit that attributed to the low credit score is required for all loans receiving a credit score of 639 or below. Circumstances must meet eligibility criteria for a credit exception. Loans with credit scores of 580 or below should not be approved for USDA. » REMN WS's underwriting decision to approve a mortgage must be based on an overall evaluation of the risks documented in the mortgage file. Underwriters must consider the entire credit profile of each borrower and not approve a loan based upon a single component. The underwriter may consider the strength of some components against the weakness of one component to arrive at a conclusion. REMN WS must document the evaluation in their permanent mortgage file. Whenever there is evidence of layered risk, more conservative underwriting standards must be utilized.
Acceptable Credit Scores for Automated Underwriting (GUS)	» GUS credit scores are subject to validation to ensure a usable credit score is utilized for underwriting. This will ensure both the score is adequately indicative of an applicant's credit reputation and fairness to the applicant in using credit scores to evaluate their overall credit reputation. Refer to Validating the Credit Score to Establish Borrower's Credit Reputation section to ensure the credit scores are usable in the underwriting analysis. GUS does NOT dynamically complete this step. » REMN WS may downgrade the underwriting recommendation even when minimal requirements are met and an "Accept" finding is received. The following are examples when REMN WS will downgrade to a Refer and manually underwrite: – <u>Unable to validate the credit score.</u> The underwriting score located in the Credit Report section of the GUS Underwriting Findings Report cannot be validated. Non-traditional credit must be utilized to support the credit reputation of the borrowers. – <u>Manually input liabilities.</u> Accounts that have been manually input into the liabilities section of GUS and do not appear on the credit report have not had the opportunity to be considered in the credit evaluation by GUS. Exceptions to this downgrade include manual entry of child support, alimony or garnishments from the applicant's salary. Credit supplements obtained outside of GUS may not be used to verify debts to retain an "Accept" finding. – <u>Disputed accounts.</u> Disputed accounts may require a manual downgrade – see Disputed Accounts section for further details. – <u>Authorized User Accounts.</u> Tradelines that are authorized user accounts that do not meet the criteria may require a manual downgrade – see Authorized User Trade Lines section for further details. – <u>Potential derogatory or contradictory information.</u> If REMN WS is aware of any potential derogatory or contradictory information that is not any part of the data submitted to GUS or if there is any erroneous information submitted to GUS. GUS will evaluate the credit for significant credit indicators such as bankruptcy discharges, foreclosure sales, Deed-in-Lieu (DIL) of foreclosure and late mortgage payments. REMN WS must independently review information regarding the following: ▪ <u>Pre-Foreclosure Sale/Short Sale.</u> A pre-foreclosure sale (short sale) transfer occurred within three (3) years of the required for conditional commitment.

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CREDIT & UNDERWRITING	
Credit Exceptions	» Credit history problems do not always reflect an unwillingness to meet financial obligations. If REMN WS believes that the borrower is creditworthy, REMN WS should document on the underwriter's analysis the reasons that an exception is justified. Exceptions should be made only in the following types of situations. – Temporary situation. The circumstances that caused the credit problems were temporary in nature, beyond the borrower's control, and the circumstances have been removed and resolved for the 12 months prior to application. <i>Examples include a temporary loss of job, delay or reduction in benefits, illness, or dispute over payment for defective goods or services.</i> – Reduced housing expenses. The loan will significantly reduce the borrower's housing expenses, which will result in improved debt repayment ability. A significant reduction in housing expenses would be 50 percent or more. » It remains REMN WS's responsibility to underwrite the mortgage application request. The individual loan file should contain clear evidence that REMN WS evaluated the credit information for each borrower and arrived at a conclusion that the borrower's credit history (even if brief or non-traditional) demonstrates an ability to handle financial obligations successfully. No Agency-granted waiver or concurrence is required for credit exceptions. Borrowers must provide supporting documentation that meets these requirements to ensure REMN WS's permanent loan file is well documented and supported. REMN WS must retain the underwriter's documentation as part of the case file that supports the decision to waive derogatory credit. Documentation will also be noted on the underwriting transmittal summary to include the supporting documentation provided by the borrower(s) to explain the reason(s) for derogatory information (e.g. undisclosed debts, judgments, bankruptcies, etc.) for all loans that do not qualify for streamlined abbreviated documentation. REMN WS must determine if the explanation and supportive documentation makes sense and whether it is consistent with other information in the credit report. The borrower(s) documentation should confirm the nature of the event that led to the derogatory credit deficiencies and illustrate that they had no reasonable options other than to default on their financial obligations. The event, the severity of the resulting hardship, and the extent of the borrower(s) efforts to resolve the situation should be taken into consideration when making an underwriting decision. Documentation provided by the borrower(s) may open new questions. REMN WS's underwriter must use careful underwriting judgment in evaluating loan requests involving derogatory credit. » REMN WS is not authorized to make an exception in the case of a borrower with a delinquency on a Federal debt, or with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court. Evidence of payment arrangements is acceptable for IRS Federal tax judgments. The approved lender's underwriter must determine if the elapsed portion of the repayment period is of appropriate duration. A borrower(s) who has been delinquent during the repayment period is ineligible for a guaranteed loan.

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Credit Underwriting for Manual Underwrite	» Credit score over 680: Perform a basic level of underwriting to confirm the borrower has an acceptable credit reputation. Perform additional analysis if the borrower's credit history has indicators of unacceptable credit as noted in Paragraph 10.7 of this Chapter. » Credit score 679 to 640: Perform a comprehensive level of underwriting. Underwrite all aspects of the borrower's credit history to establish the borrower has an acceptable credit reputation. Credit scores in this range indicate the borrower's reputation is uncertain and will require a thorough analysis by the underwriter of the credit to draw a logical conclusion about the borrower's commitment to making payments on the new mortgage obligation. The borrower's credit history should demonstrate his or her past willingness and ability to meet credit obligations. » Credit score less than 640: Perform a cautious level of underwriting. Perform a detailed review of all aspects of the borrower's credit history to establish the borrower's willingness to repay and ability to manage obligations as agreed. Unless there are extenuating circumstances documented in accordance with this Chapter, a credit score in this range is generally viewed as a strong indication that the borrower does not have an acceptable credit reputation. » Little or no credit history: The lack of credit history on the credit report may be mitigated if the borrower can document a willingness to pay recurring debts through other acceptable means such as third-party verifications or cancelled checks. Due to impartiality issues, third party verifications from relatives of household members are not permissible. Lenders can develop a Non-Traditional Credit Report for borrowers who do not have a credit score in accordance with Paragraph 10.6 of this Chapter. » A borrower with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court, is <i>not</i> eligible for a guarantee unless otherwise stated in this Chapter.
Rental History	» Some first-time homebuyers do not have a verifiable housing or rent payment history. In such cases, a rent history is not required. If the borrower's and co-borrower's credit score is under 680 and the borrower(s)/co-borrower(s) has a rent payment history, REMN WS should obtain a rent payment reference either as part of credit report, or directly from the landlord, or through cancelled checks covering the most recent 12 months prior to the loan application. When a private individual is the borrower's present landlord, 12 months' worth of cancelled checks indicating a satisfactory rent payment history is preferred. Written verifications by independent management companies and private landowners may be accepted in lieu of canceled checks or money order receipts. If the borrower does not have a full 12-month history, verify any previous payment made in the last 12 months. Written verification must include creditor name, date of the rental agreement or when the contract began and the monthly payment due. Payment history must be reported in 0x30, 0x60, 0x90 day format. Statements such as "satisfactory" or "acceptable" are not valid. » It remains REMN WS's responsibility to confirm the borrower's history of payment towards housing expense is acceptable. One rent or mortgage payment paid 30 or more days late within the last 12 months is an indicator of unacceptable credit unless the new mortgage loan request will reduce shelter costs significantly and contribute to improved repayment ability. REMN WS may consider extenuating circumstances surrounding late rent payments. » REMN WS should carefully underwrite loan borrowers who live rent free or do not have a recent 12-month history of paying rent. » Borrowers with validated credit scores of 680 and above are not subject to verification of rent or housing history. » Loans underwritten with GUS that receive an "Accept" underwriting recommendation are not subject to verification of rent or housing history. If the rent payment is entered under current housing expense on the Combined Monthly Housing Expense section of the Income and Expenses page of GUS, the loan file is not subject to rental verification if an "Accept" underwriting recommendation is received. If a loan is manually downgraded to a Refer and requires a manual underwrite; the borrower plays rent; and the credit score is below 680, rental verification will be required.
Authorized User Trade Lines	» REMN WS must ensure <u>open</u> authorized user trade lines reported on the credit report are an accurate reflection of the borrower's independent approach to credit repayment and credit history. » Closed authorized user accounts require no consideration. An authorized user account that is classified as "terminated" on the credit report is equal to a closed trade line. » For manually underwritten loans, REMN WS must ensure open authorized user tradelines reported on the credit report are an accurate reflection of the borrower's independent approach to credit repayment and credit history. » A GUS underwriting recommendation of "Accept" with <u>open</u> authorized user trade lines must include evidence of one of the following; – Another borrower on the mortgage loan application owns the trade line in question; – The owner of the trade line is the spouse of the borrower; or, – Evidence the borrower has been making payments on the account for the last twelve (12) months. – There are two (2) or more other tradelines listed on the credit report, which are not authorized user accounts, with at least twelve (12) months of payment history listed to validate the credit score. If one (1) 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.

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Non-Purchasing Spouse	» The non-purchasing spouse's (NPS) credit history is not considered a reason to deny a loan application. In community property states, the non-purchasing spouse's obligations must be considered in the debt-to-income ratio unless excluded by State law. REMN WS must comply with applicable lending laws in community property states. REMN WS must obtain a credit report that meets the requirements of this Chapter for the non-purchasing spouse in order to determine the debts that must be counted in the debt-to-income ratio. » The Agency's automated underwriting system will retrieve credit reports for borrowers only. Therefore, REMN WS must obtain an acceptable credit report outside of the system. Liabilities for a non-purchasing spouse should be entered on the "Asset and Liabilities" page in the liability section. When recording the debt, REMN WS should reference the liability as a non-purchasing spouse debt in the "Notes" data field of the credit liability line. REMN WS will retain a copy of the non-purchasing spouse credit report in their permanent mortgage file. Submit a copy to Rural Development when requesting a commitment for Loan Note Guarantee. Loans that received a GUS "Accept" underwriting recommendation do not require a downgrade to "Refer" when manually inputting and capturing the debts of a NPS. » Community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin. Puerto Rico allows property to be owned as community property as do several Indian jurisdictions. Alaska is an opt-in community property state. Property is separate unless both parties agree to make it community property through a community property agreement or a community property trust. » In Louisiana we have the ability to provide an exemption subject to the following two (2) conditions: ○ An Intervention Affidavit, is properly witnessed, notarized and executed by the non-purchaser. It must also be recorded with the Mortgage. (The local title agent should be able to provide this affidavit). ○ The Title Insurance Company and Agent must acknowledge their responsibility to record the document. In addition, they will be responsible to fully comply with the State requirements such as the Separate Property Declaration & Acknowledgement Form which must also be obtained.
Disputed Accounts	» Disputed accounts on a borrower's credit report are not considered in the credit score. » For manually underwritten loans, all disputed accounts with outstanding balances/payments must have a letter of explanation and documentation supporting the basis of the dispute. Those debts that have been excluded from the debt ratios must have evidence in the permanent loan file to support a justifiable dispute. Evidence may include correspondence from the borrower/their attorney to the creditor. REMN WS is responsible for analyzing the documentation presented and confirming that the explanation and supporting documentation are consistent with the credit record during the underwriting analysis. » Loans underwritten with the assistance of GUS that receive an underwriting recommendation of "Accept" will be downgraded to a "Refer" and manually underwritten unless the following conditions are met on the credit report: 1. The disputed trade line has a zero-dollar balance. 2. The disputed trade line is marked "paid in full" or "resolved." 3. The disputed trade line has a balance owed < \$500 and is more than 24 months old. » Loans downgraded for failure to meet any of these conditions are subject to a manual review and the submission of the complete underwriting case file.
Credit Inquiries	The borrower(s) must address ALL inquiries listed on their credit report within the past 90 days; – All inquiries listed on the credit report must be specifically addressed by the borrower and must indicate the disposition of each inquiry; – Acceptable Response: Chase, Wells & Bank of America credit was pulled while searching for a mortgage on property located at 123 Main Street; no credit was obtained. – Unacceptable Response: We did not accept any credit for the inquiries listed on our credit report; or we did not accept any credit from Chase, Wells & Bank of America. These responses are unacceptable as neither specifically address both the inquiry and disposition). HBSF must determine: » Why the inquiry was made » If credit was obtained » Include monthly payment in TD if applicable » GUS "Accept" downgrade may be applicable

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CREDIT & UNDERWRITING	
Recent and/or Undisclosed Debts and Inquiries	» Lenders must determine the purpose of any recent debts as the indebtedness may have been incurred to obtain funds to close the loan. Any new debt and payment must be included in the underwriting analysis. » A borrower must provide a satisfactory explanation for any significant debt noted on the credit report, but not included on the loan application – <u>Manually underwritten loans</u>. Add recent and undisclosed debts to the loan application. Consider these debts in the credit underwriting analysis. – <u>Automated Underwriting – GUS “Accept”</u>. Confirm and include any monthly payment amount for debts not considered in the automated underwriting system recommendation. Resubmit the loan for an updated underwriting recommendation. ▪ If the debt was not reported on the credit report uploaded into GUS and are manually added to the “Assets and Liabilities” application page of GUS, REMN WS will downgrade the “Accept” to a “Refer” and manually underwrite the loan. Exception: the manual entry of child support, alimony, garnishments and other debts that are not typically reflected on a credit report will not require a downgrade. ▪ REMN WS may have the debt added to the credit report and re-associate the new credit report that includes the previously recent or undisclosed debt in a subsequent underwriting recommendation request. ▪ Credit supplements obtained outside of GUS may not be used to verify debts to retain an “Accept” recommendation. ▪ Lenders must apply due diligence when reviewing the documentation in the loan file to determine if there is any potentially derogatory or contradictory information that is no part of the data submitted to GUS or if there is erroneous information in the data submitted to GUS. If REMN WS is aware of any contradictory, derogatory or erroneous information, lenders are obligated to take action. For example, if REMN WS is aware of debts, late payments or derogatory information that has not been made available to the data submitted to GUS, or there is a Federal judgment, a risk analysis decision of “Accept” must be manually downgraded and the file manually underwritten.
Debt to Income (DTI) Ratios	PITI Ratio » Borrowers are considered to have repayment ability if they do not have to pay more than 29 percent of repayment income for monthly housing expenses. Monthly housing expenses include the following: – Principal and interest payment on the mortgage; – Hazard insurance premiums, whether escrowed or not; – Real estate taxes, whether escrowed or not; – Monthly escrow required for annual fee; – Homeowners association dues; – Flood insurance premiums, whether escrowed or not; and – Special assessments. Total Debt Ratio » Borrowers are considered to have repayment ability when they do not have to spend more than 41 percent of repayment income on total debt. » Total debt includes monthly housing expense PITI plus any other monthly credit obligations incurred by the borrower. » See Obligations Not Included in Debt-to-Income Ratios section to reference what debts are not included in the ratios. » REMN WS must document a borrower’s debt through various records including a credit report, direct or third-party verifications, court documents, and verification of deposits for loans. All borrower open debts/accounts (including collection accounts, charge-offs and judgments) incurred through the note date must be included in the calculation of debt payment-to-income ratio and captured under liabilities on the application. Monthly obligation expenses include: – PITI, – Regular assessments; such as homeowner assessments, – Long term obligations, – Revolving accounts, – Child support, alimony, garnishments, – Child care expenses, – Student loans, – Previous mortgage, – Co-signed non-mortgage debt/obligations, – Business debts, – 401k loans/personal asset loans, – Debts of non-purchasing spouse – Collection/judgment accounts – Self-Employed negative income – Automobile allowances and expense account payments – Rental loss – Short-term obligations – Payments that will come due in the next 24 months.

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CREDIT & UNDERWRITING	
Debt Ratio Waivers	» Manually Underwritten Loans – Purchase » Agency concurrence with REMN WS request for debt ratio waiver may be granted if <u>all</u> of the following conditions are met: – PITI is greater than 29% but less than or equal to 32%, with a Total Debt Ratio that does not exceed 44%; OR – Total Debt Ratio is greater than 41% but less than or equal to 44% with a PITIA that does not exceed 32%. AND – Credit score of all borrowers must be 680 or greater AND – At least one (1) acceptable compensating factor is identified and supported. » Acceptable Compensating Factors for purchase transactions – PITI is equal to or less than current housing for 12 months preceding loan application – Accumulated reserves post-closing are equal to or greater than three (3) months of PITIA payments. Verify reserves per guidance. – All employed borrowers have been with current primary employer for a minimum of two (2) years. Debt Ratio Waiver Request and Agency Approval Debt ratio waivers must be requested and documented by REMN WS. REMN WS requests Agency concurrence with the debt ratio waiver by submitting a signed underwriting analysis that cites one or more of the above acceptable compensating factors. REMN WS may utilize Fannie Mae 1008 / Freddie Mac 1077, “Uniform Underwriting and Transmittal Summary,” or similar form. Evidence of the compensating factor, such as a VOR, VOD, and/or VOE, must be submitted to the Agency for review. Manually underwritten loans – refinance transactions The debt ratio waiver requirements in this Paragraph do not apply to refinance transactions. See below on compensating factors to consider when requesting a debt ratio waiver for a refinance transaction. <u>GUS underwritten loans receiving an “Accept”</u> The debt ratio waiver requirements in this Paragraph do not apply to GUS files that receive an “Accept” underwriting recommendation or an “Accept” underwriting recommendation that requires a “Full Documentation” loan submission as part of a quality control message on the GUS Underwriting and Findings Report.
Compensating Factors for Refinance Transactions	» For manually underwritten refinance loans, REMN WS must thoroughly document the compensating factors that justify an exception. Higher repayment ratio exceptions are feasible when a borrower demonstrates compensating factors indicating the capacity, willingness and ability to pay mortgage payments in a timely manner. The presence of compensating factors does not strengthen a ratio exception when multiple layers of risk, such as marginal credit history, are present in an application. The following are examples of compensating factors: – Credit score of 680 or higher. Credit scores of 680 and higher can be documented as a standalone compensating factor for a debt ratio waiver request, if no additional risk layers are present (e.g., adverse credit, or payment shock, etc.). – The borrower(s) has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new mortgage over the past 12 months. – The borrower(s) has demonstrated a conservative attitude toward the use of credit. – The borrower(s) has demonstrated an ability to accumulate savings comparable to the difference between current housing costs and projected costs. – Cash reserves post-closing. The use of retirement accounts as compensating factors and as cash reserves is limited to 60% of the vested amount of the retirement asset to offset potential withdrawals by the borrower(s). Retirement accounts that restrict withdrawals to circumstances involving the borrower’s employment separation, retirement or death should not be considered as a compensating factor or as cash reserves. – Continuous employment with the current primary employer. » The Agency will consider all requests for exception and weigh the proposal based on any additional layers of risk. Written approval by the Agency is represented if a Conditional Commitment for Loan Note Guarantee is issued by Rural Development in response to REMN WS’s request. Lenders who utilize the Agency’s automated underwriting system and receive an underwriting recommendation of “Accept” will not be required to document the need for a repayment ratio waiver.
Obligations Not Included In Debt-to-Income Ratios	» Obligations not considered or included in total debt-to-income ratio calculations include: – Medical collections; – Federal, state and local taxes; – Federal Insurance Contribution Act (FICA) contributions; – Other retirement contributions such as 401(k) accounts, including the repayment of loans secured by 401(k) funds; – Automatic deductions to savings accounts, mutual funds, stocks, bonds, CD’s, including repayment of loans secured by such funds; – Collateralized loans secured by depository accounts; – Utilities; – Insurance, other than property insurance; – Commuting costs; – Union dues; – Open accounts with zero (\$0) balances – Child care; and – Voluntary deductions.

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CREDIT & UNDERWRITING	
Mortgage (Housing) History	Purchase Transactions » 680 credit score – not required. » ≤ 680 credit score – 12-month history required. – Cancelled checks or money order receipts are acceptable. – Written verification by independent management companies may be accepted in lieu of canceled checks. Written verifications must include 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. Refinance Transactions » 0x30x12 – minimum of six (6) payments must have been made on current mortgage. » Mortgage must be current and due for month of closing. » GUS “Accept” recommendations are not subject to verification of rent or housing history. » Loans with “Refer” recommendation and loans selected by USDA for manual underwriting require a satisfactory twelve (12) month history.
Child Care Expenses	» Child care expenses are not required to be considered as a recurring liability when calculation DTI ratios. » Child care expenses are utilized to calculate the adjusted gross income in determining program eligibility.
Revolving Debt	» The minimum monthly payment is required for all revolving credit card debts. Monthly payments on revolving or open-ended accounts are counted as a liability for qualifying purposes even if the account appears likely to be paid off within ten (10) months or less. If the credit report shows an outstanding balance, but no specific minimum monthly payment, the payment will be calculated as the greater of 5 percent of the balance as reported on the credit report, or \$10. If REMN WS obtains a copy of the current statement reflecting the actual monthly payment, that amount can be used for qualifying purposes. REMN WS must retain documentation in their permanent loan file. Revolving accounts with no outstanding balance do not require an estimated payment to be included in the debt ratio or to be closed to exclude a payment from the long-term debt ratio.
30-Day Accounts	» A 30-day account is a credit arrangement requiring the borrower to pay off the outstanding balance on the account every month. » REMN WS must verify the outstanding balance is paid in full on every 30-day account each month for the past twelve (12) months. » 30-day accounts that are paid monthly in full are not included in the borrower’s long-term debt ratio. » If the credit report reflects any late payments in the last 12 months, a long-term monthly payment will be included. REMN WS will utilize 5% of the outstanding balance as the borrower’s monthly debt. » REMN WS will utilize the credit report to document the borrower paid the balance on the account monthly for the previous 12 months.
Student Loans	» REMN WS must include the payment as follows: – Fixed Payment loans: A permanent amortized fixed payment may be used in the debt ratio when REMN 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 loan, Income Based Repayment (IBR), Graduated, Adjustable, and other types of repayment agreements which are not fixed cannot be used in the total debt ratio calculation. One percent (1%) of the loan balance reflected on the credit report must be used as the monthly payment. No additional documentation is required.
Previous Mortgage	<u>Previous mortgage.</u> Previous mortgage liabilities disposed of through a sale, trade or transfer without a release of liability will be included in the total debt ratio unless evidence can be obtained to confirm the remaining party (or new owner) has successfully made the payment in the previous 12 months prior to loan application. Documentation to be obtained by REMN WS includes: » In the case of a divorce, REMN WS will obtain a copy of the divorce decree ordering the spouse to make payments. » If the loan was assumed, sold or traded without a release of liability, a copy of the assumption agreement (as applicable) and deed showing transfer of title out of the borrower’s name will be obtained by REMN WS and retained in the permanent file. » Documented evidence that the new owner has been making regular payments during the previous twelve (12) months with no history of delinquent payment on the loan during that time. Evidence may be reported through the credit report or REMN WS may verify from the servicer of the assumed loan, a payment history showing that the mortgage has been current during the previous twelve (12) months. » Loans that are transferred, sold or traded with a history of delinquent payments within the previous twelve (12) months prior to application will be included in the borrower’s monthly obligations.
Short-Term Obligations	» Short-term obligations that are considered to have a significant impact on repayment ability, such as medical bills and car or other credit payments. » A significant impact on repayment is defined as 5% or greater of the gross monthly income of the borrower(s). » Installment debt can be paid down prior to underwriting to a repayment balance of less than ten (10) months; however, underwriters can include any debt that in their underwriting analysis is considered a significant impact on the borrower’s ability to repay the debt.

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Long Term Obligations	» Long term obligations with more than ten (10) months remaining on the credit report presented at underwriting must be included in total debt – Installment Loans – Child Support / Alimony / Separate Maintenance – Student Loans – Other continuing obligations
Alimony / Child Support / Garnishments	» Borrowers obligated to pay child support, alimony, garnishments, or other court ordered debts must have payment included in the total debt ratio. If the borrower has a release of liability from the court/creditor, and acceptable evidence is obtained, the debt can be excluded. REMN WS will utilize select pages from the applicable agreement/court order to document the required monthly payment due and the duration of the debt. For GUS transactions, REMN WS will manually enter the obligations on the “Additional Expenses” on the “Assets and Liabilities” page. A manual entry of obligation does not require an underwriting recommendation of “Accept” to be downgraded to a “Refer”. REMN WS must ensure repayment arrangements are current. » Child Care Expenses are not required to be considered as a recurring liability when calculating the total debt ratio.
Co-Signed Obligations	» Debts which have been co-signed (also known as co-borrower, joint obligor or guarantor) are considered a contingent liability. A contingent liability exists when an individual is responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment. A contingent liability applies, and the debt will be considered in the total debt ratio unless the borrower provides evidence another obligor has made the payment in the previous 12 months prior to loan application. If the borrower can provide conclusive evidence from the debt holder that there is no possibility that the debt holder will pursue debt collection against the borrower, should the other party default, then the 12-month history is not required. » Acceptable evidence that demonstrates the remaining co-obligor’s history of making regular payments during the previous 12 months include canceled checks, money order receipts and/or bank statements of the co-obligor. – Late payments reported in the previous 12 months prior to application will require the monthly liability to be included in the long-term repayment ratio of the borrower. » Debts identified as “individual” on a credit report will always be considered in the debt ratio regardless of what party is making the monthly payment (as an example, parents making car payments on behalf of borrower; and the loan is in the borrower’s name). The legal obligation resides with the borrower when identified as “individual.” <u>Business debts</u> <i>Example:</i> Car loan reported on the borrower’s personal credit report may be excluded from the debt ratio if the debt is paid through a business account. An example of acceptable evidence the debt is paid through a business account includes canceled business checks or bank statements for the previous 12 months.
401k Loans / Personal Asset Loans	» Loans pledging personal assets, such as a 401k account, retirement funds, savings account or other liquid assets are not considered in the total debt ratio.
Automobile Allowances Debt	» The amount of actual expenditures exceeding the amount of automobile allowance or expense account payments will be treated as recurring debt. REMN WS must utilize IRS Form 2106 for the previous two (2) years and employer verification that the payments will continue as documentation to support the calculation. The borrower’s monthly car payment will be treated as recurring debt and will not be offset by any car allowance. If the borrower utilizes the standard per-mile rate as opposed to the actual cost method on IRS Form 2106, the portion that the IRS considers depreciation may be added back to income for repayment purposes.
Deferred Installment Loans	» Payments that will come due within the next 24 months, including any personal loans with deferred installments and balloon payments. – See Student Loans for guidance surrounding student loan repayment » If the actual payment on a deferred loan is unknown, REMN WS should estimate the monthly payments using 5% of the outstanding balance.

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Collections	» Collection accounts are factored into the credit score. Collection accounts will be considered in the analysis of credit and capacity. » Paying an outstanding collection account is not justification, in itself, that would establish a borrower's willingness to meet obligations in an acceptable manner. Payment of the collection account may cause the depletion of cash resources that may otherwise be available as reserves or for closing costs. REMN WS is responsible for determining which collection accounts, if any, should be paid in full by the borrower prior to or at loan closing. The repayment in full of unpaid collections is not a condition of mortgage approval. Whether a collection account represents a greater risk is entirely REMN WS's decision, regardless of the credit score. This decision will be based upon several factors including the credit profile of the borrower(s), the amount of meaningful financial reserves available, the unpaid balance of the collection accounts, and whether they pose a threat to the first mortgage lien and are likely to affect the borrower's equity or ability to repay the requested loan. Lenders must conclude the borrower did not disregard his or her financial obligations. Outside factors, such as disputes, illness, loss of job may have contributed. Lenders will evaluate all outstanding collection accounts. Lender underwriters should perform additional analysis when making credit determinations if they encounter collection accounts that have: – A record of irregular payments; or – No satisfactory arrangements for repayment; or – Payment in full within the last 6 months just prior to application, unless the borrower had been previously making regular payments. » For a manually underwritten loan, REMN WS must document mitigating circumstances in accordance with Credit Exceptions section, subject to the capacity analysis described below, for approving a loan request when collection accounts are present and remain unpaid. The preferred method to document a lender's decision to leave collections unpaid is the underwriting analysis. For each outstanding collection account, the borrower must provide a letter of explanation together with documentation supporting the borrower's justification. The supporting documentation and explanation must be consistent with other credit information in the file. » For loans underwritten with GUS when an "Accept" recommendation is received, REMN WS remains responsible for considering the existence of the unpaid collection accounts in the final credit analysis and loan-making decision, subject to the capacity analysis described. A letter of explanation or documentation supporting the presence of unpaid collections is not required when the underwriting recommendation is an "Accept." REMN WS will document reasons for approving a loan request when collection accounts remain unpaid. The preferred method to record REMN WS's analysis/reasons for approving the loan is to document their justification on the credit liability line under "notes" on the "Assets and Liabilities" page beside each individual collection. » <u>Capacity Analysis when collections are reported – all underwriting types</u>: Unpaid open collections could affect the future ability of a borrower to repay a mortgage when creditors pursue collection. Ensure all collections and charge-offs are listed on the loan application as a liability. Collections meeting the omission policy noted below can be omitted from the total debt-to-income (DTI) ratio. Additional documentation is not required to omit those collections meeting criteria below. » In an effort to minimize future risk of open collections left unpaid, REMN WS will consider the following during the capacity analysis of the loan request, regardless of the method utilized to underwrite: 1. Determine if the total outstanding balance of all collections accounts of all borrowers is equal to or greater than \$2,000. Unless excluded by state law, collection accounts of a non-purchasing spouse in a community property state are included in the cumulative balance of all collections. 2. Remove all medical collections and all types of charge off accounts from the total balance. Medical collections and charge off accounts must be clearly identifiable on the credit report. 3. If the remaining outstanding balance of collection accounts are equal to or greater than \$2,000, any of the following actions will apply: a. Payment in full of all collection accounts at or prior to closing. b. Payment arrangements are made with each creditor for each collection account remaining outstanding. A letter from the creditor or evidence on the credit report is required to validate the payment arrangements. The agreed upon monthly payment for each outstanding collection account will be included in the borrower's debt-to-income ratio. c. In the absence of a payment arrangement, REMN WS 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.

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Non-Federal Judgments	» The presence of court-ordered non-Federal judgments must be considered in the credit analysis. Unpaid judgments may represent a borrower's disregard for credit obligations. REMN WS must document reasons for approving a mortgage when the borrower has judgments. Usually judgments are paid in full prior to loan eligibility. » The following is applicable to all underwriting types: – <u>Open and unpaid non-Federal judgment</u>. Non-Federal judgments that are open and unpaid are ineligible for SFHGLP. – <u>Exception to open and unpaid- repayment plan underway</u>. An exception to payment in full of outstanding judgments can be made when the borrower(s) have a payment arrangement with the creditor and have made regular and timely payments for the three (3) months prior to loan application. Prepaying scheduled payments as a means of meeting minimum requirements is unacceptable. Lenders will obtain a copy of the payment agreement and validate payments have been made in accordance with the payment agreement. The established payment agreement will be included in the debt-to-income ratio as a long-term obligation, unless less than ten (10) months of the repayment plan remains and REMN WS determines the debt does not have a significant impact on repayment of the borrower(s). A letter from the creditor or evidence on the credit report is required to validate the payment arrangements and payment history. » Unless precluded by state law, judgments of a non-purchasing spouse in a community property state will be paid in full or meet the exception guidance provided in this Paragraph. » NOTE: With the exception of an IRS tax debt with a repayment plan underway, an outstanding Federal judgment that is open and remains unsatisfied is ineligible for the SFHGLP.
Paying off Collections and Non-Federal Judgments	Collections » A collection account refers to an applicant's loan or debt that has been submitted to a collection agency by a creditor. » <u>Manual Underwritten Loans:</u> – Collections indicate an applicant's regard for credit obligations and must be considered in the creditworthiness analysis. – Ensure all open collections are listed on the loan application under liability. – Collection accounts are not required to be paid off as a condition of a guarantee. See Collections on prior page for additional actions required when the outstanding balance of all collections collectively exceeds \$2,000. – Borrower must explain, in writing and/or provide supportive documentation, for all collections as outlined in the Collections section on the prior page. » <u>Automated Underwriting – GUS "Accept"</u> – Ensure all open collections are listed on the loan application under liability on the "Assets and Liabilities" page of GUS. – Omit any collections that are eligible in the capacity analysis as outlined in the Collections section on the prior page. Non-Federal Judgments » Court-ordered judgments MUST be paid off before the mortgage loan is eligible for a guarantee unless the borrower provides documentation indicating that regular payments have been made on time in accordance to a documented agreement with a creditor. – If a loan is underwritten with the assistance of the Agency's automated underwriting system, then regardless of the underwriting recommendation, the findings report will require the REMN WS to obtain evidence of payoff for any outstanding judgments shown on the credit report. REMN WS is reminded the "Declaration" questions within the Agency automated underwriting system or when completed manually should accurately reflect a response representative of the borrower's credit status.
Charge-Off Accounts	» A Charge-Off is the declaration by a creditor that an amount of debt is unlikely to be collected. The presence of a charge-off is already reflected in the credit score and does not need to be included in the borrower's long-term liabilities or debt. If the borrower has entered into an agreed upon repayment plan with the creditor, a liability payment will be included in the long-term liability/debt. – <u>Manual Underwriting:</u> REMN WS will consider a charge-off as a derogatory credit item, to be addressed in with any credit exception considered, if the borrower's credit score is below 640. See Acceptable Credit Scores – Manually Underwritten Loans regarding evaluating the credit of borrowers with low credit scores. – <u>Automated Underwriting – GUS "Accept":</u> No documented credit exception is required.
Direct Verification of Debt	» REMN WS must verify the previous twelve (12) months history of additional debts disclosed by the borrower that do not appear on the credit report. » Debts open for less than twelve (12) months must still be verified. » Written third party verifications that meet stated guidelines and/or canceled checks, or money order receipts are acceptable. » If installment and/or revolving debts not listed on the credit report were manually entered into GUS by REMN WS, an "Accept" recommendation must be downgraded to a "Refer". A "Refer" must be downgraded to "Refer with Caution". A manual underwrite is required for loan files with these characteristics. GUS NOTE: Obligations such as Non-Purchasing Spouse debts, court ordered payments for child support/alimony/garnishments, etc., or business debts do not require a manual downgrade in GUS. These debts would not appear on a credit report and therefore are not considered in the credit score calculation.

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Bankruptcy / Consumer Credit Counseling Plans	Chapter 13 Chapter 13 Bankruptcy Plan in Progress: » A Chapter 13 bankruptcy plan in progress does not disqualify a borrower from obtaining a mortgage loan, provided the following criteria, applicable to all underwriting methods, can be met: – REMN WS documents 12 months of the debt restructuring plan has elapsed; and – The borrower's payment performance has been satisfactory; and – All required payments were made on time; and – The borrower must receive written permission from the bankruptcy court/trustee to enter into a mortgage transaction. » Manual Underwriting: In addition to the aforementioned criteria, a credit exception by REMN WS will be required, in accordance with Section 10.8 of the Handbook. Include the payment in the debt ratios of the borrower(s). » Automated Underwriting – GUS "Accept": When a plan is in progress and GUS Accept is received, credit exception is not required. Include the payment in the "Asset and Liabilities" application page of GUS. Chapter 13 Bankruptcy Plan Completed: » Manual Underwriting: A completed Chapter 13 bankruptcy plan will not require a credit exception provided the borrowers have demonstrated a willingness to meet obligations when due for the full 12 months prior to the date of loan application. » Automated Underwriting – GUS "Accept": The discharge date of the completed plan has been considered by the scorecard and is reflected in the overall credit score. No additional documentation is required. Chapter 7 Manual Underwriting: » A Chapter 7 bankruptcy (liquidation) does not disqualify a borrower from obtaining a mortgage loan if at least three (3) years have elapsed since the date of the discharge of the bankruptcy. During this time, the borrower must have re-established good credit or chosen not to incur new credit obligations. – An elapsed period of less than 3 years may be acceptable for a loan guarantee if the borrower can show the bankruptcy was caused by extenuating circumstances beyond their control and has since exhibited a documented ability to manage their financial affairs in a responsible manner for a reasonable period of time following discharge. Eligible mitigating circumstances must meet the Credit Exceptions section of these guidelines. Supporting documentation must be submitted with the loan guarantee request. Generally, a borrower whose bankruptcy has been discharged less than one year should be ineligible to enable the borrower to re-establish their credit. – REMN WS must document the borrower's current situation indicates the events that led to the bankruptcy are not likely to recur. – When a Chapter 7 bankruptcy absolved the mortgage debt for the borrower, any foreclosure or remaining foreclosure pending is an action against the property, not the borrower. The foreclosure action is not considered as an indicator of unacceptable credit in the borrower'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. » If a borrower has a real estate mortgage discharged in a Chapter 7 bankruptcy, however a foreclosure action is not concluded, the borrower may remain in ownership of the property. In this example, title must be transferred to REMN WS of the pending foreclosure in order to remove the borrower from ownership and responsibility of real estate taxes and homeownership dues of the property. If title is not transferred, the borrower will be subject to Chapter 8, Section 8.2A of this Handbook for retention of a dwelling. Automated Underwriting – GUS "Accept" » If the underwriting recommendation from GUS is an "Accept", no further documentation regarding the bankruptcy is required. Consumer Credit Counseling Plans » A borrower who has experienced credit or financial management problems in the past may have elected to participate in consumer counseling sessions to learn how to correct or avoid such problems in the future. Participation in a consumer credit counseling program does not disqualify borrower from obtaining a mortgage loan, provided: – REMN WS documents that one (1) year of the pay-out period has elapsed under the plan; and – The borrower's payment performance has been satisfactory, and all required payments have been made on time; and – Written permission from the counseling agency to enter into the mortgage transaction and counselor recommendation of the borrower as a good credit risk is required. » Manual Underwriting: REMN WS must evaluate the borrower's credit in accordance with Paragraph 10.8 of the Handbook. Some creditors may still report the borrower as delinquent, even though they have agreed to accept a lesser payment. This must be considered in the analysis of the borrower's overall credit. Include the repayment plan payment in the liabilities of the borrower(s). » Automated Underwriting – GUS "Accept": The Agency's automated underwriting system does not trigger a requirement for additional documentation since the credit scores already reflect the degradation in credit history. No further explanation or other documentation is required when a lender utilized the Agency's automated underwriting system and receives an "Accept" underwriting recommendation. Include payment(s) for repayment on the "Assets and Liabilities" application page of GUS.

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CREDIT & UNDERWRITING	
Foreclosure/Deed-in-Lieu of Foreclosure	» A borrower is generally not eligible for a new guarantee, if during the prior three (3) years the borrower's previous real property was foreclosed on or they have given a deed-in-lieu of foreclosure. – REMN WS may grant an exception in accordance with Credit Exceptions. – 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, a borrower 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.
Short Sale	The following criteria applies to both Manual and Automated (GUS) Underwriting types: » A short sale is considered a pre-foreclosure activity or event. » A borrower 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 a borrower was current at the time of short sale, or in the case of divorce at time of divorce, they may be eligible for a new mortgage loan. The prior mortgage payment history must reflect all mortgage payments due were made on time for the 12-month period preceding the short sale and all installment debt payments for the same period were also made within the month due. » A borrower in default on their mortgage at the time of the short sale (or pre-foreclosure sale) is not eligible for a new mortgage loan for three years from the date of pre-foreclosure sale. » REMN WS may grant an exception in accordance with the Credit Exceptions section of these guidelines.
Delinquent Federal Non-Tax Debt	» REMN WS must determine if the borrowers have delinquent federal non-tax debt, via public records, credit reports or equivalent and must check all applicants against CAIVRS. » Delinquent Federal non-tax debts are ineligible for SFHGLP unless the delinquency is resolved. » Delinquent Federal non-tax debt also refers to borrower(s) who have had a previous SFHGLP debt which was settled, or is subject to settlement, or whether SFHGLP otherwise suffered a loss on a loan to one or more of the borrowers. The borrowers are ineligible unless he/she qualifies for an exception granted by SFHGLP. – If the SFHGLP suffered any loss related to a previous loan, a loan guarantee shall not be issued unless SFHGLP determines the loss was beyond the borrower's control and any identifiable reasons for the loss no longer exist.
Delinquent Federal Tax Debt	» Borrowers with delinquent Federal tax debt are ineligible. » Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments on the debt and the borrower has made timely payments for at least three (3) months of scheduled payments. The borrower cannot prepay scheduled payments in order to meet the required three-month minimum payment history. » Payments will be included in the Debt-to-Income (DTI) ratio. » Documentation will included IRS evidence of the repayment agreement and verification of payments made.
Multiple Social Security Numbers	» As soon as the credit report is received, but no later than the time of loan approval, the additional social security number(s) section located on the borrower's credit report must be reviewed. If any additional social security numbers (SSN) appear on the credit report, a clear CAIVRS search on the additional SSN(s) is required. – If there are multiple additional SSN's appearing, a CAIVRS report must be obtained for each SSN. – If there are multiple borrowers with additional SSN's appearing, a CAIVRS report must be obtained for each SSN appearing for each borrower. » W-2 Discrepancy: If a borrower's W-2 reflects a SSN other than the SSN legally issued to the borrower, the Underwriter should adequately document the file prior to proceeding with the loan (standard underwriting practice). If the Underwriter/Team Lead/Underwriting Manager is not able to sufficiently resolve and document the W2 SSN discrepancy, the matter may be elevated to QC for review. Procedure 1. Review the credit report for additional SSN's. 2. If there are additional SSN's, order a CAIVRS report for each SSN. CAIVRS Results » <u>Clear CAIVRS</u> – The file may proceed. – Upload the clear CAIVRS report to BlitzDocs, Social Security – Multiple Number » <u>CAIVRS Hit (Reflects Claim or Default) – Confirmation Received that it is Not the Borrower</u> – Confirm with HUD the CAIVRS hit is not against the borrower – Follow internal procedure to send to REMN QC Department, CC: the Chief Credit Officer for the respective division and Operations Manager. Provide the following: ▪ Borrower Name and Loan Number ▪ CAIVRS report ▪ Evidence from HUD that the CAIVRS is not associated with the borrower – Upload the CAIVRS report and evidence from HUD that the CAIVRS is not associated with the borrower to BlitzDocs, Social Security – Multiple Number. » <u>CAIVRS Hit (Reflects Claim or Default) – Confirmation Not Received that it is Not the Borrower</u> – The loan may not proceed.

REM N WHOLESALE USDA PRODUCT GUIDELINES

CREDIT & UNDERWRITING	
Borrower with Prior Foreclosure with REMN WS – REMN WS Policy	» In the event that a Borrower(s) on the loan application has a prior foreclosure with REMN WS, the following will apply: – The loan must be elevated to the REMN WS Chief Credit Officer for consideration. A detailed memo explaining the reason(s) for the foreclosure will be required, including, but not limited to the following: • Factors that are considered the reasons for the foreclosure, as well as the monetary loss incurred by REMN WS, • Explanation should be for ‘extraordinary’ situations, such as prolonged serious medical condition and/or death of a household wage-earner. » The loan must otherwise meet all Agency/Investor guidelines that apply for foreclosure.
Payment Shock	» The term payment shock signifies the increase in housing expenses experienced by a borrower. Payment shock is defined as a percentage under the following formula: <i>(New Principal Interest Taxes and Insurance (PITI) ÷ Previous Housing Expense – 1)</i> New PITI is \$187.00 and their former rent was \$100.00 $\\$187.00 \div \\$100.00 = 1.87$; $1.87 - 1 = .87$; $.87 = 87$ percent Payment shock in this example is 87% New PITI is \$345.00 and their former rent was \$150.00 $\\$345.00 \div \\$150.00 = 2.30$; $2.30 - 1 = 1.30$; $1.30 = 130$ percent The payment shock in this example is 130% New PITI is \$2,000 and their former rent is \$1,000 $\\$2,000 \div \\$1,000 = 2.00$; $2.00 - 1 = 1.00$; $1.00 = 100$ percent The payment shock in this example is 100% » <u>Manually Underwritten Loans</u>. In cases where the borrower did not have a housing expenses prior to purchasing a home, such as if the borrower was living with relatives, payment shock cannot be measured as a percentage. » Payment shock by itself (without the presence of other risks) is not an additional risk layer. Payment shock is a risk layer for underwriters to consider when the PITI ratio exceeds 29% and the proposed mortgage payment is 100% or greater than current housing expense. Payment shock is not a risk layer and requires no further supportive documentation if the PITI ratio is 29% or less. » In cases where payment shock is 100 percent or higher and qualifying PITI ratios are exceeded as noted above, as well as in cases where the borrower did not have a housing expense prior to purchasing a home, no additional risk layering (such as adverse credit waivers, debt ratio waivers, or temporary buydown) should be allowed without strong compensating factors. Acceptable compensating factors include, but are not limited to, the following examples: – The borrower(s) has an ability to accumulate savings or cash reserves; – The borrower(s) has a demonstrated conservative attitude toward using credit; – The borrower(s) has potential for increased earnings, as indicated by job training or education in the borrowers’ profession; – The borrower(s) has a representative credit score of 680 or higher. » <u>Automated Underwriting – GUS Accept</u>. Payment shock is part of the underwriting risk evaluation and is not subject to further evaluation or documentation unless disclosed in the GUS Underwriting and Findings Analysis.
Verbal VOE	» A Verbal Verification of Employment is required within 10 calendar days of the Note date. » Business License, CPA Letter or Federal Tax ID Certificate required for all self-employed borrowers (3rd party verification is required). » Minimum two (2) year employment history must be verified.
Income Documentation	» Most recent paystub showing year-to-date earnings of at least one (1) month; and, » W2’s for prior two (2) years. – Borrower must provide letter of explanation for any gaps in employment >30 days. Note: REMN WS will only accept a fully completed VOE as a <u>supplement</u> to further explain the type of income earned (example: breakdown of income; Base, OT, Bonus, Commission, etc.).
Income	The borrower’s adjusted household income cannot exceed the limit set by Rural Development for the state/county where the property is located. Verification of income limits can be found at the following link: Single Family Housing Guaranteed Income Limits. Data Integrity of Income Figures in GUS » Rural Development Administrative Notice 4714 requires REMN WS to record and submit detailed income calculations for each loan guarantee requested of USDA. This requirement applies to all loans submitted VIA GUS and manually underwritten files. Worksheet for Documenting Eligible Household Income and Repayment Income must be utilized. » Income derived from a State legalized marijuana business is expressly prohibited for qualifying, including a W2 wage earner.

REMN WHOLESALE USDA PRODUCT GUIDELINES

Annual Income	» The total income and assets of all adult household members, including borrower(s) and non-borrowers 18 years and older. The gross amount (prior to any payroll deductions) of wages, salaries, overtime, commissions, fees, tips, bonuses and any other compensation for personal services of all adult members of the household must be included. – If a cost of living allowance or a proposed increase in income has been estimated to take place on or before the loan approval, it will be included in the annual income calculation to determine household eligibility for SFHGLP. » Full-time students as Household Member – Income of temporarily absent family members Full-time students are included as HHM if: – Student lives or proposes to live in the dwelling at any time during the coming 12 months; or, – Property is listed as student's permanent address. – Count only the first \$480 of earnings if a household member. » The income of a borrower's spouse will be included in the calculation of annual income, unless the spouse has been living apart from the applicant for at least three (3) months (for reasons other than military or work assignment) or court proceedings for divorce or legal separation have been commenced. » All regular pay, special pay (except for persons exposed to hostile fire) and allowances of a member of the armed forces who is the borrower or spouse, whether or not that family member lives in the home. » Annual income also includes any interest, dividend, social security, unemployment, disability, retirement, pension, public assistance and alimony/child support (unless payments are not received, and a reasonable effort has been made to collect). » Income must be calculated (regardless of utilization of GUS by REMN WS) on any net family assets in excess of \$5,000; net family assets include the value of equity in real property, savings, market value of stocks, bonds and other forms of capital investments. Must use the greater of the actual income derived from all net family assets, or a percentage of value of assets based on the current passbook savings rate. » Social Security and Disability Income must document continuance for a minimum of three (3) years with an Awards Letter. » Alimony and child support must document continuance for a minimum of three (3) years and documented receipt for most recent twelve (12) consecutive months with bank statements. » The net income from the operation of a farm, business or profession. The following provisions apply: – Expenditures for business or farm expansion, capital improvements, or payments of principal on capital indebtedness shall not be used in determining income. A deduction is allowed in the manner prescribed by IRS regulations only for interest paid in amortizing capital indebtedness. – Farm and non-farm business losses are considered "0" in determining annual income. A negative amount must not be used to offset other family income. – A deduction, based on straight line depreciation, is allowed in the manner prescribed by IRS regulations for the exhaustion, wear & tear, and obsolescence of depreciable property used in the operation of a farm, business, or profession by a member of the household. The deduction must be based on an itemized schedule showing the amount of straight-line depreciation. » Any withdrawal of cash or assets from the operation of a farm, business or profession; or salaries or other amounts distributed to family members from the farm, business or profession, will be included in income, except to the extent that the withdrawal is for reimbursement of cash or assets invested in the operation by a member of the household. » A deduction is allowed for verified business expenses, such as lodging, meals and fuel, for business trips made by salaried employees, such as long-distance truck drivers, who must meet these expenses without reimbursement. » For home-based operations (e.g. child care, product sales craft production), housing-related expenses for the subject property such as mortgage interest, real estate taxes and insurance, which may be claimed as business expense deduction for tax purposes, will not be deducted from the annual income calculation. » If any adult member of the household is currently unemployed but there is recent history of employment, that person's income must be considered unless the borrower and the adult unemployed person sign a statement that the person is not presently employed and does not intend to become employed again in the foreseeable future.
Employment by Family-Owned Businesses	» Borrowers employed by businesses owned by family members are required to provide additional income documentation. Such borrowers must provide the normal verification of employment and pay stubs, as well as evidence that he or she is not an owner of the business. This may include copies of the borrower's signed personal tax returns, current paystub or payroll ledger signed by the business accountant or payroll administrator, or a signed copy of the corporate tax return showing ownership percentages.
Self-Employed Borrowers	» A borrower with a 25 percent or greater ownership interest in a business is considered self-employed for the purpose of calculating repayment income. The business may be a sole proprietorship, a partnership (limited or general) or a corporation. » A self-employed borrower introduces an additional layer of risk to a mortgage loan request due to the uncertain nature of future income. GUS will not take this additional risk into consideration in the overall risk evaluation. REMN WS remains responsible to determine the income source utilized in qualifying is a stable, consistent source that will continue to be received at the level utilized for repayment income purposes.

REMN WHOLESALE USDA PRODUCT GUIDELINES

INCOME & EMPLOYMENT	
Minimum Length of Self-Employment	» Income from self-employment is considered stable and dependable if the borrower has been self-employed for two (2) or more years. Because of the high incidence of failure during the first few years of a new business, income from individuals self-employed for between one (1) and two (2) years can only be counted if the individual has at least two (2) years previous successful employment (or a combination of one year of employment and formal education or training) in a related occupation or profession at the same or greater level in the same or similar occupation. If the borrower cannot demonstrate self-employment earnings for the previous two (2) years, the REMN WS underwriter must review the borrower's reasonable probability of earnings based on a market feasibility study or business plan and pro forma financial statements for the business. REMN WS must also consider the borrower's experience in the business prior to considering the income for qualifying purposes. If the underwriter is unable to support the income with the documentation required, the income should not be utilized for repayment income purposes. The income from borrowers self-employed for less than one (1) year cannot be counted as repayment income. » When additional income the borrower draws from the borrower's corporation, partnership or S-corporation is utilized for repayment income, additional documentation is required to verify the borrower has a legal right to the additional income. REMN WS can obtain a corporate resolution or other comparable document that establishes that right. Also confirm the borrower's percentage of ownership of the business entity from a review of business tax returns, letter from the accountant for the business or similar documents. The analysis must support that the business is clearly capable of providing the borrower with the additional income used to qualify. » A written analysis of income utilized to qualify the borrower must be retained in the REMN WS's mortgage file. As part of the analysis, any increase or decrease in business income must be documented and justified to support a determination that the income used to qualify the borrower is stable and likely to continue for the next three years. It may be necessary to obtain additional years' tax returns when the borrower's self-employment income fluctuates to determine the stability of income. If the borrower's income is not utilized to qualify the borrower for repayment, the individual federal tax return is required to determine if there is a business loss that may have an impact on the stable monthly income utilized for qualifying. If a business loss is reported, additional documentation may be necessary to evaluate the impact of a business loss on the income used for qualifying the borrower for repayment. For the purposes of computing annual income to qualify the household, business losses will be treated as zero (0) in the calculation. Business losses when calculating repayment income will be deducted from repayment income prior to calculating debt ratios. It is not considered as recurring debt.
Documentation	» The following documentation for self-employed individuals is required to establish capacity to repay the loan: – Signed and dated individual tax returns, plus all applicable schedules for the most recent two (2) years. If the borrower has been self-employed for less than two (2) years, the individual federal tax returns must reflect at least one (1) full year of self-employment income. REMN WS must use extreme discretion with borrowers who have been self-employed for less than two (2) years. – A year to date profit-and-loss (P&L) statement and balance sheet (not required to be audited), » Signed copies of Federal business income tax returns for the last two (2) years, with all applicable schedules, if the business is a corporation, an "S" corporation, or a limited liability corporation.
Calculation of Self-Employment Income	» REMN WS's calculation of a self-employed borrower's average monthly income must be based on a review of the borrower's complete individual federal tax returns (Form 1040) including W-2's and K-1's (if applicable). Additionally, the borrower's complete business tax returns (Forms 1120, 1120S and 1065), when applicable must be analyzed. A written analysis of the borrower's self-employed income on Fannie Mae Form 1084, "Cash Flow Analysis," and Fannie Mae Form 1088, "Comparative Income Analysis," (or a comparable form) is encouraged to document a trend analysis of the borrower's business. Non-cash items such as depreciation and depletion may be added back to adjusted gross income for the purpose of determining qualifying income. – For Meal & Entertainment Exclusion, the additional 50% (that is not tax deductible) is included in the borrower's income calculation and further reduces the borrower's income. » The following allowable IRS deductions may be added to net profit (item #31 on Schedule C or item #36 on Schedule F): – Depletion (item #12 on Schedule C), – Depreciation (item #13 on Schedule C or #16 on Schedule F) Net Profit + Depletion + Depreciation = Repayment Income

REMN WHOLESALE USDA PRODUCT GUIDELINES

INCOME & EMPLOYMENT	
Analysis Self-Employment Income	» REMN WS must establish the borrower's earnings trend over the previous two (2) years but may average the income for repayment purposes over three years if all three (3) years' tax returns are provided. If the borrower provides quarterly tax returns, the analysis can include income through the period covered by the tax filings. If the borrower is not subject to quarterly tax filings or does not file quarterly returns Form IRS 1040 ES, "Estimated Tax Payment Voucher," the income shown on the P&L may be included in the analysis provided the income stream based on the P&L is consistent with the previous years' earnings. If the P&L statements submitted for the current year show an income stream considerably greater than what is supported by the previous years' tax returns, the analysis of income must be predicated solely on the income verified through the tax returns. » REMN WS must carefully analyze the individual business's financial strength, the source of its income, and the general economic outlook for similar businesses in that area to determine if the business can be expected to continue to generate sufficient income for the borrower's needs. Annual earnings that are stable or increasing are acceptable. Conversely, income for a borrower whose business shows a significant decline in income over the period analyzed may not be considered adequate, dependable, and stable. » There are five (5) basic types of business structures (sole proprietorship, corporations, "S" corporations, partnerships, and limited liability corporations), each of which will require slightly different forms of analysis.
Adjusted Income	The household's annual income (as described above) minus eligible deductions equals the adjusted income. The adjusted income determines program eligibility. Eligible deductions include: Dependent Deduction » A deduction from annual income of \$480 is made for each household member who qualifies as a dependent and will make the home their principal residence. Dependents are members of the family who are not the head of the household or spouse, and who are ages 17 or younger, a person with a disability, children of divorced parents even if the child lives with the family all or part of the time, or a full-time student. » If it is unclear or if parents share custody of children, a determination as a qualifying dependent deduction for a child who lives in the home part of the time can be made by REMN WS through guidance provided in Internal Revenue Service (IRS) Publication No. 501. IRS considers the custodial parent the parent authorized to claim the dependent on a Federal Income tax return. A divorce decree, custody agreement and/or Federal income tax returns are documentation evidence the borrower is authorized to claim the dependent. » Documentation from the school indicating that the individual is enrolled on a full-time basis is required for students who are 18 years of age or older. A foster child, an unborn child, a child who has not yet joined the family or a live-in aide may never be counted as a dependent. Child Care Expenses » Reasonable unreimbursed child care expenses for the care of children age 12 and under are deducted from annual income if the care enables a family member to work, actively seek employment, or go to school and if no other adult household member is available to care for the children. If the child care enables a household member to work, the expenses deducted cannot exceed the income earned by that household member. If the child care provider is a household member, the cost of the children's care cannot be deducted. » To qualify for the deduction, the borrower must: – Identify the children who are receiving child care and the family member who can work, seek employment or go to school (academic or vocational) as a result of the care; – Demonstrate that there is no adult household member available to care for the children; – Demonstrate that the child care hours parallel the hours the family member works or goes to school; – Identify the child care provider, the hours of child care provided, and the costs; and – If the child care provided enables a family member to go to school, identify the educational institution. The family member need not be a full-time student, but the child care hours must parallel the hours the family member goes to school. » Child support is a court ordered debt that must be considered as a monthly liability for debt ratio calculations but does not qualify as a child care expense. Annual child care expenses are not considered a liability in the repayment ratio calculation.

REMN WHOLESALE USDA PRODUCT GUIDELINES

INCOME & EMPLOYMENT

Elderly Household Deduction

- » A single \$400 deduction is subtracted from annual income for any elderly household. To be considered an elderly household, the head of household, spouse or sole member of a family, who is party to the note, must be 62 years of age or older, or a person with a disability.

Deduction for the Care of Household Members with Disabilities

- » Reasonable expenses for the care of a person with disabilities in excess of 3% of annual income may be deducted from annual income if the expenses:
 - Enable the individual with disabilities or another family member to work, are not reimbursed from insurance or any other source; and, do not exceed the amount of earned income included in annual income by the person who is able to work as a result of the care provided.
- » To qualify for this deduction, borrowers must identify the person with a disability. REMN WS must obtain verification of the individual's disability from the state review board in the state where the borrower resides, the Social Security administration, or a physician or other medical professional. *Form RD 1944-4*, or similar form or documentation acceptable to the industry may be used to request this information.
- » Typical disability expenses include attendant care to assist an individual with disabilities with activities of daily living related to permitting the individual or another family member to work, or special apparatus, such as wheelchairs, ramps, adaptations to vehicles or work place equipment, if directly related to permitting the person with disabilities or another family member to work.

Deduction for Medical Expenses (for Elderly Families Only)

- » Medical expenses may be deducted from annual income for elderly households if the expenses will not be reimbursed by insurance or another source, and when combined with any disability assistance expenses, are in excess of three percent of annual income.
- » Typical medical expenses include;
 - Services of physicians or other health care providers,
 - Services in hospitals or other health care facilities,
 - Medical insurance premiums or Medicare premiums,
 - Prescription and non-prescription medicine, Dental expenses,
 - Eyeglasses and eye examinations,
 - Medical or health products or apparatus (e.g. hearing aids, wheel chairs, etc.),
 - Live-in or periodic medical care (e.g. visiting nurses or care attendants); and,
 - Periodic payments on accumulated medical bills.
- » If the elderly household qualifies for the medical expense deduction, expenses of the entire family are considered. For example, if a household included the head (grandmother, age 64), her son (age 37), and her granddaughter (age 6), the medical expenses of all three family members would be considered.
- » One of the most challenging aspects of determining allowable medical expenses is estimating a household's medical expenses for the coming year. While some anticipated expenses can be documented easily, for example, Medicare or other health insurance premiums and ongoing prescriptions, others need to be estimated. REMN WS should use historical information about medical bills to estimate future expenses. However, the estimates should be realistic. For example, if the household has a significant medical bill, REMN WS would count only that portion of the bill that is likely to be paid during the coming year. REMN WS must document all information used in making the calculation.

REMN WHOLESALE USDA PRODUCT GUIDELINES

INCOME & EMPLOYMENT	
Income that is Never Counted	The following income is never counted as annual income: » Income received by live-in aides, regardless of whether the live-in aide is paid by the family or a social service program. Family members cannot be considered live-in aides unless they are being paid by a health agency and have an address, other than a post office box, elsewhere. » Earned income of a minor. There is an exception for earned income from a spouse who is a minor or unearned income attributable to a minor, such as child support, Temporary Assistance for Needy Families (TANF) payments, and other benefits paid on behalf of a minor. » Employer provided fringe benefit packages, even if displayed on the borrowers' pay statements are not considered in annual income unless reported as taxable income to the IRS. » Amounts granted for, or in reimbursement of, the cost of medical expenses. » Earnings of full-time students 18 years of age, or older, in excess of \$480 unless a spouse or head of household. » Lump sum additions to family assets such as inheritances; capital gains, insurance payments under health, accident, or worker's compensation policies; supplements for personal or property losses; » Deferred periodic payments of supplemental social security income and Social Security benefits received in a lump sum amount or in prospective monthly amounts » Any earned income tax credit. » Adoption assistance payments in excess of \$480 per adopted child. » Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling. » Amounts paid by State agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home. » The full amount of any student financial aid received by household members. » Supplemental Nutrition Assistance Program (SNAP); formerly the Food Stamp Program. » The amount of Housing assistance payment (HAP), otherwise known as Section 8 housing vouchers. » Reparation payments paid by a foreign government arising out of the Holocaust. If any applicant for an Agency loan was deemed ineligible because the applicant's income exceeded the low-income limit because of the applicant's Nazi persecution benefits, the Approval Official Loan should notify the applicant to reapply for a loan. » Amounts received by any family member participating in programs under the Workforce Investment Act of 1998 (29 U.S.C. 2931): – Amounts received by a person with a disability that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits – Amounts received by a participant in other publicly assisted programs which are specifically for or in reimbursement of out-of-pocket expenses incurred (special equipment, clothing, transportation, child care, etc.) and which are made solely to allow participation in a specific program. – Incremental earnings and benefits resulting to any family members from participation in qualifying State or local employment training programs (including training programs not affiliated with a local government) and training of a family member as a resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives, and are excluded only for the period during which the family participates in the employment training program – Allowances, earnings and payments to AmeriCorps participants under the National and Community Service Act of 1990 (42 E.S.C. 12637(d)). » Payments received on reverse amortization mortgages (these payments are considered a drawdown on the applicant's assets). » Any amount of crime victim compensation received through crime victim assistance (or payment or reimbursement of the cost of such assistance) because of the commission of a crime against the applicant under the Victims of Crime Act (42 U.S.C. 10602) » Any allowance paid under 38 U.S.C. 1805 to a child suffering from spina bifida who is a child of a Vietnam veteran. » Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation (Pub L 95-433). » Any other revenue exempted by a Federal statute, a detailed list can be viewed in Chapter 9 Income Analysis.

REMN WHOLESALE USDA PRODUCT GUIDELINES

INCOME & EMPLOYMENT	
Repayment Income	» Repayment income is the amount of the household's income that is available to repay the mortgage loan debt. To compute repayment income, REMN WS should count only the income of the persons who will be parties to the note. » In order for the Agency to confirm that the household is eligible for assistance under the SFHGLP, REMN WS's file must thoroughly document all relevant information used to make the determination. » Worksheet for Documenting Eligible Household and Repayment Income provides for a written analysis of elements utilized in determining household eligibility. The calculation of annual and adjusted household income must be retained as part of REMN WS's permanent loan file. » Lenders use repayment income to determine whether applicant(s) have sufficient income to repay the mortgage in addition to other recurring debts. Repayment income often differs from the calculation of annual income and adjusted annual income used to determine if the household is eligible for the SFHGLP. » To compute repayment income, REMN WS must count only the stable and dependable income of persons who will be parties to the Note. Co-signers are not permitted in a SAFHGLP transaction and are not an acceptable source when considering repayment income. » The following sources are never counted when considering repayment income: – Income sources from household members who are not party to the promissory note. – Student financial aid received for tuition, fees, books, equipment, materials and transportation. – Amounts received that are specifically for, or in reimbursement of the cost of medical expenses for any family member. – Temporary, nonrecurring, or sporadic income (including gifts) – Lump sum additions to family assets, such as inheritances, capital gains, insurance payments and personal or property settlements. – Payments for the care of foster children or adults – Supplemental Nutritional Assistance Program (formerly the Food Stamp Program).
Repayment Income Rental	» <u>Repayment Income for rents received less than 24 months</u> – Borrowers retaining their existing dwelling must qualify for all mortgage liability payments. Newly signed leases have no historical basis to conclude that the income is likely to continue and cannot be used for repayment ratio calculation. Rents received less than 24 months do not represent a stable continued source of income for repayment income due to lack of history and cannot be used when qualifying the loan request. The exclusion of rental income will ensure the borrower has sufficient monthly income to meet all mortgage and liability payments. Lenders who utilize GUS will not populate data fields on the "REO Property Information" page with any information regarding rental income received for less than 24 months in the "Gross Rental Income," "Mortgage Payments," or "Insurance, Maintenance and Taxes" data fields. However, the corresponding mortgage liability associated with the retained dwelling must be included in the long-term debt liability. » <u>Repayment Income for rents received 24 months or greater</u> – When borrowers can demonstrate rental income is stable and dependable, as evidenced and documented with the most recent two years tax returns <u>and</u> a copy of the current written lease executed by the homeowner and the lessee, the net rental income can be considered for repayment ratios. IRS Form 1040 Schedule E is required to verify all rental income. Depreciation or depletion shown on Schedule E may be added back to the net income or loss for repayment income. Positive rental income is considered gross income for repayment income while negative income must be treated as a recurring liability. » <u>Repayment Ratios</u> – If the net rental amount is negative, the amount of debt will be considered as a recurring liability for repayment ratios. This applies to manual and automated underwritten loan files. » <u>Annual Income Calculation</u> – Any positive net rental income will be included in the calculation of annual income to determine eligibility of the household for the SFHGLP. Rental income must be considered in the annual income analysis regardless of its duration. Rental income, for annual income purposes, is considered the total rental real estate income amount reported on the most recent IRS Form 1040 Schedule E for the previous 12 months. In the absence of a Schedule E; canceled checks, money order receipts, bank statements or other documentation may be used to support the amount of rents received for annual income purposes. Any negative net rental income is treated as zero for the purposes of calculating annual income.

REMN WHOLESALE USDA PRODUCT GUIDELINES

INCOME & EMPLOYMENT	
Stable and Dependable Income	» The anticipated amount of income, and likelihood of its continuance, must be established to determine the borrower's capacity to repay the loan. The determination of stable and dependable income remains REMN WS's responsibility. GUS does not evaluate the stability and dependability of repayment income in the overall risk evaluation. REMN WS must determine the history and stability of earnings prior to entering repayment income into GUS. Repayment income often differs from the annual income and adjusted income calculations that determine program eligibility.
	» Income from any source that cannot be verified, is not stable, or will not continue, must not be used in calculating the borrower's repayment income. Stable monthly income is the borrower's verified gross monthly income from all acceptable and verifiable sources that can reasonably be expected to continue for at least the next three (3) years. For each income source used to qualify the borrower(s), REMN WS must determine both the source and the amount of the income are stable. The determination of stable and dependable income remains REMN WS's responsibility.
	» There is no minimum length of time and borrower must have held a position to consider employment income as dependable. Many low and moderate-income borrowers change jobs frequently due to the nature of the employment available. Borrowers in this situation should not be penalized for frequent changes in jobs within the same line of work if, despite the changes, income continuity has been maintained and the income amount has remained at a consistent level. However, REMN WS must verify the borrower's employment for the most recent two (2) full years and verify that the borrower's income has been stable. If a borrower indicates he or she was in school or in the military during any of this time, the borrower must provide evidence supporting this such as college transcripts or discharge papers. If the borrower has recently re-entered the workforce after an absence to care for a family member or minor child, extended medical illness, or other circumstance reasonable to REMN WS, the borrower must provide evidence. The borrower should not have any gaps in employment of more than a month within the two (2) year period prior to making the loan application. It remains REMN WS's responsibility to analyze the gaps in employment as it relates to the probability of continued income. REMN WS may make allowances for seasonal employment, as is typical in the building or agriculture trades. In most instances, a two (2) year history of receiving income is required in order for the income to be considered stable and used for qualifying. REMN WS should focus on the borrower's occupation, tenure, past employment and probability of consistent receipt.
	» Borrowers that have not been employed for 12 months with their current employer or have experienced a significant earnings increase are considered high risk. REMN WS must ensure the borrower will have the required stable and dependable income to carry the mortgage debt. Caution must be utilized when the borrower's employment includes a probationary period. REMN WS may consider reasonable allowances for borrowers with less than 12 months job time with their current employer under the following circumstances: (1) the borrower has recently changed jobs but remains in the same line of work, (2) the borrower frequently changes jobs but demonstrates income continuity, (3) the borrower is a recent graduate, as evidenced by college transcripts, or a recent member of the military, as evidenced by discharge papers, entering the civilian workforce, (4) the borrower has recently re-entered the workforce after an absence to care for a family member or minor child, extended medical illness, or other circumstance reasonable to REMN WS as further outlined in this Paragraph; and (5) an borrower will begin a new job with a firm offer letter from the employer indicating a start date within 60 days of loan closing (REMN WS must verify the borrower will have sufficient income, or cash reserves, to support mortgage payments and other obligations during the time between loan closing and the start of employment), this type of allowance is commonly represented by an borrower entering a teaching position with a contract from the school district.
	» Many income sources such as commission, bonus, overtime, tips and income from a second job require two (2) years of receipt of income and two (2) years of income documentation. Notwithstanding the requirements below, in some extraordinary instances less than two (2) years of income receipt for income sources such as commission, bonus, overtime, tips and income from a second job may be acceptable with a documented thorough analysis of the borrower's income and a determination that the income is stable and likely to continue for the next three years. If less than two (2) years documentation is utilized for qualifying the borrower, REMN WS must document in our underwriting analysis the basis for determining the income utilized when qualifying the loan as stable and dependable.

(Continued on following page)

REMN WHOLESALE USDA PRODUCT GUIDELINES

INCOME & EMPLOYMENT	
	» Other non-employed or not self-employment income sources such as child support, alimony, public assistance payments, social security (including social security received by adults on behalf of minors or by minors intended for their own support – as long as the minor is a member of the household), retirement, etc. can be considered stable to the extent that they are likely to be consistently made by the payor and can reasonably be expected to continue for at least the next three years. Many factors should contribute the determination and likelihood of consistent payments from other income sources such as: – Are payments received pursuant to a written agreement, court decree or law? – How long have payments been received? – Are payments regular? – What procedures are available to compel payment of other income? – Have full or partial payments been made? – What are the ages of each child for which child support payments are made (if applicable)? – What is the eligibility criteria governing continued receipt of income, such as age or dependents or accumulation of assets? » Generally, income from self-employment is considered stable and dependable if the borrower has been self-employed for two (2) or more years, supported by documented income tax returns. Projected or hypothetical income from any source is typically not acceptable for repayment purposes. » REMN WS's permanent case file must retain supporting documentation confirming the stable and dependable income utilized to qualify the loan. The following will assist REMN WS to evaluate the stability and continuance of income. This list does not encompass all eligible income types REMN WS may consider.
Salaries, Wages and Other Forms of Repayment Income	» The income of each party to the note must be analyzed to determine whether it can reasonably be expected to continue. If the borrower intends to retire within the next 12 months, the repayment income will be the amount of retirement benefits, social security payments, and other retirement income.
Employed Income	» Stable income may be income from primary, secondary employment, including base earnings plus consistent and documented secondary income such as bonuses, commissions, overtime, additional part-time employment or seasonal employment. All income sources must be documented to determine that the borrower's income is stable and likely to continue at the level used to qualify the borrower for the mortgage loan request.
Newly Employed	» A borrower who has less than a two (2) year employment and income history can be considered when REMN WS obtains supportive documentation the borrower was either attending school or training program immediately prior to their current employment history. For those borrowers about to start a new job, if the borrower has a firm offer letter from the new employer indicating the job that will begin within 60 days of loan closing.
Re-Entering the Work Force	» Borrowers who re-enter the workforce after an absence to care for a family member or minor child, extended medical illness, or other circumstances reasonable to REMN WS and have less than a two (2) year employment and income history, this type of income source may be considered as repayment income if the borrower has been at the current employer for a minimum of six (6) months and there is evidence of a previous employment history.
Significant Increases or Decreases in Income Level	» When a borrower has experienced a significant decrease in income, the previous higher income level cannot be averaged for repayment purposes unless there is documentation of a one-time occurrence (e.g. injury) that prevented the borrower from working or earning full income for a period of time and proof that the borrower is back to the income amount that they previously earned. Focus on the most recent earnings and income that it is likely to be received at the level used for qualifying. » When a borrower has experienced a significant increase in income and REMN WS proposes to qualify the borrower at the higher amount, sufficient documentation to confirm the increased income is stable and likely to continue at the level used for qualifying must be part of REMN WS's written analysis of income.

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INCOME & EMPLOYMENT		
Calculation of Monthly Repayment Income	» The following table will assist REMN WS in calculating base earnings from primary employment paid on an hourly, weekly, every two weeks, semi-monthly or monthly basis to qualify the borrower. The guide will not be applicable in all situations. REMN WS remains responsible for determining the amount of income used to qualify the borrower is stable. A written analysis of the income used to qualify the borrower must be retained in the mortgage loan file. Documentation must support REMN WS's income calculation.	
	Calculation of Monthly Repayment Income – Base Earnings	
	Frequency	Calculation of Repayment Income
	Hourly	Multiply the hourly pay rate by the average number of hours worked per week; multiply by 52 weeks; divide by 12 months.
	Weekly	Multiply the weekly income by 52 weeks; divide by 12 months.
	Every 2 Weeks	Multiply the 2 weeks income by 26 pay periods; divide by 12 months.
	Twice per month	Multiply the semi-monthly income by 24 pay periods; divide by 12 months
	Monthly	Use the monthly income from the paystub. Multiply by 12 months.
	Borrowers who are paid less than 12 months per year	Annual salaries may be received over a time period of less than 12 months. Determine how often; how long the borrower is paid. Utilize the monthly income based upon calculations above. Example – Divide an annual salary paid 10 months of the year by 12 to arrive at the average monthly income.
Additional Income	» Procedures for treating other acceptable income sources in addition to primary employment are described below. REMN WS must determine that the amount of additional income used to qualify the borrower is likely to continue at the level used for loan qualifying. The monthly income documented in the mortgage file must support REMN WS's income calculation. A written analysis of the additional income used to qualify the borrower must be retained in REMN WS's mortgage file.	
Overtime & Bonus Income	» Both overtime and bonus income may be used to qualify the borrower if the income source has a two (2) year consecutive history of paying overtime and bonuses and the income will likely continue for the next three (3) years. Income earned for less than one (1) year with the current employer should not be considered for repayment income without significant compensating factors (e.g. the borrower has recently changed from a salary to commission position with the same employer or remains in the same line of work with a verified history of receipt of these income types). » When REMN WS verifies this type of income, the employer must indicate that the overtime and bonus income is likely to continue. If either type of income shows a continual decline, REMN WS must provide a sound rationale for the amount included. If bonus income varies significantly from year to year, a period of more than two (2) years may be used in calculating the average income. Calculation of Overtime and Bonus Income: If the amount of the bonus and/or overtime is consistent in the most recent two (2) years, the amount utilized for repayment income will be the total of the most recent two (2) years divided by 24 months. Business expenses will be deducted prior to the calculation. If the borrower has experienced a decrease in overtime or bonus income REMN WS must determine the amount of income, if any, which can be justified as stable and document their explanation for the decrease. The calculation of repayment income - when less than a 24-month average is utilized - will be based upon the time frame REMN WS can support with documentation the income is stable and likely to continue at the level used for qualifying (e.g. the previous 12 months represents the level and stability of income to be received in the future – REMN WS would divide income received for this period by 12).	
Tax Exempt Income	» The standard debt-to-income ratios are based on an assumption the income is taxable. If a particular source of income is not subject to Federal taxes, for example, certain types of disability payments or military allowances, the amount of continued tax savings attributable to the nontaxable income source may be added to the borrower's repayment income. Income that has been verified to be tax exempt may be "grossed up" by 25 percent, in other words, multiplied by 125 percent to "gross up" such income. No other adjustments for tax exempt income are authorized. Tax exempt income sources should not be grossed up when calculating annual income.	

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INCOME & EMPLOYMENT	
Commission Income	» The borrower must have a two (2) year consecutive history of receiving commission income and the commission income must likely to continue for the next three (3) years in order to consider the income as stable and dependable for repayment purposes. Commission income should be averaged over the previous two (2) years utilizing the current employer. » The borrower should provide the last two (2) years tax returns or W-2 forms along with a recent year to date paystub. Non-reimbursed business expenses, if any, should be subtracted from gross income when supported by IRS Form 2106. An individual who claims commission income for less than two (2) years or shows a decrease from one (1) year to the next, requires significant compensating factors if the commission income is to be included as repayment income. Typically, this example would be an extraordinary instance. » Commissions earned less than one (1) year should not be considered repayment income absent significant compensating factors. Exceptions may be made in those situations on a case by case basis where the borrower's compensation was changed from a salary to commission within a similar position with the same employer. A borrower may also qualify when that portion of earnings not attributable to commissions would still be sufficient to qualify the borrower for the mortgage. Calculation of Commission Income: If REMN WS determines the amount of commission income is consistent, divide the total of the most recent two (2) years (minus business expenses when applicable) by 24 months. A written analysis of the income used to qualify the borrower must be retained in the mortgage file.
Part-Time, Second Job, Seasonal & Unemployment	» Income from a second job or part-time job may be counted for repayment income if the borrower has worked this position uninterrupted for the past two (2) years and will continue to do so. This type of income must be likely to continue for the next three (3) years in order to consider the income for repayment. Second or part-time job income refers to jobs taken in addition to the normal, regular employment to supplement the borrower's income. If a borrower's regular employment is less than a typical 40-hour work week, the stability of that income should be evaluated as any other regular, ongoing primary employment. This would include as an example, a registered nurse that has been working 24 hours per week for the last year. » Seasonal employment (e.g., umpiring baseball games in summer or working at a department store during the Christmas shopping season) is considered uninterrupted and may be counted if the borrower has worked the same type of job for the past two (2) years. Income from a part-time position that has been received for less than two (2) years may be counted if REMN WS is able to determine through employer verification that the income's continuance is likely at the level of receipt verified in the past. Income from part-time positions not meeting these requirements may be considered as a compensating factor. » The allowance of unemployment compensation associated with seasonal employment for qualification is a case-by-case issue and must be addressed with your Regional USDA office for consideration. If allowed by the regional office, the borrower must have a two (2) year history of receipt and the unemployment compensation is likely to continue for the next three (3) years. » To utilize income from secondary employment (second or additional job), seasonal income or unemployment (if allowed by the regional USDA office) to qualify the borrower, the income must be reported on the borrower's individual federal income tax return for the most recent two (2) year period.
Military Income	» In addition to base pay, military personnel may be entitled to additional forms of pay. Income from variable housing allowances, clothing allowances, flight or hazard pay, rations, and proficiency pay is acceptable provided it is verified as continuous and regular and likely to continue for the next three (3) years. An additional consideration may be the tax-exempt nature of some of these payments. » If the borrower is a member of a reserve component of the United States Armed Forces, REMN WS may consider the reserve duty income for qualifying.
Retirement & Social Security Income	» Retirement and Social Security income requires verification from the source (former employer or Social Security Administration), such as a copy of the current award letter or Federal tax returns. If any benefits expire within the first three (3) years of the proposed loan, the income source may only be considered as a compensating factor in lieu of repayment income. The Social Security Administration benefit verification letter or equivalent document would specifically state that the benefits will expire; otherwise, REMN WS should treat Social Security benefits as likely to continue.
Interest & Dividend	» Interest and dividend income may be counted for repayment income provided that documentation (tax returns or account statements) supports a two (2) year history of receipt. This income must be averaged over the two (2) years. Any funds derived from these sources, and required for closing, must be subtracted before the projected interest or dividend income is calculated. Documentation of sufficient assets remaining after closing to support continuance of the dividends and interest income at the level used for qualification for the next three (3) years is required.

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INCOME & EMPLOYMENT	
Alimony, Child Support or Maintenance Income	» Income in this category may be counted if such payments are likely to be consistently received for the first three years of the mortgage. The borrower must provide a copy of the divorce decree, legal separation agreement, or voluntary payment agreement, and evidence that payments have been received during the last twelve months. Payment periods of less than twelve months may be acceptable if REMN WS can document the payer's ability and willingness to make timely payments. Acceptable evidence of payments received includes the most recent 12 months of cancelled checks, or deposit slips, or Federal tax returns, and court records. » When REMN WS is considering if this type of income is stable, consider the extent that payment is likely to be consistently made by the payor and can reasonably be expected to continue for at least the next three (3) years based on documentation.
Employment Differential Payments Housing Allowances	» If the employer subsidizes the mortgage payments through direct payments, this is a housing allowance. The amount of the payments should be considered gross income to calculate repayment ratios. It may not be used to directly offset the mortgage payment even if the employer pays the servicing lender directly. REMN WS must obtain documentation to demonstrate that the payments are pursuant to an established, ongoing and documented employer program to utilize this type of income for qualifying. The employer must not be an interested party to the transaction and the payment must continue for the next three (3) years.
VA Benefits	» Direct compensation from the U.S. Department of Veterans Affairs (VA), (e.g., regular payments for a service-related disability), can be counted if the VA verifies it. A VA education benefit, used to offset education expenses, is not an acceptable source of income. Any amount provided for living expenses may be counted as repayment income. Any student financial aid received for tuition, fees, books, equipment, materials, and transportation will not be considered in the repayment income calculation.
Government Assistance Programs	» Income received under a welfare program, worker's compensation or similar government assistance programs can be used for repayment income. It must be documented by the paying agency; the income has been received for the most recent two (2) years and can be expected to continue for three (3) years. If this income is not expected to last three (3) years, it may be considered as a compensating factor. » Documentation from the applicable agency that indicates the amount, frequency and the length of time the benefit payments will be received is required.
Automobile Allowance & Expense Account Payments	» The borrower must have a two (2) year consecutive history of receiving an automobile allowance and the automobile allowance must be likely to continue for the next three (3) years in order to consider the income for repayment purposes. » The amount by which a borrower's automobile allowance or expense account payments exceed actual expenditures may be considered as income. The borrower must provide IRS Form 2106, "Employee Business Expenses," for the previous two (2) years to establish the amount of income that may be added to gross income, along with verification from the employer that these payments will continue. » The monthly debt amount must be treated as a recurring debt. If the borrower uses the standard per-mile rate in calculating automobile expenses, as opposed to the "actual cost" method, the portion the IRS considers depreciation may be added back to repayment income. Additionally, the borrower's monthly car payment must be treated as a recurring debt and must not be offset by the car allowance.
Trust Income	» Income from trusts may be counted for repayment income if guaranteed, if constant payment will continue for at least the first three (3) years of the mortgage term, and if it is adequately documented. Documentation requirements include a copy of the Trust Agreement or other trustee's statement confirming amount, frequency of distribution, and duration of payments.
Tip Income	» The borrower must have a two (2) year consecutive history of receiving income from tips in order to consider the income for qualifying. For tip income that fluctuates, REMN WS must evaluate the income trend and use the amount that is likely to continue for the next three (3) years.

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INCOME & EMPLOYMENT	
Projected Income	» Projected or hypothetical income is not acceptable for repayment purposes. However, exceptions are permitted for income from cost-of-living adjustments, performance raises, bonuses, etc. which is both verified by the employer in writing and scheduled to begin within 60 days of loan closing. For those borrowers about to start a new job, if the borrower has a firm offer letter from the new employer indicating the job that will begin within 60 days of loan closing, the income is acceptable for qualifying, and repayment, purposes. REMN WS must also verify that the borrower will have sufficient income or cash reserves to support the mortgage payments and any other obligations during the interim between loan closing and the start of employment. This may be appropriate for situations such as a teacher whose contract begins with the new school year, or a physician beginning residency after the loan is scheduled to close. However, if the loan will close more than 60 days before the employment begins, the income cannot be counted for repayment purposes. REMN WS should utilize full documentation on this type of income. In the absence of a payroll statement to support income earned for new jobs, a copy of the contract with the employer that validates the amount of income to be earned should be obtained.
Section 8 Homeownership Vouchers	Section 8 Homeownership Vouchers may be used for qualifying borrowers. This income is not included in Annual Income. For repayment income purposes, the monthly subsidy from the vouchers may be treated in either of the ways described below: » <u>Repayment Income</u>: The subsidy may be treated as repayment income when calculating a homebuyer's qualifying ratios, and if the subsidy is paid directly to the borrower, it must be treated in this manner. Since the subsidy is non-taxable, it may be "grossed-up" by 25% and then added to the borrower's income from employment and/or other sources when calculating repayment income. This option of capturing the Section 8 Homeownership Voucher will be the method to be followed when REMN WS utilizes GUS for the underwriting recommendation. » <u>Offset to PITI</u>: REMN WS may treat the homeownership assistance payment as an "offset" to the monthly PITI (i.e. reduce the monthly PITI payment by the amount of homeownership assistance provided prior to dividing by monthly repayment income to determine the debt-to-income ratio). However, in order to use this procedure, the homeownership assistance funds must not pass through the hands of the homebuyer, i.e. the homeownership assistance payment must be paid directly to the servicing lender or placed into an account that only the servicing lender may access.
Unreimbursed Employee Expenses	» Unreimbursed employee expenses are reported on IRS Form 2106, "Employee Business Expenses." The sum of columns A and B on Line 8 represents the total amount spent out of pocket. The amount of unreimbursed employee expenses must be deducted from repayment income.

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INCOME & EMPLOYMENT	
Rental Income	» Rental income received for a property owned and retained by the borrower may be acceptable in limited circumstances, subject to proper documentation. A separate schedule of real estate is not required provided that all properties are shown on the Uniform Residential Loan Application (URLA). The following is required to verify rental income: Long-term current leases. Net rental income, received for 24 months or more, may be considered stable and dependable income for repayment purposes. Evidence of long-term leases will be documented with the most recent two (2) years of tax returns (including Schedule E of IRS Form 1040) and a copy of the written lease agreement executed by the homeowner and lessee. Net rental income is considered the two (2) year average of total rental real estate income reported on IRS Form 1040 Scheduled E. A two (2) year average of depreciation and depletion may be added back to the net income or loss shown on Schedule E less any monetary obligations associated with the property not captured on Schedule E (i.e. monthly principal payment). Positive net rental income is considered as gross income for repayment purposes. Negative net rental income must be treated as a recurring liability and not as a deduction from repayment income. REMN WS must make certain the borrower still owns the property listed by comparing the Schedule E with the real estate owned section of the residential loan application. » Data entry in GUS for long-term current leases. Requests submitted utilizing GUS that include the retention of a rental property require specific fields to be completed to assure accurate data is submitted. Complete the following steps in GUS: - Complete the "Real Estate Owned" (REO) page in GUS to ensure rents are used to offset the existing mortgage obligation when applicable. - GUS auto-calculates net rental income by employing at 25% vacancy factor. GUS uses 75% of REMN WS entered amount for gross rental income and subtracts REMN WS entered amounts for mortgage payments, insurance, maintenance and taxes. - Lenders may override the auto-calculation on this page when the most recent two years of tax returns evidence a more precise amount of income receipt. - On the "Assets and Liabilities" page of GUS, lenders should omit the mortgage obligation for the rental property shown on this page to avoid double counting the debt since it is also reported on the REO page. » Non-GUS manually submitted files for long-term current leases. REMN WS will utilize the two (2) year average as reported on the Schedule E to determine repayment income. Depreciation and depletion can be added back into the net rental income. Mortgage payments (if applicable), insurance maintenance and tax obligations will be subtracted from the calculation. Newly signed leases. A newly signed lease has no historical basis to conclude that the income is likely to continue. Rental income that has been received for less than 24 months will not be considered stable and dependable income for repayment purposes. Borrowers who wish to purchase a new principal residence and retain or rent a residence must qualify with all mortgage liability payments. Income from newly signed leases cannot be used in repayment debt ratio calculations. The exclusion of rental income will ensure the borrower has sufficient monthly income to meet all mortgage and liability payments. » Data entry in GUS for newly signed leases. The "REO" page in GUS must be completed properly to ensure rents are not used to offset any existing mortgage liability. The following steps to assure accurate data in GUS are required: - On the REO page, lenders must leave the "Gross Rental Income" field blank when completing the "Mortgage Payments" (if applicable) and "Insurance, Maintenance, and Taxes" data fields. - The mortgage obligation (if applicable) associated with the retained dwelling must be omitted on the "Assets and Liabilities" page in GUS. Omission of the mortgage obligation on the "Assets and Liabilities" page is necessary to avoid duplication/double counting of the debt since it is also reported on the "REO" page. » Non-GUS manually submitted files for newly signed leases. The existing mortgage obligation (including insurance, maintenance and taxes) associated with the retained dwelling must be counted as a long-term liability in the repayment ratio calculation. Rents received cannot be used to offset the mortgage obligation.

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INCOME & EMPLOYMENT				
Methods of Annual Income Calculation	Income Type	Definition of Income	Example Guidance	Example Calculation
	Straight Income	Straight is based upon the benefit or wage amount and converted to the annual equivalent.	An example of an employed borrower who is paid hourly and works 40 hours per week would be derived by multiplying the hourly wage by 2080 hours (for part-time employment use anticipated annual hours). If paid weekly, the weekly wage is multiplied by 52 weeks. Bi-weekly paid employee's wages are multiplied by 26 weeks and a monthly wage multiplied by 12 months.	For example: \$20/hour x 2080 hours per year (40 hours/week x 52 weeks/year) = \$41,600. Overtime paid at \$30/hour x 50 hours/year = \$1,500. Total wages in this example: \$43,100.
	Average Income	Average the income reported on the benefit statements or pay stubs for the last 30 days and convert to the annual equivalent.	An example of a borrower who is paid monthly each and every month the exact amount.	For example: The gross income received in the past 30 days if \$5,192 as verified by pay stubs. Multiply \$5,192 by 12 to arrive at the annual income of the household. \$5,192 x 12 = \$62,304
	Year-To-Date (YTD)	Year-To Date (YTD) gross earnings divided by the YTD interval, which is the number of calendar days elapsed between January 1 of the current year and the last date of the most recent income verification multiplied by 365	The YTD interval should be closely examined to determine the appropriateness of this method. REMN WS should not use this method if the earnings activity during the YTD interval is insufficient to make an annual projection or does not reflect the likely earning activity for the period outside of the YTD interval (the time between the last date covered by the more recent income verification and December 31 of the current year).	For example: The borrower worked 230 days to date (e.g. August 18) and income earned during that time period is \$40,000. Divide \$40,000 by 230 days, arrive at \$173.91/day, then multiply by 365 to arrive at the annual income of \$63,477.15
	Historical Income	Historical income as reported on the previous year's tax return is used.	Consider the time of year and the reasonableness of this approach. For example; if the income documentation submitted is for January of the current calendar year, the historical data from the previous year may be utilized.	For example: The date is January 15. The most representative income for the borrower is the previous 12 months. The borrower earned \$60,000 in the previous tax year. The borrower worked all year. The anticipated annual income for the ensuing year is \$60,000.
IRS 4506T Requirements	» Loans where GUS recommendation requires evidence of the "most recent tax returns"; if a loan is closing on or after October 15, 2017 REMN WS will need evidence of 2016 1040 being filed. This is for all loans in which GUS requires the tax return. » For complete HomeBridge Policy on Tax Documentation and Transcripts please see HomeBase for Job Aid Tax Documentation and Transcript Requirements as of January 1, 2016.			

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ASSETS	
Assets	» Borrower must lack sufficient assets to obtain uninsured conventional financing (borrower has <20% down payment for a purchase transaction). » Borrowers must disclose all assets. » Assets include; checking/savings accounts, gift funds, sale proceeds from currently owned property, 401k or retirement accounts, stocks/bonds and must be documented as follows on all purchase or refinance transactions (if funds needed to close): – 2 months most recent bank statements (dated within 45 days of the initial loan application date); or, – Stocks and bonds require the most recent statement monthly or quarterly. » Retirement funds that allow for immediate withdrawal are eligible at 60% of the vested account balance to allow for withdrawal penalties. » Retirement accounts that restrict withdrawals to retirement, employment separation, etc. cannot be considered for cash reserves. Note: REMN WS will only accept a fully completed VOD to <u>supplement</u> asset accounts where only an annual or semi-annual report is issued, in order to verify the current balance.
Down Payment	» Not required.
Reserves	» Not required. » Although cash reserves after closing are not required for USDA, cash reserves are considered in the risk assessment provided by GUS. When disclosing the assets of the borrower on the “Assets and Liabilities” page of GUS, REMN WS has the responsibility to determine if the asset is liquid or readily converted to cash and can be done so absent retirement or job termination. Assets such as 401k’s, IRA’s, etc. may be included in the underwriting analysis up to 60% of the vested value. Funds borrowed against these accounts may be used for loan closing but are not to be considered as cash reserves. Funds from gifts from any source will not be included in the cash reserves calculation in GUS. » If reserves are utilized in the GUS underwriting decision, the lesser of the most recent two (2) month average balance or the actual balance of liquid accounts such as checking, or savings accounts may be considered as cash reserves. Documentation of assets will be retained in REMN WS’s permanent case file.
Cash On Hand	» REMN WS does not allow cash on hand as acceptable source of funds.
Large Deposits	» A VOD, along with the most recent bank statement, may be used to verify checking and savings accounts. » If there is a large increase in an account, or the account was recently opened, REMN must obtain from the borrower a credible explanation and documentation of the source of funds. » USDA requires a Borrower letter of explanation (LOX) for large or unusual deposits that are not consistent with the previous history to determine the source and reoccurrence of funds. The LOX validation is relevant to deposits that may be factored into other sources of income which may impact the family income calculation. » Verify that any recent debts were not incurred to obtain part, or all, of the required cash investment on the property being purchased.
Joint Access Letters	» When individuals, other than the borrowers, are on a bank account a joint access letter is always required.
Seller / Interested Third Party Contributions	» A third-party contribution is a payment by the seller and/or other interest party to or a combination of parties, towards the borrower’s closing costs. » The seller and/or third party may contribute up to 6% of the lesser of the property’s sales price or appraised value towards the buyer’s closing costs, prepaid expenses, discount points and other financing concessions. – Seller or other interested party contributions towards closing costs in excess of six (6%) percentage points are prohibited. Closing costs and/or prepaid items paid by REMN WS by premium pricing are <u>not</u> included in the seller contribution limitation. Fees towards the borrower’s cost to close such as real estate commission or other typical fees paid by the seller or other interest party under local, state law, or local custom are not considered in the maximum contribution calculation. » The 6% limit also includes; – Payments of mortgage interest for fixed rate mortgages, – Payment of one time guarantee fee. NOTE: Contributions exceed 6% are considered inducements to purchase. NOTE: Interested parties include; real estate agents, builder and developers.

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ASSETS		
Cash Back to the Borrower	» The borrower cannot receive any cash back from the transaction with the exception of the following out of pocket money (with supporting documentation) as follows: – Earnest money deposit – First year of homeowners' insurance paid – Loan application fees (if paid by check and verified) – Appraisal/Inspection fees (if paid by check and verified) – Paid repairs » Tax credit, excess loan funds, excess seller concessions and items paid with credit cards cannot be refunded to the borrower; a principal reduction is required.	
	» Sales commissions paid by an interested third party on the borrower's present residence can be considered inducements to purchase. The table below describes the conditions under which a sales commission is subtracted from the lesser of the sales price or appraised value before applying the LTV factor.	
Sales Commissions	If the...	Then REM N WS should...
	» Seller and/or interested third party agrees to pay any portion of the borrower's sales commission on the sale of the borrower's present residence	» Treat the amount paid by the interested third party as an inducement to purchase; and, » Subtract dollar-for-dollar the amount paid by the seller or other party from the lesser of the sales price or appraised value before applying the LTV factor.
	» Borrower is not paying a real estate commission on the sales or his/her present home » Same real estate broker or agent is involved in both transactions; and, » Seller of the property being purchased by the buyer is paying a real estate commission that exceeds what is typical for the area.	» Treat the amount of commission paid by the seller that exceeds what is typical for the area as an inducement to purchase; and, » Deduct that amount, dollar-for-dollar, from the lesser of the sales price or appraised value before applying the LTV factor.

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ASSETS	
Verification of Gifts	» Documentation through an executed gift donor letter; – Obtain proof of transfer from the donor to the borrower by obtaining a copy of the canceled check or other withdrawal document showing the withdrawal is from the donor's personal account, along with the homebuyer's deposit slip or bank statement that indicates the deposit. – Establish the gift <u>does not</u> have to be repaid. – Funds may be provided by the borrower's relative, employer or labor union, charitable organization, or government agency/public entity that has a program to provide homeownership assistance to low and moderate-income applications. – Funds received from non-profit entities may not be used to pay installment loans, credit cards, collections, judgments or other similar debts of the borrower. – To the greatest extent possible the donor must be able to furnish conclusive evidence that the funds given to the homebuyer came from the donor's own funds and were not provided directly or indirectly by the seller, real estate agent, builder, or any other entity with an interest in the sales transaction. » Gift funds in borrower's bank account at time of loan application – Document the transfer of funds from the donor to the homebuyer by obtaining a copy of the canceled check or other withdrawal document showing that the funds are from the donor's account. – Evidence the homebuyer deposited the gift into their personal account is required. » Gift funds provided at loan closing – If the gift funds are not verified in the borrowers account at time of application and the transfer occurs at closing, REMN WS remains responsible for obtaining verification that the closing agent received funds from the donor for the amount of the purported gift and that the funds came from an acceptable source. – Acceptable documentation includes; ▪ If the transfer of funds is by certified check, obtain a bank statement to document the withdrawal from the donor's account with a copy of the certified check; or ▪ If the transfer of gift funds is from a donor purchased cashier's check, money order, official check or bank check – obtain a withdrawal document or canceled check for the amount of the gift to evidence the funds came from the donor's personal account; or ▪ If the transfer of funds was via wire transfer, obtain a wire transfer confirmation to verify that the settlement agent received the funds from the donor for the amount of the gift. – Cash on hand is not an acceptable source of funds. » Gift funds should be reflected on the application as a separate entry to the borrower's depository account(s). » Gift funds should not be reflected in the borrower's depository account balances. » Gifts will not be considered as cash reserves or a compensating factor in the underwriting decision. » Once gift funds are documented, verified and received, for the purpose of loan settlement, gift funds are considered the borrower's personal funds. » Any excess funds at settlement that represent gift funds contributed may be returned to the application.

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APPRAISAL, PROPERTY, SALES CONTRACT	
Underwriting the Property	» REMN WS must ensure the subject property meets the Agency's site guidelines. The site must be developed according to state or local government standards, which often are contained in zoning ordinances, building codes, subdivision regulations, and/or construction standards. In particular, sites must be in rural areas; meet community standards regarding utilities, including water and wastewater systems; meet street and road access and maintenance requirements; and contain other amenities essential to the continued marketability of the home. » The use of the property must comply with zoning and use restrictions. If the existing property does not comply with current zoning regulations, but is accepted by the zoning authority, it is considered a legal nonconforming property. The property is <u>not</u> eligible for an Agency guarantee when the use is not legal. The appraisal must reflect any adverse effect of the legal nonconforming use on the value and marketability of the property. » The economic life of a property must meet or exceed the term of the proposed loan. The appraiser may reject the property if the future economic life of the property is shortened by obvious and compelling pressure to a higher use, making a long-term mortgage impractical.
Site Requirements	» Sites must be modest and developed in accordance with any standards imposed by a State or local government. Therefore, REMN WS must verify that the following requirements are met at the time of application. » Site size – The site size must be typical for the area. » Income-Producing Buildings – The property must not include buildings designed and to be used principally used for income-producing purposes. ▪ For example (barns, silos, greenhouses, or livestock facilities used primarily for income producing agricultural, farming or commercial enterprise are ineligible). However, barns used for storage and outbuildings such as storage sheds are permitted if they are not used primarily for income producing agricultural, farming or commercial enterprise. A minimal income-producing activity, such as maintaining a garden that generates a small amount of additional income, does not violate this requirement. Home-based operations such as childcare, product sales, or craft production that do not require specific features are not restricted. A qualified property must be predominantly residential in use, character and appearance. » Income-Producing Land – The site must not have income-producing land that will be used principally for income producing purposes. Vacant land or properties used primarily for agricultural, farming or commercial enterprise are ineligible. Sites that have income-producing characteristics (e.g. large tracts of arable land ready for planting) are considered income-producing property. However, maintaining a garden for personal use is not in violation of this requirement. A minimal income-producing activity, such as a garden that could generate a small amount of additional income does not violate this requirement. A qualified property must be predominantly residential in use, character and appearance. » Site Specifications – The site must be contiguous to and have direct access from a street, road, or driveway. Streets and roads must be hard surfaced, or all weather surfaced and legally enforceable arrangements must be in place to ensure that needed maintenance will be provided. » Utilities – The site must be supported by adequate utilities and water and wastewater disposal systems.

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Appraisal	» Appraiser must certify that an existing property meets the requirements detailed in HUD Handbooks. » USDA defines “existing” as a property that has been completed for 12 months or more or has been completed for 12 months or more; or » Property completed <12 months but previously occupied. – The cost approach is no longer required for the Guaranteed Loan Program (3555 Handbook to be updated in the near future to reflect these clarifications which are effective immediately). » Cannot include income producing land or building to be used principally for income purposes. » Appraisal photos must be taken of the front and rear at opposite angles to show all sides of the subject property. – Additional photos are required for any improvements with contributory value that are not captured in either the front or rear photograph. – If the subject property is proposed construction and the improvements have not been started, the photos must include the grade of the vacant lot. » Street scene photo must include a portion of the subject site. – If the subject property is proposed construction and the improvements have not been started, the appraiser should take a photograph that shows the grade of the vacant lot. » Comparable Photos – Photos depicting the front view of each comparable sale utilized must be those taken by the appraiser. The photos taken by the appraiser are considered evidence of compliance with the Scope of Work of having inspected each comparable sale from the street. Use of MLS photos to exhibit comparable conditions at the time of sale is acceptable; however, the appraiser must include <u>their</u> photos as well to document compliance. » Licensed Appraiser must be FHA Approved and Certified. » AVM is not automatically required on USDA loan (Underwriter option to substantiate value). » Please refer to REMN WS Appraisal Policy & Procedures on HomeBase for complete Appraiser Independence Requirements.
Photographs	» Photographs in the appraisal report must be clear and descriptive to be able to identify the property's condition and quality. » Acceptable photographs include color original images from photographs or electronic images. » Photographs must clearly represent the improvements, any physical deterioration of the property, amenities, conditions and external influences that may have a material effect on the market value or marketability of the subject property » The appraisal report will be uploaded into GUS at the <i>Lender Upload Document</i> page as an individual document. » An appraisal report with interior and exterior inspection of the subject property must include at least the following: – A front view of the subject property. – A rear view of the subject property. – A street scene identifying the location of the subject property and showing neighboring improvements – The kitchen, main living area, bathrooms, bedrooms. – Any other rooms representing overall condition, recent updates, such as restoration, remodeling and renovation. – Basement, attic and crawl space. – Comparable sales, listings and/or pending sales utilized in the valuation analysis must include at least a front view of each comparable utilized. – Condominium projects should include additional photographs of the common areas and shared amenities.

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Appraisal Update	» REMN WS may extend the validity period of an appraisal-with an appraisal update report that will be no greater than 240 days from the effective date of the initial appraisal report at loan closing (120 days for the original appraisal plus 120 for the Appraisal Update Report). » Appraisals with no update will be no greater than 150 days from the effective date of the appraisal report at loan closing (120 days validity period plus a 30-day extension period). » The 30-day extension period cannot be used when the original appraisal report is updated. » An original appraisal report can be updated one (1) time with an Appraisal Update Report.
Appraisal Update Report	» All Appraisal Update Reports must include a completed Market Conditions Addendum (Fannie Mae Form 1044MC/Freddie Mac Form 71) for the subject property that is reflective of market conditions as of the effective date of the Appraisal Update Report. » USPAP (Advisory Opinion 3) states that there are three ways that the reporting requirements can be satisfied for this type of assignment; – Provide a new report <i>without incorporation</i> of the prior report. – Provide a new report that <i>incorporates by attachment</i> specified information/analysis from the prior report. – Provide a new report that <i>incorporates by reference</i> specified information/analysis from the prior report. » The appraiser may use a pre-printed form or a narrative report to provide the appraisal update, but whichever reporting format is used it must be in compliance with USPAP. » Fannie Mae Form 1004D/Freddie Mac Form 442, “Appraisal Update and/or Completion Report” may be utilized by REMN WS to report the completion of a repair and/or satisfaction of requirements and conditions noted in the original appraisal report.
Declining Market	» Appraisals located in a declining market require at least two (2) comparables that closed within 90 days of the appraisal and are as similar as possible to the subject property. – The appraisal must include, at minimum; two (2) active listings or pending sales.
Water & Wastewater Disposal Systems	» The site must have acceptable water and wastewater disposal systems to ensure the property is decent, safe, sanitary, and meets community standards. Public water and wastewater disposal systems are presumed to meet state and local requirements with no additional documentation or inspections. Private well and wastewater systems may require inspections or documentation as discussed in this section. Evidence will be retained in REMN WS’s permanent loan file.

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Water Systems	» Water systems, for existing or new construction, that require continuous or repetitive treatment to be safe bacterially or chemically are not acceptable. Individual dwelling water purification units are not an acceptable alternative; however, they may be used if the individual water system, with purification, meets the requirements of the state department of health or other comparable reviewing and regulatory authority. Individual Privately Owned » Individual water systems are owned and maintained by the homeowner and subject to compliance with all requirements of the local and/or State Health Authority codes. Individual water supply systems may be acceptable when the cost to connect to a public or community water system is not reasonable as defined by REMN WS. REMN WS is responsible for determining if connection is feasible. Water quality tests are required as follows: – The water quality of the well must meet the requirements of the state or local authority. If the state or local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply. – The local health authority or a state certified laboratory must perform a water quality analysis. The Safe Water Drinking Act does not apply to private wells. Contact the Environmental Protection Agency (EPA) at (800) 426-4791 for referral to certified labs and other inquiries. – The water analysis report must be no greater than 120 days old at loan closing. If the Agency is aware of any recent environmental impacts that may render the previous analysis invalid (for example – chemical spills, natural disasters, etc.) a new report may be required. – The well location for individual water supply systems must be measured to establish the distance from the septic system. Distances must meet either approach of the local and/or State Health Authority codes or SF Handbook (HUD Handbook 4000.1). – Individual water systems/wells should be located on the subject property site. If located on an adjacent property, evidence of water rights and recorded maintenance agreement must be retained in REMN WS's permanent loan file as acceptance of the well as the primary source of water. – Properties served by cisterns are not acceptable. Individual Privately Owned Shared » If the property is served by a shared well or off-site facility, REMN WS must ensure the private system will provide a continuous and adequate supply of safe and potable water. The following requirements must also be met. – The well serves properties that cannot feasibly be connected to an acceptable public or community water supply system. It is REMN WS's responsibility to make this determination. – A shared well must have a valve on each dwelling. – The water supply is adequate for all families served. A shared well must service no more than four living units or properties. – The water quality of the well must meet the requirements of the state or local authority. If the state or local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply. » The well must have an agreement that meets the following requirements. – Is binding upon all signatory parties and their successors in title. – Is recorded or will be recorded no later than the closing date. – Makes provisions for maintenance and repair of the system and the sharing of costs to do so. These provisions must include a permanent easement that allows access for maintenance and repair. Community Owned » If the property is served by a community water system operated by a private corporation or nonprofit property owners' association, REMN WS must ensure the following conditions are met. – The system and the water supply meet all applicable Federal, State and local requirements. – The system has the capacity to provide a sufficient water supply during periods of peak demand. – The system is operated under a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service.

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Wastewater	Individual Privately Owned » Individual sewage systems may be acceptable when the cost to connect to a public or community sewage system is not reasonable as defined by REMN WS. REMN WS is required to obtain a septic evaluation. A FHA roster appraiser who certifies the property meets required HUD Handbooks, a government health authority, a licensed septic system professional, or a qualified home inspector may perform the septic evaluation. The inspector may require additional inspections as a result of the inspection. The separation distances between a well and septic tank, and the property line should comply with HUD guidelines or state well codes. The septic system must be free of observable evidence of failure. Existing dwellings appraised by a HUD roster appraiser, who has indicated the dwelling meets the required HUD handbooks does not require further septic certification. » If the property is served by an individual sewage disposal system, REMN WS must ensure the system: – Meets any applicable requirements of the state or local health authority with jurisdiction. – Is located entirely on the subject property. If any part of the system is located on an adjacent property (for example leach lines), evidence such as a perpetual encroachment easement must be recorded to establish the rights of the property owner's permitted use. – Is operating properly and has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health. Community Owned » If the property is served by a community wastewater system operated by a private corporation or nonprofit property owners' association, REMN WS must ensure that the system: – Meets any applicable requirements of the state or local health authority with jurisdiction. – Is licensed, operating properly and has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health. – Is subject to a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service.
Street & Road Maintenance	<u>Access</u> » The site must be contiguous to and have direct access from, a public or private street, road or driveway. » Private roads or streets are acceptable provided each property has vehicular or pedestrian access. » Private roads or streets must have a permanent recorded easement (non-exclusive and non-revocable easement without trespass from the property to a public street) or be maintained by HOA – HOA in charge must meet FNMA, FHLMC or VA criteria » Shared driveways must also meet these requirements requiring a permanently easement for ingress and egress. » Evidence of a road maintenance agreement is not required. This agreement must be binding to successors and title. A copy of a title report, retained in the mortgage file, may be used to evidence the easement. <u>Maintenance</u> » Streets and roads must be hard surfaced or all-weather surfaced, which emergency and typical passenger vehicles can pass at all times. A publicly maintained road is automatically assumed to meet this requirement.
Condo Approval	» Condos must be FNMA, FHLMC, FHA or VA approved. – If condo not approved; it is ineligible for USDA financing. » Site Condo project approval may not be required if they meet the following criteria: – Single family totally detached dwelling encumbered by a declaration of condominium covenant or condominium form of ownership. – The unit has no shared garage or any other attached buildings (i.e. archways, breezeways). – The condo unit consists of the entire structure; site and air spare are not considered to be common areas of limited common areas. – Appraisal data will continue to be collected on FNMA Form 1004/FHLMC Form 70. » Site condos that do not meet the criteria above are not eligible unless approved by FNMA, FHLMC, FHA or VA.
Minimum Property Standards	» Free standing stoves/ovens and refrigerators are not required. » Air conditioning is not required; however, if window unit is installed it must be functional or removed. » A conventional heating source is required and must maintain a temperature of 50° in areas where there is plumbing. » Floor covering is not required as long as the flooring does not cause a health or safety issue. » Cracked glass is not required to be repaired; however, broken glass that is a health hazard must be removed and the opening closed to the weather. » Properties located in FEMA Disaster Declaration areas will be subject to additional appraisal review.
Termite / Well / Septic Inspections	» Termite inspection required by contract or by the appraiser due to evidence of infestation. » Well inspection is required on all purchase transactions. The water quality must meet state/local standards. » Not required on refinance transactions. » Septic inspection is only needed if required by the appraiser due to evidence that the septic system may be failing.
Continuity of Obligation	» At least one of the borrowers on the refinance transaction must be currently be on the title of the property being refinanced.

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Property Flipping	» It remains REMN WS's responsibility to ensure any recently sold property's value is strongly supported when a significant increase between sales occur. » REMN WS must perform a thorough review of the appraisal report to validate and support the property's value and protect the borrowers from possible real estate lending.
Purchase Agreements	» REMN WS must disclose to the appraiser any and all information about the subject property of which we are aware, if the information could affect either the marketability of the property or the Appraiser's opinion of the market value of the property.
Comparable Selection (REMN WS Policy)	» The source of the closed comparable sales utilized to establish value must be from the Multiple Listing Service (MLS), Metropolitan Regional Information Systems, Inc. (MRIS), Midwest Real Estate Data (MRED) or North Texas Real Estate Information System (NTREIS), San Antonio Board of Realtors (www.sabor.com), Geo Data, or Comps Inc. – MLS/MRIS will provide additional information on the property not found on other public sources (i.e. Days on Market, Interior Conditions and/or any specific terms or conditions to the transaction that are all found within the MLS/MRIS data and not found in other public sources such as a HUD1 and/or tax record). – This applies to all of the comparable sales used to establish value, not just the first three (3). If the appraiser is providing more than three (3) comparable sales to support value, those additional comparable sales are subject to the same rule. » There are three (3) states; Vermont, Maine & New Hampshire where MLS is not common and customary and therefore it will be acceptable to accept comparable sales from a public source other than the MLS/MRIS, – Although the comparable sales do not need to be through MLS/MRIS, they do need to be through a public independent source. » If the appraiser elects to use comparable sales not verified through the MLS/MRIS, the appraisal report must be elevated to REMN WS's Chief Appraiser, Mike Turriziani, for his review and approval. – Mike's review and approval of the appraisal must occur BEFORE an approval decision can be communicated. This cannot be a "condition" of the loan approval. » In the case of new construction, it is not uncommon that the builder may not list sales on the MLS/MRIS. The use of builder supplied comparable sales will be acceptable provided; – The appraiser comments in the appraisal report that the builder marketed the project in an "open" and "public" environment such as newspaper advertising, billboards near the project, builder website, etc. – At least one (1) of the comps must be outside the subject project and from the MLS or MRIS. – At least two (2) of the comps must be sources other than the builder. The appraiser is permitted to provide more than three (3) comparable sales in order to support the value.

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Flood Hazards	» REMN WS must complete, or arrange for a contractor to complete, FEMA Form 086-0-32, "Standard Flood Hazard Determination Form (SFHDF)" to determine whether the dwelling is located in a Special Flood Hazard Area (SFHA) in accordance with the National Flood Insurance Reform Act of 1994. » Existing dwellings are eligible under the SFHGLP only if flood insurance, through FEMA's National Flood Insurance Program (NFIP) is available for the community and flood insurance whether NFIP, "write your own", or private flood insurance (as approved by REMN WS) is purchased by the borrower. » REMN WS is required to accept private flood insurance policies that meet the requirements of 42 USC 4012a (b)(1)(A). Insurance must be obtained as a condition of closing and maintained for the life of the loan for existing residential structures when any portion of the structure is determined to be located in a SFHA, including decks and carports, etc. However, according to the Homeowner Flood Insurance Affordability Act (HFIAA) of 2014, flood insurance is not required for any additional structures that are located on the property but are detached from the primary residential structure and do not serve as a residence, such as sheds, garages, or other ancillary structures. Existing dwellings financed through the SFHGLP are not subject to the requirement within 7 CFR 1940 Subpart G Exhibit C which requires a search for practicable off-site alternatives to purchasing an existing dwelling within the SFHA. » New or proposed construction in an SFHA is ineligible for a loan guarantee unless: ▪ A final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) removes the property for the SFHA is obtained from FEMA, or: ▪ REMN WS obtains a FEMA National Flood Insurance Program Elevation Certificate (FEMA Form 086-0-33). The flood elevation certificate must document that the lowest floor (including the basement) of the residential building, and all related improvements/equipment essential to the value of the property, are built at or above the 100-year flood elevation in compliance with National Flood Insurance Program (NFIP) criteria. The flood elevation certificate must be prepared by a licensed engineer or surveyor. ▪ Documentation is included in the file in accordance with 7 CFR 1940 Subpart G Exhibit C, that there is a demonstrated need for the SFHGLP and there are no practicable alternatives to new construction within the SFHA. » NOTE: Part of the site may be located in the SFHA without triggering these requirements, as long as no part of the dwelling is located in the SHFA. At REMN WS's discretion, flood insurance may be required even if the residential building and related improvements to the property are not located within the SHFA, but REMN WS has reason to believe that the building and related improvements to the property may be vulnerable to damage from flooding. » Flood insurance must cover the lesser of the outstanding principal balance of the loan or the maximum amount of coverage allowed under the FEMA's National Flood Insurance Program (NFIP). Unless a higher amount is required by state or federal law, the maximum deductible clause for a flood insurance policy should not exceed the greater of \$1,000.00 or 1% of the face amount of the policy. » Existing dwellings and newly constructed dwellings located within the SFHA which are not served by public sewer systems and have on-site septic or sewage treatment systems must have a drinking water supply which is protected from cross contamination from the onsite septic/sewage treatment during flooding. A property serviced by an on-site septic or sewage treatment system is eligible under this Section, provided one of the following can be met: ▪ The property is served by a publicly provided water supply. ▪ The property is serviced by a private drinking water well/supply with a fitted sanitary well cap which prevents backflow floodwater from entering the drinking supply well. ▪ The property is served by a private drinking water well/supply whose opening is located above the base flood elevation of the SFHA. Additional documentation, such as an elevation certificate, will be required to verify this type of property.

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OTHER REAL ESTATE OWNED	
Properties Owned Free & Clear	If a borrower indicates a property they own is owned free and clear the following is required. » IRS Transcript to verify no mortgage interest taken. – If the property was purchased with the current calendar year (so transcript not available), a copy of the HUD showing it was purchased with no mortgage PLUS one (1) of the following additional documents: 1. Copy of hazard insurance declaration page showing no mortgagee listed; or, 2. Copy of MERS report for property showing no mortgage listed; or, 3. Copy of Data Verify report showing no mortgage listed.

PROPERTY INSURANCE	
Insurance Coverage Requirements	Please reference the REM N WS Insurance Coverage Requirements job aid for complete details on insurance requirements.
Mortgagee Clauses	<u>For Homeowners Insurance (including Hazard, Flood, Wind, Hail, etc.):</u> Homebridge Financial Services, Inc., DBA Real Estate Mortgage Network its successors and/or assigns as their interest may appear P.O. Box 202028 Florence, SC 29502-2028 <u>For Title Insurance and Closing Protection Letter:</u> Homebridge Financial Services, Inc., DBA Real Estate Mortgage Network its successors and/or assigns as their interest may appear 194 Wood Avenue South, 9th Floor Iselin, NJ 08830