



American Financial Resources, Inc. USDA Program Guidelines

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Introduction

The Guaranteed Rural Housing (GRH) Loan Program is designed to support affordable housing and community development in rural areas. The program serves rural residents who have a steady, low or modest income, and yet are unable to obtain adequate housing through conventional financing. Loans are limited to applicants with incomes that do not exceed state and local Rural Development (RD) median income limits and property that is designated as rural by Rural Development.

Maximum Loan to Value (LTV)

The maximum LTV is up to 100% of the appraised value, plus the one-time guarantee fee. If the appraised value is greater than the purchase price, eligible closing costs and pre-pays may be included into the loan amount.



Maximum Combined Loan to Value (CLTV)

AFR does not allow subordinate financing other than approved grants with GRH loans.

Guarantee Fee (g-fee)

The guarantee fee is a percentage of the loan balance determined by Rural Development. The guarantee fee is charged and collected at the time of closing and can be paid by the buyer or seller, or financed.

- Purchase transactions = 2.0%;

Where the g-fee is financed;

Appraised Value = \$175,000

Purchase Price = \$172,000

Closing Costs = \$3,000

Appraised Value + guarantee fee = $\$175,000 / .98 = \$178,571.43$

Disclosed guarantee fee = \$3,571.43 (this amount must show on the initial GFE)

\$178,571.43 is the maximum amount RD will guarantee

Where the g-fee is **not** financed;

Appraised Value = \$175,000

Purchase Price = \$172,000

Closing Costs = \$3,000

Guarantee fee = $\$175,000 * .02 = \$3,500$

Disclosed guarantee fee = \$3,500 (this amount must show on the initial GFE)

- Refinance transactions = 1.5%;

Where the g-fee is financed;

Appraised Value = \$175,000

Payoff = \$172,000

Closing Costs = \$3,000

Appraised Value + guarantee fee = $\$175,000 / .985 = \$177,664.97$

Disclosed g-fee = \$2,664.97 (this amount must show on the initial GFE)

\$177,664.97 is the maximum amount RD will guarantee



Where the g-fee is **not** financed;

Appraised Value = \$175,000

Payoff = \$172,000

Closing Costs = \$3,000

Guarantee fee = $\$175,000 \times .015 = \$2,625.00$

Disclosed guarantee fee = \$2,625.00 (this amount must show on the initial GFE)

** All SFHGLP loans (purchased and refinance) will be subject to an annual fee of 0.3 percent of the average scheduled unpaid principal balance. Loans that were obligated (Conditional commitment issued) by the Agency prior to October 1, 2011 are not subject to an annual fee.

Refinancing

Refinance transactions must achieve more favorable terms for existing Section 502 direct and guaranteed borrowers. The intent of a refinance transaction is to provide borrowers that have a satisfactory payment history the opportunity to benefit from a lower interest rate and increase their ability to be successful homeowners.

- Refinancing existing RD Guaranteed loans and RD Direct loans only;
- The new interest rate must be fixed at or below an amount where the borrower will recoup ALL closing costs within 48 months of the new loan;
- Non streamlined transactions only (an appraisal will be required on all GRH refinance transactions);
- No more than 1 x 30 day late payment may have been made within the last 12 months prior to the loan application. All files with a late mortgage payment within the past 36 months must have a letter of explanation executed by the borrower;
- The base loan amount may include the balance (principal and accrued interest) of the existing loan to be refinanced, reasonable and customary closing costs, and lender fees, including funds to establish a new tax and insurance escrow account in conjunction with the new loan. Inclusion of any existing subordinate financing is not allowed;
- Borrowers currently not on the existing note may be added or removed from the new loan to qualify;
- Incidental cash may not be given to the borrower at closing. Any overage amount must be given as a principle reduction to the new loan;
- Unpaid fees, such as late fees due the servicer, are not eligible to be included in the new loan amount;
- The security property must be owned and occupied by the applicants as their principal residence;
- Properties in areas that have been determined to be non-rural are permissible since the existing loan was made;



Maximum Purchase Price or Loan Limit

There is no maximum purchase price or loan limit. The qualifying ratios will determine the maximum amount of the loan.

Monthly Mortgage Insurance

See Guarantee Fee (g-fee) section

Loan Terms Available

Only a 30 year fixed rate loan is available.

Bonafide Discount Points

A maximum of 2 (two) discount points are allowed to be financed only if the applicants gross monthly income is no more than 80% of the HUD median income. If the income is greater than 80% of the HUD median income, the borrowers may pay discount points but those discount points may not be financed.

Occupancy

Primary residence only

Retaining a Property

A borrower may retain an existing property only if the property they currently own is:

- not located within the local commuting area (at least 100 miles) and or;
- not structurally sound or functionally adequate.

A borrower may not own more than one other home or currently have a home financed through RD.

Eligible Borrowers

AFR will obtain evidence and document that non U.S. citizens who apply for a GRH loan are qualified aliens.



CREDIT

Loan Score

A minimum Loan Score of **620** is required. Regardless of the credit score, the borrower(s) must show an ability and willingness to repay the loan. AFR reserves the right to decline an applicant for credit regardless of the applicants credit score.

Standard RD credit guidelines apply to all GRH loan applications.

Underwriting Score Selection

- Three scores: Select the middle score; 750, **721**, 712
- Two scores: Select the lowest score; **620**, 633
- One score: Ineligible score. **Exception:** GUS will select the eligible credit score for underwriting purposes. One score may be appropriate when GUS renders an accept recommendation.
- No score: Ineligible
- A repeating score is eligible for selection: 750, **750**, 735
- A NTMCR score is not eligible for consideration.

Housing History

A housing history need not be provided with the exception of:

- Applicants whose chapter 13 bankruptcy has yet to be discharged or has been discharged within the previous 12 months;
- Any applicant with a reported mortgage late within the previous 12 months;
- If GUS requires one be provided.
- If the AFR underwriter feels one should be required.
- If RD requires one be provided in order to issue the commitment.
- If the Underwriting score is less than 640.

If a housing history is required, only cancelled checks or true 3rd party management verifications are acceptable. If a VOR/VOM is provided, the creditor name, date the rental agreement or contract began, monthly payment due, and payment history reported in a 0x30, 0x60, 0x90 day format. Statements such as “satisfactory” or “acceptable” are not acceptable. Mortgages reporting on the credit report are acceptable.

Previous RD loans

R D will determine if an applicant has previously secured a guaranteed loan from the Agency and the current status of such loan. If RD has incurred a loss as the result of a previous guarantee, the Agency will determine if the loss was beyond the applicant’s control. The applicant is responsible for providing AFR with official documentation to support the circumstances. A previous Agency loss may be noted on the credit report, identified by the applicant as part of the loan application, and/or by Rural Development when performing their internal cross reference prior to the issuance of a loan note guarantee.



Federal Debts

Applicants that are delinquent on Federal debts may be ineligible for a guaranteed loan. Recorded outstanding judgments obtained by the United States in a Federal court (other than the U.S. Tax Court) or any delinquent Federal debt identified by CAIVRS (Credit Alert Interactive Voice Response System) shall cause the applicant to be ineligible until the Federal debt is paid in full or otherwise resolved. Official documentation to prove debt resolution may include a release of liability from the creditor or official receipts from creditors stating the debts have been paid in full. Evidence of payment arrangements do not qualify as acceptable documentation. Loan funds from Rural Development may not be used to satisfy a debt.

Chapter 13 Bankruptcy

A Chapter 13 bankruptcy does not disqualify an applicant from obtaining a GRH loan. 12 months of the repayment period must have elapsed under the plan with all payments made on time and the Applicant(s) must receive written permission from the bankruptcy court/trustee to enter into a mortgage transaction.

Consumer Credit Counseling (CCC)

Applicants participating in a Consumer Credit Counseling Program are not disqualified from obtaining a GRH loan. 12 (twelve) months of the repayment period must have elapsed under the plan with all payments made on time. In addition, the applicant must receive written permission from the counseling Agency to enter into a mortgage transaction.

Collection Accounts

All collections must be paid in full if the Underwriting Score Selection is less than 640 and or we receive a GUS Refer recommendation. In all other cases, AFR will determine if open collection accounts should be paid in full by the applicant prior to or at closing. AFR's underwriter will consider the collection type, age, and its potential to negatively affect clear title to the subject property. All collections must be explained in writing by the applicant prior to underwriting.

Non-traditional Credit

Non-traditional credit is not allowed.

Liabilities

Less than 6 payments remaining

Debts with more than six months (6) repayment remaining must be included in the total debt ratio. This type of debt is typically installment debts. Regardless of the existing balance, revolving debt will always be considered when calculating debt ratios. AFR may also include other shorter term debts (less than 6 months repayment remaining) that are considered to have a significant impact on repayment ability. If no monthly payment is listed for the balance, AFR will use 5% of the balance for the monthly payment due or the applicant can provide a recent statement as evidence of a lower payment.



Co-signed Obligations/Non Mortgage Debt

RD requires debts which have been co-signed by the applicant for another party to be considered in the debt ratio unless evidence can be obtained that it has not been necessary for the applicant to make payments over the last 12 months. A co-signed obligation refers to an agreement where the applicant is liable for the note with other parties. Liabilities solely in the applicant's name must always be considered in the debt ratio, regardless of who is making the monthly payment as the legal obligation resides with the applicant. If the monthly payment has been 30 days late or more within the previous 12 months, the payment must be included into the applicants total debt to income ratio regardless of the documentation provided.

Previous Mortgage

RD requires all previous mortgage liabilities disposed of through a sale, trade, or transfer without a release of liability, to be included in the debt ratio calculation unless evidence can be obtained to confirm the remaining party has made payments over the last 12 months.

In divorce settlements when one person retains ownership of a residence as a result of the proceedings, it does not imply that the person relinquishing ownership is automatically released of the financial liability associated with an existing mortgage debt. The divorce decree along with a release of liability from the mortgage creditor must be presented as evidence that an applicant is no longer legally responsible for the mortgage payment. If no release of liability is granted by the creditor then the applicant remains legally obligated for the debt. Quit claim deeds do not remove liability for mortgage debts.

Student Loans

Student loans represent a debt obligation. Loans in repayment and deferred student loans **must be** included in the debt ratio. If available, AFR will utilize the payment amount listed on the credit report. If the credit report does not indicate a monthly payment amount, lenders may use the monthly payment amount provided by the loan servicer or 1% of the loan balance reflected on the credit report.

Child Care Expense

Child care expenses are not required to be considered as a recurring liability when calculating debt-to-income ratios. Child care expenses are utilized to calculate the adjusted gross income in determining program eligibility.

401K Loans

Loans against personal assets such as 401(k) accounts, retirement funds, or other liquid assets are not considered in the debt ratio.

Child Support, Alimony or Garnishments

Applicants obligated to pay child support, alimony, garnishments, or other court ordered debts must have these payments included in the debt ratio. If the applicant has a release of liability from the court/creditor, the debt can be excluded. AFR will use select pages from the applicable agreement/court order to document the required monthly payment due and the duration of the debt.



INCOME

Income Limits

The Borrower's adjusted income may not exceed the Rural Development limit for the area.

Refer to the GRH Nationwide Eligibility Web Site <http://eligibility.sc.egov.usda.gov>.

Qualifying Ratios

The PITI (Principle, Interest, property Taxes, Insurance and any HOA dues) ratios should not exceed 29% of the total qualifying income. The total debt ratio should not exceed 41% of the total qualifying income. With compensating factors, AFR will submit a ratio waiver request to Rural Development if the PITI ratio exceeds those figures. Regardless of an AUS approval or RD approval, the maximum PITI ratios cannot exceed 40% of the total qualifying income and the total debt ratio cannot exceed 49.99% of the total qualifying income.

Verification of Income

A fully completed and signed IRS Form 4506-T is required for all applicants.

Note: AFR reserves the right to ask for any additional documentation it feels necessary to make a sound underwriting decision at any time.

Verification of Income (employed)

The following documentation is acceptable for verifying the income of employed loan applicants (excluding self-employed):

1. Verification of Employment (VOE) (Form RD 1910-5 or equivalent) or VOE's supplied by an employment verification service AND the most recent paycheck stub; OR
2. Paycheck stubs or payroll earnings statements covering the most recent 30-day period, AND W-2 forms for the previous 2 tax years AND a telephone verification of the applicant's current employment by AFR, or
3. Computer-generated documents accessed and printed from an Intranet or Internet, AND W-2 tax forms for the previous 2 years, AND a telephone verification of the applicant's current employment.

Non-reimbursed expenses will be subtracted from the gross income reported on the applicant's tax returns.

Verification of Income (self employed)

The following documentation is acceptable for verifying the income of self employed loan applicants:

1. Signed individual federal income tax returns for the most recent two years accompanied by all appropriate schedules as determined by the type of self-employment; and
2. A year-to-date profit and loss (P&L) statement



Verification of Income (other types of income)

Obtain written verification of the income (e.g., an award letter, pension statement, or other appropriate documentation) or verification through individual federal income tax returns for the most recent year. Examples of other income types can include: alimony/child support, automobile expense, military income, pension/retirement income, social security/disability income, trust income, unemployment, and notes receivable. Non-reimbursed expenses will be subtracted from the gross income reported on the applicant's tax returns.

Verification of Income (Bonus, Commission and Overtime)

Income will be considered for the previous two years with the same/present employer. Non-reimbursed expenses will be subtracted from the gross income reported on the applicant's tax returns. Income earned for less than one year should not be considered as repayment income without significant compensating factors (e.g., the applicant has recently changed from a salary to commission position with the same organization). If there is a significant variance when comparing income from one year to the next, a period of more than two years should be used in calculating income.

Verification of Income (Part-Time, Second and Seasonal Positions)

The applicant should have worked in this position for the past two years, as evidenced by a written Verification of Employment (VOE) or tax returns (individual or business), without interruption. AFR may consider income received for less than two years if the employer verifies it is likely to continue subject to the underwriter's discretion.

Verification of Income (Alimony, Child Support or Separate Maintenance)

Obtain evidence that payments are likely to be received for at least the first three years of the mortgage. Obtain evidence the payments have been received for the past 12 months. Payment periods of less than 12 months may be acceptable if the payer's ability and willingness to make timely payments can be documented.

Verification of Income (Household Assets)

RD states, "Where the household has net family assets, as defined in section 1980.302(a), in excess of \$5,000, the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate must be considered when calculating annual income." Verification documentation must coincide with the type of asset identified for income purposes. Examples of assets can include (but is not limited to) cash, savings, stocks, bonds, investments, and real estate.

Verification of Income (Tax Exempt)

Tax exempt income types include but are not limited to, social security, retirement, disability, child support, some worker's compensation benefits, certain public assistance payments, military allowances, etc. RD allows non-taxable income to be "grossed up" by the amount of federal tax savings attributable to the nontaxable income for repayment purposes only. No other adjustments for tax-exempt income are authorized. Rural Development does not offer a standard percentage that income can be grossed up (e.g., 125%). It is determined by AFR's analysis.



Verification of Income (Military)

In addition to base pay, military personnel may be entitled to additional forms of pay. Income sources such as variable housing allowances, clothing allowances, flight or hazard pay, rations and proficiency pay may be used for repayment income provided it is verified as stable and dependable. Additional consideration for the tax-exempt nature of these payments may be applied.

Verification of Income (VA Benefits)

Direct compensation from the U.S. Department of Veterans Affairs (VA), (i.e., regular payments for a service related disability), can be included as repayment income upon VA verification. The difference between the costs of education and the VA education benefits received may be considered repayment income.

Verification of Income (Government Assistance Programs)

Income received for programs such as unemployment income, workers' compensation, earned income credit, foster children, etc. may be counted as repayment income as long as it is expected to continue for at least the first three years of the mortgage. Income to be received for less than three years may be used as a compensating factor. Unemployment income requires a two year documentation of receipt and reasonable assurance of its continuance. This may be appropriate for individuals employed on a seasonal basis (e.g., farm laborers, construction workers, etc.).

Verification of Income (Retirement)

Documentation must be received that states the income will continue for at least the first three years of the mortgage. If any benefits will expire within the first three years, the income source may only be considered as a compensating factor.

Verification of Income (Interest and Dividends)

Income should be received for the past two years and may be averaged based upon verified documentation. Any funds derived from these sources that are required for closing must be subtracted before the projected interest or dividend income is calculated.

Verification of Income (Employee Differential Payments)

If the employer subsidizes the applicant's mortgage payments through direct payments it is considered a housing allowance. The amount of these payments should be included as gross income when calculating the annual income and can be utilized for repayment income if the income is likely to continue for at least the first three years of the mortgage. These payments may not be used to directly offset the mortgage payment.

Verification of Income (Automobile/Expense Allowance)

The amount an applicant's automobile allowance or expense account payment exceeds actual expenditures can be considered as repayment income. Income should have been received for two years along with verification from the employer that these payments will continue. The applicant's monthly car payment must be treated as a recurring debt and must not be offset by the car allowance.



Verification of Income (Rental income)

A retained dwelling must meet the requirements of section 1980.346(a). To calculate net monthly rental income for annual income purposes, the monthly gross rent amounts received must be reduced by a vacancy factor of 25% before subtracting the monthly principal, interest, taxes, insurance, and homeowner association dues, etc. The rental income must be stable and dependable for repayment purposes. Rental income received for less than a 24 month duration should not be included in repayment income.

Regardless of the stability of net rental income, it must always be considered when calculating annual income for program eligibility as follows: (1) any positive net rental income is included in the calculation of annual income or (2) negative net rental income is treated as \$0.

Repayment income calculations must be handled as follows: (1) any positive net rental income determined to be stable and dependable is included in the calculation or (2) any negative net rental income determined to be stable and dependable is treated as a recurring liability. Document the rental income amount is stable and dependable by verifying amounts listed on the applicant's income tax IRS Form 1040 Schedule E for the past two years. This income may be averaged over the past 24 month period and depreciation may be added back to the net income or loss shown on Schedule E.

Applicants may only retain one dwelling in addition to the new dwelling (principal residence) purchased with a guaranteed loan. The dwelling retained may not be financed with a Section 502 Direct or Guaranteed loan.

Verification of Income (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.

Gaps in employment

Documentation must be received for all gaps in employment of greater than one month over the last two years for all applicants. Determining stable and dependable income, which includes the analysis of gaps in employment as it relates to the probability of continued income, is at AFR's sole discretion.

Non Purchasing Spouse (NPS)

Non Purchasing Spouse (NPS) in Community Property States: Except for obligations specifically excluded by state law, the debts of NPS's must be included in the applicants qualifying ratios when the applicant resides in a community property state or the property guaranteed is located in a community property state. The NPS's credit history is not considered a reason to deny a loan application. A credit report must be obtained for the NPS in order to accurately determine the debts that must be counted in the total debt ratio.

Community property states include Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin.



Temporary Buydowns

Are not allowed

Non-Occupant Co-Borrowers

Not allowed.

Documentation

Form RD 1980-21 must be completed (executed and dated) by all applicants that will be a party to the note. Multiple forms may be utilized if more than two applicants are on the loan.

Adjustments to Annual Income Documentation

The following is a list of acceptable documentation for the adjustments that may be made to the annual income calculation (refer to section 1980.347 of the RD guidelines) to determine program qualification.

Annual income includes all eligible income from adult household members, regardless of whether or not they will be a party to the note.

Refer to the GRH Nationwide Eligibility Web Site for details and for a helpful calculator to see what deductions can be made and how to calculate them. <http://eligibility.sc.egov.usda.gov>.

- **Residents Under 18 Years Old, Disabled, or Full Time Students.**
A deduction of \$480 for each member of the family residing in the household, other than the applicant, spouse, or co-applicant, who is;
 - under 18 years of age
 - 18 years of age or older "and" is disabled as defined in RD Instruction [1980-D, Section 1980.302 \(a\)](#) or
 - a full-time student ages 18 or older
- **Child Care Expenses-** A deduction for the care of minors 12 years of age or under, to the extent necessary to enable a member of the applicant/borrowers' family to be gainfully employed or to further his or her education. Documentation can be in the form of tax returns, third party verifications, canceled checks, or money order receipts. Child support payments and/or private school tuition paid by an applicant are not eligible child care expenses.
- **Medical Expenses for an elderly Family-** An elderly family consists of one of the following:
 - (1) A person who is the head, spouse, or sole member of a household and who is 62 years of age or older or who is disabled and is the applicant/borrower or the co-applicant/co-borrower; or



- (2) Two or more unrelated elderly (age 62 or older), disabled persons who are living together, at least one of whom is the applicant/borrower or co-applicant/co-borrower; or
- (3) In the case of a family where a deceased borrower/ co-borrower or spouse was at least 62 years old or disabled, the surviving household members shall continue to be classified as an "elderly family" for the purpose of determining adjusted income even though the surviving members may not meet the definition of elderly family on their own, provided:
 - (i) They occupied the dwelling with the deceased family member at the time of his/her death; and
 - (ii) If one of the surviving members is the spouse of the deceased family member, the surviving family shall be classified as an elderly family only until the remarriage of the surviving spouse; and
 - (iii) At the time of death, the dwelling of the deceased family member was financed under Title V of the Housing Act of 1949, as amended.

Medical expenses for any "Elderly Family" as defined above include medical expenses for any household member the applicant/borrower anticipates incurring over the ensuing 12 months "and" which are not covered by insurance.

Examples of said expenses are: dental expenses, prescription medications, medical insurance premiums, eyeglasses, hearing aids, home nursing care, monthly payments on accumulated major medical bills and full time nursing or institutional care which "cannot" be provided in the home for the member of the household.

The deduction is the amount by which the aggregate allowable medical expenses of the household, combined with eligible disability expenses of the household, exceeds 3 percent of the qualifying household members Gross Annual Income (GAI).

Example: Qualifying household medical expenses are \$3,200. GAI is \$15,500. 3% of GAI is \$465.

Allowable deduction is \$2,735 (\$3,200 minus \$465)

Documentation can be receipts, copies of billing statements, invoices or other written documentation supporting the expenses. Refer to section 1980.348(d)(1) for allowable medical deductions and calculations to an elderly household's annual income.

Disability Expenses for Disabled Persons - Documentation can be receipts, copies of billing statements, invoices, or other written documentation supporting the expenses. Refer to section 1980.302(a) for the definition of a disabled person. Refer to section 1980.348(d)(2) for eligible disability deductions and calculations.

Assets

Reserve Requirements

There are no reserve requirements



Interested Party Contributions

Contributions by interested parties may not exceed six percent. All funds, including prepaids, paid by the seller are included in the maximum contribution limit.

Funds Verification

Depository Accounts: Checking Account, Savings Account, Certificate of Deposit, and Money Market Fund

Two consecutive monthly bank statements dated within 45 days of the initial loan application date must be provided as evidence of the asset. This applies to all liquid assets.

Earnest Money Deposit

Earnest money deposit on the sales contract can be considered an asset if the deposit is not already reflected in a liquid asset account. If the funds have cleared the applicant's account, place the amount as an "Other Credit" in Section VII of the loan application. For GUS transactions only enter the earnest money once; on either the "Asset and Liabilities" or the "Transaction Details" page.

Retirement Accounts

A most recent statement and conditions under which funds may be withdrawn or borrowed must be obtained. Retirement funds may be utilized as cash reserves and/or a compensating factor if the account allows for withdrawals by the applicant(s). Retirement accounts that restrict withdrawals only in connection with the applicant's employment separation, retirement, or death should not be considered as cash reserves or a compensating factor. The asset amount will be calculated as 60% of the vested account balance to allow for withdrawal penalties.

Gifts

Document through an executed gift donor letter and establish the gift does not have to be repaid. If gift funds are not verified in the applicant's account at the time of application, obtain proof of transfer from the donor to the applicant. All gift funds, including grants, must be from an eligible source (i.e., a relative, domestic partner, fiancé, church, municipality, or non-profit organization). Gifts may not contribute to cash reserves in GUS transactions or be considered a compensating factor.

Sale Proceeds of Real Property

Obtain an executed HUD-1 or equivalent closing statement to indicate actual cash sales proceeds realized by the applicant. Proceeds from the sale of property should be included in the applicant's liquid assets. For GUS transactions, the "Net Equity" section of the "Assets and Liabilities" page will be auto-populated once the "REO Property" section is completed.

Stocks and Bonds

Obtain a monthly or quarterly statement provided by the stockbroker or financial institution managing the portfolio.



Seller Concessions

A maximum of 6% of the sales price or actual costs may be paid by the seller. All costs paid by the seller must be agreed to by the buyer and seller as evidenced by the original executed contract.

Cash on Hand

Is not acceptable

Properties

Eligible Properties

Property must be located in a "Rural Area" as defined by Rural Development.

Refer to the GRH Nationwide Eligibility Web Site <http://eligibility.sc.egov.usda.gov>.

AFR allows the following properties under the GRH Loan Program:

- Single family detached dwellings
 - Factory built/modular
 - Stick built
- Leaseholds or Fee Simple
- Condominiums
 - Must be currently approved by Fannie Mae, Freddie Mac, HUD or VA
- PUDs- attached or detached
- Manufactured Housing
 - Manufactured units must be new, less than 12 months old, never occupied, and include the site. The date of the purchase agreement must be within one year of the manufactured date displayed on the plate attached to the unit. Units must be purchased and built by an approved dealer-contractor. Each state maintains a list of the approved dealer-contractors in their geographic area.
 - Existing units are eligible for a guaranteed loan if currently financed with a R D Section 502 direct or guaranteed loan.

Ineligible Properties

The following properties are ineligible:

- 2-4 units
- Working Farms



- Income Producing Properties
- Cooperatives
- Homes with; Grain bins, Silos, Dairy farms, Hog barns, Equestrian stables, Large farm service buildings, Windmills, Cell phone towers or properties that receive mineral rights payments, etc.

Appraisal Requirements

Existing Dwellings

An existing dwelling is defined as a dwelling that has been completed for more than 12 months **or** has been completed less than 12 months but has been previously occupied.

All appraisals regardless of whose name the loan closes in, must be in AFR's name.

If the AFR client code for selling/brokering USDA loans is a C or TF and therefore the loan **will not** close in AFR's name, all appraisals must be ordered thru a non affiliated AMC (Appraisal Management Company) **and** the appraisal must be completed by a licensed or certified appraiser with GRH experience.

If the AFR client code for selling/brokering USDA loans is a TPO or WS and therefore the loan **will** close in AFR's name, all appraisals must be ordered thru an approved AFR AMC (Appraisal Management Company) **and** the appraisal must be completed by a licensed or certified appraiser with GRH experience.

The appraisal forms that must be used for loan origination purposes are as follows:

- Uniform Residential Appraisal Report (URAR): FNMA 1004/FHMLC 70 for one unit single family dwellings
- Manufactured Home Appraisal Report and Addendum: FNMA 1004C/FHLMC 70B for all manufactured homes
- Individual Condominium Unit Appraisal Report FNMA 1073/FHLMC 465 for all individual condominium units

Form 1004 MC "Market Conditions Addendum to the Appraisal" must accompany all appraisals. An existing dwelling must meet HUD Handbooks 4150.2 and 4905.1. HUD Handbook determinations may be completed by an FHA roster appraiser. Appraisers must certify that the requirements of HUD Handbooks 4150.2 and 4905.1 have been met. The certification should be stated on page three of the appraisal form in the "Comment" section on the appraisal report.

The cost approach section of the appraisal is to be completed when dwellings are less than one year old (Section 1980.334(b)(1)).

For dwellings more than one year old, the cost approach section needs to be completed only to the extent necessary to comply with site value analysis and the requirements of section 1980.313(e).

A Marshall and Swift cost approach analysis is not required for any property.



Appraisals are valid for 120 days, effective from the date of the appraisal to closing. A recertification is required after 120 days. A new appraisal will be required after 180 days of the date of the original appraisal.

Private Septic System:

The septic system must be free of observable evidence of failure. An FHA roster appraiser, government health authority, licensed septic professional, or qualified home inspector must perform the septic system evaluation.

Private Well/Water Supply:

The local health authority or state certified laboratory must perform a water quality analysis. The water quality must meet state and local standards. Contact the EPA at (800) 426-4791 for referrals to certified labs and other inquiries.

Termite:

A pest inspection must be obtained to confirm the property is free of active termite infestation **only if** required by the lender, appraiser, inspector, or State law.

Thermal Requirements:

There are no thermal requirements on existing homes.

New Construction

A new dwelling is defined as a dwelling that has been built for less than 12 months and has never been occupied.

Evidence must be retained that a new construction home was built in accordance with certified plans and specifications (e.g., International Residential Code, CABO, BOCA, etc.) by receiving a:

1. Copy of an eligible building permit that has been issued by an approved local jurisdiction. The State Director is responsible for making the determination of an “eligible jurisdiction” per RD Instruction 1924-A, section 1924.5(f)(1)(iii)(c)(2). This determination must be published by the state as a supplement; **or**
2. Certificate of Occupancy or completion certificate issued by an approved local jurisdiction as determined by the State Director and published; **or**
3. Certification from a qualified individual or organization (e.g., licensed architect, engineer, national code certified plan reviewer, local building official, etc.) that has reviewed the plans and specifications, and determined they meet all applicable building codes and development standards. If the reviewer does not have their own certification form, Form RD 1924-25 “Plan Certification,” may be used.

In addition,



Evidence must be retained that construction inspections were performed throughout the project in accordance with section 1980.341(b)(2). Acceptable evidence may include one of the following:

1. Certificate of Occupancy issued by an eligible local jurisdiction as determined by the State Director and published, after a minimum of 3 construction inspections were performed and a 1-year builder warranty plan issued acceptable to RD; **or**
2. Copies of 3 construction inspections performed when: (1) footings and foundation are ready to be poured (2) shell is complete, but plumbing, electrical and mechanical work is still exposed and (3) final inspection of completed work prior to occupancy and a 1-year builder warranty plan issued acceptable to RD; **or**
3. Final inspection and a 10-year insured builder warranty plan acceptable to RD per RD Instruction 1924-A Exhibit L.

New construction homes that do not have acceptable evidence of construction inspections and warranty are limited to a 90% loan to value (LTV) plus the guarantee fee. The guarantee fee may be included above the 90% LTV in the loan amount.

Maximum Acreage

There is no defined maximum acreage. There is however a requirement if the site value exceeds **30%** of the overall appraised value. If the site value is greater than 30%, the appraiser must comment and determine if the property is common to the area and must include similar comparables within their report. The property must not be able to be sub-divided into separate parcels and must not be tillable or have income producing tendencies.

Swimming Pools

- In ground pools- Must receive an approval from the local RD office. In addition, the contributory value (as provided by the appraiser) of the in ground swimming pool must be subtracted from the appraised value.

Appraised Value:	\$175,000
Pool Value:	\$2,500
Maximum Loan Amount:	\$172,500 + guarantee fee

- Above ground pools are acceptable without reducing the loan amount.

Flip Transactions

A flip transaction is generally defined as a purchase transaction for a property that has recently been acquired by the seller and is being sold for a quick profit. A flip transaction is evident if the title reveals several changes in ownership in the course of a few months. Flip transactions are not eligible.



DISCLAIMER

This document contains a portion of the AFR and RD guidelines for the GRH loan program. It does not contain the full context of the GRH regulations. It is intended as an overview of the essentials of the GRH program and AFR overlays and subject to change at any time. It is not to be relied upon for underwriting approvals or commitments to lend. All commitments must be issued by an AFR underwriter in writing. This is for mortgage professionals only who are approved AFR brokers or sellers.