

This matrix is intended as an aid to assist in determining if a property/loan qualifies for certain USDA offered programs. It is not intended as a replacement for USDA guidelines. Users are expected to know and comply with USDA requirements.

Note: This matrix includes overlays which may be more restrictive than USDA's requirements. Please read through this matrix completely and thoroughly.

Program Qualifications

Maximum Loan Amounts

CONFORMING MAXIMUM LOAN AMOUNTS		
UNITS	CONTINENTAL US	ALASKA AND HAWAII
1	\$484,350	\$726,525
2	\$620,200	\$930,300
3	\$749,650	\$1,124,475
4	\$931,600	\$1,397,400

Footnotes:

1. Max loan amount will be determined by allowable ratios per USDA guidelines
2. Single family dwellings only allowed per USDA guidelines
3. See USDA Eligibility website to determine max borrower is allowed to borrow per meeting USDA requirements. FSB will not exceed conforming loan amounts.

USDA Eligible Loan Types:

Purchase

Refinance

Construction to Perm (CTP) – *not available at this time. Coming Soon February – March 2019. Watch for updates!*

Eligibility Matrix – Loan Amount & LTV Limitations				
Minimum Credit Score	Units	Max Base LTV	Total LTV Including Guarantee Fee	Max CLTV to include Guarantee Fee
Primary Residence Purchase (GUS Approved)*				
640	1	100%	100% Maximum LTV plus the amount of the GF	101%
Primary Residence Purchase (Manual Underwriting)*				
600	1	100%	100% Maximum LTV plus the amount of the GF	101%
Refinance – GUS & Manual (manual on a case by case management approval)*				

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600	1	100%	100% Maximum LTV plus the amount of the GF	101%
Primary Residence Purchase or Refinance (manual underwrite ONLY) *				
600	1	100%	100% Maximum LTV plus the amount of the GF	101%
Construction to Perm				
TBD	1	100%	100% Maximum LTV plus the amount of the GF	101%

*600 – 619 scores have specific overlays and pre-qualification procedure. Please reference the 600-619 Overlays section for this program.

Eligibility for loans are determined by CFR 3555 as published by Rural Development/USDA for the Guaranteed Loan Program. To reference the CFR 3555 that will be effective as of December 1, 2014 use this link: <https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do>. These guidelines have incorporated the updates of CFR 3555 and FSB underwriting will use these parameters for determining loan qualification.

Eligibility Requirements

AUS Requirements	All loans will be submitted to GUS for approval. Any loans that receive a Refer through GUS will be reviewed by Underwriter and Management for approval to proceed as a Manual Underwrite. Compensating factors will be required per USDA guidelines located in CFR 3555.
Loan Terms	Fixed Rate 30 Year Term ONLY
Minimum Loan Size	<p>\$30,000</p> <p>FSB suggests that loan amounts under \$75,000 use Borrower Paid Compensation if completing a brokered loan. This will assist the loan in passing QM Points & Fees Test.</p> <p>Any brokered loans that have a compensation plan of 2.75% must use the “Underwriting Fee Buy Out Waiver” available on the rate sheets to cover FSB’s underwriting fee of \$914.00. If the compensation plan is lower, the fee may be charged on the Loan Estimate. However, if the QM Points & Fees Test fails, FSB will require the fee to be covered with the rate pricing.</p>
Geographic Locations/Restrictions	<p>Eligible states are as follows: All states <i>except</i> for NY, MA, VT, CT, ME, RI, NH, VA, AK, HI – Delegated Only, Washington D.C.</p> <p>Additional Transactions as follows ➤ State specific regulatory requirements supersede all underwriting guidelines set forth by FSB</p>
Max Loan Size	<p>No max loans size.</p> <p>Cannot exceed conforming loan limits</p> <p>Determined by Debt to Income limitations per GUS</p>
Credit Score	<p>Purchase</p> <p>640 – GUS Approved</p> <p>620 – Manual Underwrite</p>

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	<p>600 – 619 – manual underwrite with prequalification approval prior to underwriting submission required</p> <p>Refinance 620 – Manual underwrite 600 – 619 – manual underwrite with prequalification approval prior to underwriting submission required</p> <p>Borrowers must have a minimum of 2 scores</p> <p>No Score applicants may be eligible- please see No Score and 1 Score section</p>
<p>Credit</p>	<p>Applicant must have a credit history that demonstrates their ability and willingness to repay the loan.</p> <p>Housing History – Mortgage/Rental History</p> <ul style="list-style-type: none"> • 0X30 in most recent 12 months • Late payments within the most recent 24 months will require an LOX to determine circumstances outside of the borrower’s control. • No more than 1X30 in 24 months will be allowed <p><u>Age of Credit Reports</u> Credit reports are valid for 120 days.</p> <p><u>Basic Credit Requirements</u> At least one applicant whose income or assets are used for qualification must have at least <u>two</u> historical (any account that is open and active with repayment underway or any account that has been open, but may now be closed) trade line payment references that have existed for at least 12 months to establish a credit reputation and validate the credit score. If not on the credit report, establish a minimum payment history through use of a non-traditional report. Nontraditional 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 of this Paragraph. A trade line in a documented dispute with 12 months of history is considered an eligible trade line. The inability to validate credit scores used by GUS will require lenders to downgrade an “Accept” underwriting recommendation to a “Refer” and establish minimum payment history through use of a non-traditional report. **</p> <p>Any nontraditional accounts must be placed on the credit report as a supplement. Any verification of paid accounts or ANY updated to accounts must be documented through a supplement to the credit report.</p> <p>The 2 traditional or non-traditional accounts required by USDA must not be older than 36 months from the date of the credit report. One of the non-traditional accounts must be a VOR. **</p> <p>If the 1003 shows the borrower or co-borrower has rental history, a VOR must be provided regardless of the credit score.</p> <p><i>**If using non-traditional accounts and one of the accounts is not a VOR, then we will require 3 total non-traditional accounts to be provided.</i></p>

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The borrower(s) must receive a clear CAIVRS (Credit Alert Interactive Voice Response System)

Indicators of unacceptable credit:

- Foreclosure within 3 years:
 - Including pre-foreclosure activity, such as a pre-foreclosure sale or short sale in the previous 3 years;
- Bankruptcy within 3 years:
 - Chapter 7 bankruptcy discharged in the previous 3 years;
 - Chapter 13 bankruptcy that has yet to complete repayment or has completed payment in the most recent 12 months;
- Late mortgage payments if any mortgage trade line during the most recent 12 months shows 1 or more late payments of greater than 30 days.
- Late rent payments paid 30 or more days late within the last 12 months.

Dates are measured by discharge or dismissal date until date of application.

****FSB reserves the right to require ANY collection to be paid that might have a future effect on our first lien position or the borrower’s ability to repay the loan. This includes collections that are outside of this 12-month period identified in our guidelines.**

Derogatory Accounts

FSB will review the file as a whole to determine if outstanding collection and charge off accounts will require payment or may remain open. Regardless of debt determination, the credit history that derogatory accounts present must still be included in the analysis of the file. The underwriter has the final determination and the file must contain:

- 1) LOX for all derogatory credit showing on report to help the underwriter determine if a pattern exists or if circumstances were out of the borrower’s control
- 2) Supporting documentation for the LOX provided, if noted within the letter. The explanation and supporting documentation must be consistent with other credit information in the file.

Underwriting will review the information to determine if the collection accounts and charge offs were a result of 1) the borrower’s disregard for financial obligations; 2) the borrower’s inability to manage debt; or 3) extenuating circumstances.

LOX (Letters of Explanation)

Any and all derogatory credit must be addressed in a LOX FROM THE BORROWER. The letter must be signed and dated. The letter must reference in detail, what happened to create the negative information, how it was resolved and what the borrower has done to insure the situation will not happen again.

The borrower must also provide supporting documentation to validate the letter of explanation. The supporting documentation and explanation must be consistent with other credit information in the file.

Collection Accounts – GUS Approve

Unpaid open collections could affect the future ability of an applicant to repay a mortgage when creditors pursue collection. In an effort to minimize future risk of open collections left unpaid, the lender will consider the following during the capacity analysis of the loan request, regardless of the method utilized to underwrite:

- 1) Determine if the total outstanding balance of all collections accounts of all applicants is equal to or greater than \$2,000. 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 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, the lender will utilize in the debt-to-income ratio a calculated monthly payment. For each collection utilize 5% of the outstanding balance to represent the monthly payment.

Collection Accounts – Manual Underwriting

From USDA Manual:

Whether a collection account a greater risk is entirely the Lender’s decision, regardless of the credit score. This decision will be based on several factors including the credit profile of the applicant(s), the amount of financial reserves available, the unpaid balance of the collections and whether they pose a threat to the first mortgage lien and are likely to affect the applicant’s equity or ability to repay the request loan once payments are due.

FSB will follow the following policy:

- All collections & charge-offs must be included on the application unless paid and closed
- For any collections outstanding within the most recent 24 months that are ≥ \$1000 (aggregate or individual) these will require payment in full unless:
 - A letter of explanation can be provided that identifies outside factors that were outside of the borrowers control such as illness, accident, death of a family member, loss of job, etc.
 - LOX must be supported with documentation of the facts included in the letter
- For any collections outstanding within the most recent 24 months that are ≤ \$999(aggregate or individual), FSB will analyze to determine if these will be required to show paid in full prior to closing or if a 5% of the outstanding balance can be utilized in the DTI in lieu of being paid in full.
- If a payment plan is set up prior to loan application and showing a minimum of 3 months paid as agreed, this may be an alternative to paying off the accounts.

	<ul style="list-style-type: none"> • Lender will evaluate all outstanding collections, complete application and credit profile and determine if collections pose a risk to the lien • The LO submitting the file should include a note to the UW identifying if a collection(s) should be left open and why. <p><u>Judgments</u> Court-ordered judgments MUST be paid off before the mortgage loan is eligible for a guarantee unless the applicant provides documentation indicating that regular payments have been made on time in accordance to a documented agreement with a creditor.</p> <p>The presence of court-ordered judgments must be considered in the credit analysis. Unpaid judgments may represent an applicant’s disregard for credit obligations. Lenders must document reasons for approving a mortgage when the applicant has judgments. Usually judgments are paid in full prior to loan eligibility. An exception to payment in full of outstanding judgments can be made when the applicant(s) have a payment arrangement with the creditor and have made regular and timely payments for the three 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 payment agreement will be included in the debt-to-income ratio.</p> <p><u>Disputed Accounts</u> Disputed accounts on an applicant’s credit report are not considered in the credit score. For manually underwritten loans, all disputed accounts must have a letter of explanation and documentation supporting the basis of the dispute. The lender 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.</p> <p>Loans underwritten with the assistance of GUS that receive an underwriting recommendation of “Accept” will be downgraded to a manual “Refer” unless the following conditions are met on the credit report:</p> <ol style="list-style-type: none"> 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 of less than \$500 and is more than 24 months old. <p>Loans downgraded for failure to meet any of these conditions are subject to a manual review and require the submission of the complete underwriting case file.</p> <p><u>Recent or undisclosed debts/inquiries/information</u> If the lender is aware of any contradictory or derogatory information that is not submitted to GUS, or erroneous information in the data submitted to GUS, or there is a Federal Judgment, a recommendation of “Accept” must be downgraded to a manual “refer”.</p>
<p>Authorized User Account Guidance</p>	<p>Credit Guidelines: Lender actions when inaccurate information is reported. Credit trade-lines that list the applicant as an “authorized user” cannot be considered in the underwriting decision unless another applicant in the mortgage transaction is the owner of the trade-line, or the owners of the trade-line is the spouse of an applicant, or the applicant can provide</p>

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	<p>documented evidence that they have made the payments on the authorized user account for 12 months preceding application.</p> <p>The lender must review credit report trade lines in which the applicant has been designated as an authorized user in order to ensure that any open trade lines are an accurate reflection of the applicant's credit history. Closed authorized trade lines require no consideration. An authorized user account that is classified as "terminated" on the credit report is equal to a closed trade line.</p> <p>Manually underwritten loans. Lenders must ensure open authorized user tradelines reported on the credit report are an accurate reflection of the applicant's independent approach to credit repayment and credit history.</p> <p>Automated Underwriting System – GUS "Accept". For loans underwritten with the assistance of GUS that receive an underwriting recommendation of "Accept" and are supported by credit reports that designate the applicant on an open authorized user of trade lines, the lender will obtain evidence of one the following: • The trade line(s) in question is owned by another applicant on the mortgage loan application.</p> <ul style="list-style-type: none"> • The owner of the trade line is the spouse of an applicant. • The applicant has made payments on the account for the previous 12 months prior to application. • There are two or more other tradelines listed on the credit report, which are not authorized user accounts, with at least 12 months of payment history listed to validate the credit score. <p>In the event one of the conditions cannot be met, an underwriting recommendation of "Accept" must be downgraded to a "Refer" and the file must be manually underwritten.</p>
<p>Escrow Accounts for Taxes and Insurance</p>	<p>Escrow accounts are always required on an USDA loan. No exceptions.</p> <p><u>Property Taxes</u></p> <p>When calculating escrow set up for property taxes, FSB will require certain parameters to insure accuracy.</p> <ul style="list-style-type: none"> • All tax amounts are to show on the title commitment or tax certificate. • Tax amounts must show without excess exemptions applied. If an exemption will be in effect when the borrower takes possession of the home, we must have documentation that the title company will file the exemption at closing. If the title company cannot provide this confirmation, the exemption must be removed and tax calculation showing at the worst case scenario for escrow set up and DTI calculation. • For New Construction, the title company must provide an estimate of the property taxes based on the appraised value of the home. A state/county approved calculator for property taxes will be allowed but the calculation must be based on appraised value. <p><u>Homeowners Insurance</u></p> <p>Homeowners insurance must have the following on the declarations page:</p> <ul style="list-style-type: none"> • Property address to match appraisal address exactly

	<ul style="list-style-type: none"> • Deductible to be indicated on dec page – cannot exceed 1% of dwelling or \$1000 whichever is less • Borrowers names to match 1003 and be spelled correctly • Mortgagee Clause to read exactly: Flanagan State Bank ISAOA 333 Chicago Road PO Box 302 Paw Paw, IL 61353 • Loan number to be on policy • Dwelling coverage to be indicated. Must cover loan amount. If a manufactured home, exceptions may apply • Effective date and expiration date to be on or before closing date • Must show policy is effective for 1 year if a purchase • If a refinance and policy will expire before first payment is made, FSB will need proof of what the new premium will be upon renewal • Must have invoice or paid receipt for premium in file prior to closing • Condo must have HO-6 insurance to cover 20% of appraised value • Condo insurance must show unit owner name and unit. Must have \$1,000,000 in building coverage and liability coverage <p>Coverage must be bound prior to closing. A quote can be used for initial underwriting, but will not be accepted for final approval.</p> <p><u>Flood Insurance</u> Dwelling to cover loan amount. Unless loan amount is over \$250,000. \$250,000 is the max FEMA allows. USDA requires total estimated cost new on cost approach section of appraisal.</p> <ul style="list-style-type: none"> ➤ Flood zone to be indicated and must match flood zone on appraisal and flood cert. ➤ Unless a higher maximum amount is required by state law, the maximum allowable deductible is \$1000 or 1% of the face amount of the policy ➤ All the other homeowner’s insurance requirements apply to flood insurance as well, see above.
Manual Underwriting & 600-619 Credit Scores	FSB will manually underwrite a USDA loan if the min score requirement is met, credit is satisfactory and the following apply: <ol style="list-style-type: none"> 1) Min score of 600 (for a No Score borrower see credit section for further information) (for 600-619 scores, review 600-619 overlays for further requirements that are shown in this section.) 2) Minimum tradelines for a manual underwrite will be determined by USDA Minimum Credit requirements. See Credit Section. 3) Reserves are NOT required, but are helpful if present for underwriting. Reserves will be calculated by PITI payment and must be the borrower’s own funds. The reserves cannot be gift funds. 4) Verification of Rent always required, if available

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- 5) VOE's are always required on all USDA applicants and any household members
- 6) DTI may not exceed 29/41

600 – 619 Credit Score Overlays

This score range requires a pre-review of the file before submission to Underwriting. Please follow these steps to complete the pre-review and get confirmation the file will be accepted into underwriting. ***IF the pre-review is not completed prior to submission, the file will be rejected pending the confirmation of the pre-review.***

Steps to complete the pre-review:

1. Complete cover sheet specific to 600 – 619 program
2. Email or upload to system file the 1003, credit report, DU findings and LOX for derogatory credit and any other relevant information
3. Email scenarios@flanaganstatebank.com to have the file reviewed.
4. Within 24 hours or less, you will be supplied a denial or acceptance of your loan from FSB
5. Upload the review notice with your submission
6. Please note that the adjustment to the rate for credit scores in this range is -3.5

FSB Overlays

All standard USDA guidelines must be met in addition to these specific overlays

- 1-year minimum job time WITH SAME EMPLOYER.
- Homebuyer Education is required and may use the MGIC Homebuyer Education class available online or any equivalent course.
- Max ratios – 29/41
- 1 month reserves for PITI required. If ratio guidelines require higher reserves, those reserve requirements will supersede this requirement. Reserves may not be gift funds. They must be the borrowers own funds.
- All collections that are open and active within the most recent 12 months must be paid in full prior to closing. Medical collections may still be disregarded per USDA guidelines**
- No open judgments of any kind allowed, including tax liens
- No IRS back payment on taxes allowed
- Self-employed borrowers, including Sch C, Sch E, Sch F and 1099 employees must have 2 FULL years of documented self-employment history through 2 years of tax returns.
- Commission, bonus and overtime income must have a full 2 years to use. No exception to this and must be documented with a full VOE.
- LOX on derogatory credit and to include all derogatory credit that shows on credit report. If LOX identifies financial mismanagement, loan will be declined.

**FSB reserves the right to require ANY collection to be paid that might have a future effect on our first lien position or the borrower's ability to repay the loan. This includes collections that are outside of this 12-month period identified in our guidelines.

Additional Important Details for Manual Loans and 600-619 Credit Score Loans:

- For loans that are ≤ \$75,000, the file must be Borrower Paid Compensation
- For loans that are MANUFACTURED HOMES and the loan amount is ≤ 100,000, then loan must be Borrower Paid Compensation

	<p>If for any reason the loan fails QM/ATR Points and Fees test, FSB will be obligated to deny the file.</p>
<p>Flood Hazards/Flood Insurance</p>	<p>Existing dwellings are eligible under the SFHBLP only if flood insurance through FEMA’s National Flood Insurance (NFIP) is available for the community and flood insurance whether NFIP, “write your own”, or private flood insurance, as approved by the lender, is purchase by the borrower.</p> <p>Lenders are required to accept private flood insurance policies that meet the requirements of 42 USC 4012a(b)(1)(A).</p> <p>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.</p> <p>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.</p> <p>New or proposed construction in an SFHA is ineligible for a loan guarantee unless:</p> <ul style="list-style-type: none"> • A final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) removes the property for the SFHA is obtained from FEMA. • Note: FEMA NFIP flood elevation certificates are ineligible documentation <p>At the lender’s discretion, it may require flood insurance even if the residential building and related improvements to the property are not located within the SFHA.</p> <p>Flood insurance must cover the lesser of the outstanding principal balance of the loan or the maximum amount of coverage allowed under 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 or 1 percent of the face amount of the policy.</p> <p>If property is in a flood zone, USDA will require an LOX from the borrower to explain: “why there are no other suitable properties that are not located in a flood zone”</p> <p>Possible reasons may include, but are not limited to:</p> <ul style="list-style-type: none"> ➤ No similar room count on homes ➤ None in the same school district, if children are in household ➤ None with the same amenities and describe amenities
<p>No Score and 1 Score Borrowers</p>	<p>FSB will manually underwrite these type of borrowers. All manual underwriting requirements must be met prior to sending the file to USDA for Conditional Commitment.</p> <p>Basic Credit Requirements noted in Credit Score section must be met for ALL borrowers. For borrowers with No Score due to lack of tradelines, the following will be required:</p>

	<ol style="list-style-type: none"> 1) If the borrower has rent that can be verified, provide 12 months rent history with 1 additional non-traditional tradeline. If rent history is not available, the borrower must provide 3 non-traditional tradelines. 2) All nontraditional tradelines must have a minimum of 12 months paid as agreed 3) Any nontraditional tradelines referencing late payments within the most recent 12 months will result in a denial 4) All tradelines must be added to the credit report as supplement tradelines <p>A No Score borrower must be receiving a no score on the credit report due to lack of tradelines and not due to negative reporting of collections, delinquency, judgments, or charge offs. Any negative reporting will exclude a borrower from qualifying without a score.</p> <p>A No Score borrower as the sole borrower on the loan must meet the tradeline requirements. Any No Score borrower on a loan with a Co-borrower that has a credit score, must have a Co-borrower that has a credit score of 620 or higher. The No Score borrower on a Joint Application must meet the tradeline requirements and have a Co-borrower with a 620+ credit score.</p> <p><i>A No Score borrower is ineligible for a refinance loan.</i></p> <p><u><i>If both borrowers are No Score applicants</i></u> – both borrowers must be able to provide a minimum of 4 nontraditional tradelines (each) with one being housing, if available. All non-traditional tradelines must have a minimum of 12 months paid as agreed and any tradelines referencing late payments within the most recent 12 months will result in a denial. All tradelines, including rental history, must be added to the credit as supplemental tradelines. Credit reports must be a true no score report that does not have any reference to derogatory credit.</p> <p>Compensating factors must be in evidence for the borrowers.</p> <p>Files with 100% payment shock will require compensating factors to strengthen the risk of the file. The underwriter reserves the right to determine if additional reserves or other compensation present enough to approve the file.</p> <p>1 Score Borrowers follow the same guidelines as shown above. Even with a GUS Approve, the limited credit profile will be reviewed similar to a No Score borrower.</p> <p>Ratios may not exceed 29/41 for any manually underwritten borrower. No exceptions.</p> <p>Additional adjustments to the rate/yield will apply. Please contact the Lock Desk for details.</p>
Occupancy	Owner Occupied ONLY, all borrowers must occupy
Property Eligibility	<p>Property must be located within an eligible rural area. Refer to http://eligibility.sc.egov.usda.gov</p> <p><u>Eligible</u></p> <p>1 Unit</p> <ul style="list-style-type: none"> • Single Family • PUDs

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- Townhouse
- HUD or FNMA approved Condo
- Modular – Note: Permanent on-frame homes do not meet the definition of modular homes. These homes are not allowed.
- Manufactured (restrictions apply) – purchase of existing home is not permitted. Must be new construction/set up within most recent 12 months and not previously occupied. Reference Handbook for further details.

Ineligible

- Properties within Special Flood Hazard Area (no exceptions)
- 2 – 4 units
- Condo Hotels
- Co-ops
- Income producing farms
- Leasehold
- Properties located within designated Coastal Barrier Resource system (CBRS)
- Properties with resale/deed restrictions

Site Size

The site size must be typical for the area. This is confirmed through similar comparables on the appraisal.

Income-Producing Buildings

The property must not include buildings designed and to be used principally for income-producing purposes. (e.g., 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 agriculture, 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. If a private road, all parties on the road must have a Road Maintenance Agreement on file in the courthouse.

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Utilities

The site must be supported by adequate utilities, water and wastewater disposal systems. If the property is serviced by a private water source, a well inspection with water test is required.

If the appraisal does not provide commentary on a private septic system, then a septic inspection will be required.

Condominiums

Units in a condominium project are eligible for a guarantee if the condominium can meet Freddie Mac guidelines. To obtain condo approval, the following documents must be submitted with the underwriting package:

- Long form condo questionnaire (available at www.fsbtpo.com)
- Legal & recorded documents of the covenants, conditions and restrictions, declaration of condominium and by-laws of condo association.
- Homeowners Association certification
- Homeowners Association Master Insurance Policies
- Project budget, financial statements or reserve study
- If new construction – project construction plans and phase information
- Completion reports – as applicable

The list of documents required for review are considered a starting point. The Condo Questionnaire will identify if further information will be required for any of the following:

- Environmental hazard reports
- Architect or engineers report
- Project marketing plans
- Attorney opinions
- Litigation Letter
- Litigation information

The above process is not required if the condo has a current Condo Approval by FHA, VA or FNMA.

Lenders must retain evidence they have reviewed condominium documentation that supports the project’s approval or acceptance and must provide such documentation to Agency staff when requested.

Applicants remain responsible to obtain individual homeowners insurance (HO6 policy) or flood insurance, as applicable. The lender is responsible for ensuring the HOA obtains and maintains adequate flood and hazard insurance for buildings in a condo project located within a SFHA.

Ineligible Condominiums

Certain types of condo projects are not eligible under HUD, Fannie Mae, Freddie Mac, or VA guidelines. They are:

- Condominium hotels
- Timeshares

- Houseboat projects
- Multi-dwelling unit condominiums that permit an owner to hold title to more than one dwelling by a single deed and mortgage
- Any project for which the owner's association is named a party to current litigation or for a project sponsor or developer is named a party to current litigation
- Condominiums that represent a legal, but non-conforming use of the land, if zoning regulations prohibit rebuilding the improvements to current density in the event of their full or partial destruction
- Investment Securities – a project in which ownership is characterized or promoted as an investment opportunity; and/or projects that have documents in file with the Securities and Exchange Commission.
- Common interest apartments or community apartment projects – Any project or building that is owned by several owners as tenants-in-common or by a HOA in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific apartment in the building.
- A project with non-incidental business operations owned or operated by the owner's association such as, but no limited to: a restaurant, spa, health club, etc.

Site Condominium Eligibility

Project approval may not be required for site condominiums 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 a garage or any other attached buildings (i.e., archways, breezeways, common walls, etc)
- The condominium unit consists of the entire structure, site and air space and is not considered to be common areas or limited common areas

Appraisal data is collected on URAR FNMA Form 1004/FHLMC Form 70. A Condominium Rider must supplement the Mortgage or Deed of Trust. Insurance and maintenance costs will be the responsibility of the unit owner. Site condominiums that do not meet the criteria for site condominium eligibility must follow the criteria in *Condominiums* above.

Planned Unit Development

A planned unit development (PUD) is a project or subdivision that includes common property that is owned and maintained by a home owner's association (HOA) for the benefit of use by the individual PUD unit owners. Loans may be guaranteed for PUD single family dwellings the same as for single family dwellings not in a PUD. HOA dues must be included in the total debt-to-income calculations.

New Construction

Defined as: Existing (completed) for less than one year – Refers to properties which are 100% complete and legally occupiable (CO issued), but never occupied. The one-year new construction period runs from the date the CO is issued for up to 12 months.

To satisfy USDA requirements for new homes (stick built and manufactured) the following requirements must be met:

	<ul style="list-style-type: none"> ➤ Certification from a qualified individual or organization that the reviewed plans and specs comply with applicable development standards (meets local building codes). Qualified individuals or organizations able to provide this certification: <ul style="list-style-type: none"> ○ Licensed architects ○ Professional engineers ○ Plan reviewers certified by a national model code organization listed in 7 CFR 1924, Part A, in Exhibit E ○ Local building officials authorized to review and approve building plans and specifications, and ○ National codes organizations ➤ Building Permit ➤ Certificate of Occupancy ➤ Final Inspection ➤ 10-year insured builder warranty plan acceptable to Rural Development <ul style="list-style-type: none"> ○ Or, when three construction inspections are performed, a final inspection plus a 1-year insured builder warranty plan acceptable to RD is allowed in lieu of the 10-year builder warranty plan. ➤ Evidence of thermal standards meet or exceed International Energy Conservation Code (IECC) in effect at the time of construction. <ul style="list-style-type: none"> ○ The builder may certify confirmation with IECC standards ○ Or, a qualified, registered architect or a qualified, registered engineer may certify confirmation with IECC standards <p><u>Manufactured Homes</u></p> <ul style="list-style-type: none"> ➤ Manufactured homes must be less than 12 months old and never occupied. They must include the site. ➤ To be an eligible unit, the new unit must have a floor area of not less than 400 square feet ➤ The unit must meet the Federal Manufactured Home Construction and Safety Standards (FMHCSS) ➤ The unit must be placed on permanent foundation built to FHA guidelines in effect at the time of certification ➤ A foundation certification is always required ➤ The home must be classified and taxed as real property ➤ The unit may never have been installed or occupied on any other site or location. The unit may only be moved from the manufacturer’s or dealer’s lot to the site on which the unit will be guaranteed. <p>**If Manufactured Home – Foundation Inspection/Engineers Report is required ***Reminder – manufactured homes in a flood zone are not eligible for financing with FSB</p>
<p>Qualifying Ratios</p>	<p>Ratios are calculated using repayment income from applicants that will be a party to the Promissory Note. (Ch. 9)</p> <p>Qualify at note rate</p> <p><u>Ratios</u></p>

	<ul style="list-style-type: none"> • GUS Accept/Eligible – GUS determines acceptable ratios, a waiver is not required • Manual Underwrite – 29/41 – A debt ratio waiver request with suitable compensating factors must be submitted to USDA when ratios exceed 29/41. USDA will not grant waivers in excess of 32/44 ratios <p><u>Manually underwritten loans – purchase transactions (Ch. 11)</u></p> <p>Debt ratio waiver may be granted if all of the following conditions are met:</p> <p>1. Either:</p> <ul style="list-style-type: none"> a. The PITI ratio is greater than 20 percent, but less than or equal to 32 percent, accompanied by a TD ratio not exceeding 44 percent; or b. The TD ratio is greater than 41 percent but less than or equal to 44 percent, accompanied by a PITI ratio not exceeding 32 percent; <p>AND:</p> <p>2. The credit score of all applicants is 680 or greater; and</p> <p>3. At least one of the acceptable compensating factors listed below is identified and supporting documentation is provided.</p> <ul style="list-style-type: none"> a. The proposed PITI is equal to or less than the applicant’s current verified housing expense for the 12 month period preceding loan application; <ul style="list-style-type: none"> i. Verification of housing expenses may be documented on a verification of rent (VOR) or credit report. The VOR or credit report must include the actual payment amount due and report no late payments or delinquency for the previous 12 months. Rent or mortgage payment histories from a family member will not be considered unless 12 months of canceled checks, money order receipts, or electronic payment confirmations are provided. A history of less than 12 months will not be considered an acceptable compensating factor. b. Accumulated savings or cash reserves available post loan closing are equal to or greater than 3 months of PITI payments; <ul style="list-style-type: none"> i. A verification of deposit (VOD) or two most recent consecutive bank statements document the average balance held by the applicant are required. Cash on hand is not eligible for consideration as a compensating factor. c. The applicant(s) (all employed applicants) has been continuously employed with their current primary employer for a minimum of 2 years. <ul style="list-style-type: none"> i. A “Request for Verification of Employment” (VOE) (Form RD 1910-5, comparable HUD/FHA/VA or Fannie Mae form, or other equivalent), or VOEs prepared by an employment verification service (e.g., The Work Number) must be provided. This compensating factor is not applicable for self-employed applicants. <p>Debt ratio waivers must be requested and documented by the approved lender.</p>
Lender Fees	<p>Lender Fees combined with closing costs applicable to the APR may not exceed three (3) percent of the total loan amount, unless further flexibility is provided through guidance published by the Consumer Financial Protection Bureau (CFPB)’s Ability to Repay and Qualified Mortgage (ATR/QM) rule.</p> <p>The SFHGLP up-front guarantee and annual fee is not included in the three percent ATR/QM calculation.</p>
Discount Points	<p>Loan Discount points cannot be financed as part of the loan, except:</p>

	<ul style="list-style-type: none"> • Low-income applicants may finance discount points if they are reasonable and customary for the area and cannot be more than those charged other applicants for comparable transactions • Discount points cannot exceed two points of loan amount • Discount points and origination fees must be itemized separately on the settlement statement/Closing Disclosure • Discount points cannot be charged when using max rate posted that day
<p>Debt</p>	<p>Total Debt includes monthly housing expense PITI plus any other monthly credit obligations incurred by the applicant. Obligations for child care, voluntary contributions to retirement such as a 401K, and open accounts with zero balance, are not considered a debt.</p> <p>Monthly debt obligations include but are not limited to:</p> <p>Long Term obligations with more than 10 (ten) months repayment remaining, including all installment loans, revolving charge accounts, alimony, child support or separate maintenance payments, student loans and other continuing obligations; and</p> <p>Revolving accounts – The minimum monthly payment is required for all revolving credit card debts, even if the account appears likely to be paid off within 10 months or less.</p> <ul style="list-style-type: none"> • 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 or \$10. If the lender obtains a copy of the current statement reflecting the actual monthly payment, that amount can be used for qualifying purposes. • Revolving accounts with no outstanding balance do not require an estimated payment to be included in DTI <p>Child support, alimony, garnishments – applicants obligated to pay child support, alimony, garnishments or other court ordered debts must have payment included in the total debt ratio. IF the applicant has a release of liability from the court/creditor, and acceptable evidence is obtained, the debt can be excluded. Lenders will utilize select pages from the applicable agreement/court order to document the required monthly payment due and the duration of the debt.</p> <p>Child care expense – Child care expenses are not required to be considered as a recurring liability when calculating the DTI</p> <p>Student Loans – please see Student Loan section</p> <p>Co-signed non-mortgage debt/obligations – debts which have been co-signed by the applicant for another party will be considered in the total debt ratio unless the applicant provides evidence another party has made the payment in the previous 12 months prior to loan application. Acceptable evidence includes canceled checks, bank statements of the co-obligor or other third party verification. 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 applicant.</p>

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Lenders must confirm the applicant is an actual co-signor as opposed to a joint obligor to the debt in question. When jointly obligated, the debt will be included in the total debt ratio. Debts identified as “individual” will always be considered in the debt ratio regardless of what party is making the monthly payment (e.g., parents making car payments on behalf of applicant; loan in applicant’s name). The legal obligation resides with the applicant when identified as “individual”.

Business Debts

Business debts (e.g. car or truck loan) reported on the applicant’s personal credit report may be excluded from the debt ratio if the debt is paid through a business account and the business shows this expense on their tax returns. An example of acceptable evidence the debt is paid through the business account includes canceled business checks or bank statements from 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.

Debts of a non-purchasing spouse (NPS)

For applicants that reside or are purchasing in a community property state, the debts of the NPS must be included in the applicant’s total debt ratio unless specifically excluded by state law.

Collection Accounts

Collection accounts will be included in the total debt ratio per Handbook 3555 Section 10.9.

In an effort to minimize future risk of open collections left unpaid, the lender must consider the following regardless of the method used to underwrite the loan (GUS or Manual):

- Determine if the total outstanding balance of all collections for all applicants is equal to or greater than \$2000. 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.
- Remove all medical collections and charge off accounts from the total balance. Medical collections and charge-off accounts must be clearly identifiable on the credit report
- If the remaining outstanding balance of collection accounts is equal to or greater than \$2,000, any of the following actions will apply:
 - Payment in full of all collection account at or prior to closing
 - 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.
 - In the absence of a payment arrangement, the lender will utilize in the debt-to-income ratio a calculated monthly payment. For each collection utilize 5% of the outstanding balance to represent the monthly payment.

	<ul style="list-style-type: none"> FSB may require collections that are opened and non-medical within the past 12 months to be paid in full if the aggregate of these collections exceeds \$500. If the borrower can provide a valid reason that the collections may be left open (ie: payment plan in place and borrower is paying on, borrower can prove the account is not their account, etc). FSB may decide, due to circumstances surrounding the file, to hold 5% of the balance as a payment against the DTI due to the collection company recovery process. <p>Judgments Judgments must be paid in full prior to loan being sent to USDA.</p> <p>In the event the loan is in a community property state, the judgments of the non-purchasing spouse must be paid in full, as well.</p> <p>Self-Employed Negative income (loss) for a business will be deducted from repayment income prior to calculating the total debt ratio.</p> <p>Automobile Allowances and Expense Account Payments The amount of actual expenditures, exceeding the amount of automobile allowance or expense account payments will be treated as recurring debt. Lenders will utilize IRS Form 2106, Employee Business Expenses, for the previous two years and employer verification that the payments will be treated as recurring debt and will not be offset by any car allowance. If an applicant utilizes the standard per mile rate as opposed to the actual cost method on IRS Form 2106, the portion that IRS considers depreciation may be added back to income for repayment purposes.</p> <p>Rental Loss Negative net rental income will be treated as a recurring liability and included in the total debt ratio.</p> <p>Short-term Obligations That are considered to have a significant impact on repayment, such as loarge medical bills, car payments or other credit payments must be included in total debt ratios. This is regardless of how many payments are left on the debt. This will be considered underwriter discretion.</p> <p>Payments that will come due in the next 24 months Including personal loans with deferred installments and balloon payments. (see separate guidance for student loans). The Underwriter will require the terms of the loan or credit issued. The note or other sufficient documentation should be supplied to allow the underwriter to calculate a payment for the debt.</p> <p>Debt Ratio Waivers GUS underwritten loans receiving an “Accept” will not be required to document the need</p>
<p>Child Support</p>	<p>Must be documented per USDA guidelines for receipt or payment of child support.</p> <p><u>Receiving Child Support</u> 12 months’ proof of receipt required to consider in income totals. Support must be received on a regular basis and amount received be consistent to be considered as qualifying income.</p>

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	<p>Divorcee decree or child support order required. Please insure underwriting has the most recent order and original divorce decree, as the situation calls for. If most recent court ordered amount differs from the amount being received, additional documentation may be required.</p> <p>Birth certificates of children may be required to establish continuance of 3 years</p> <p><i>Paying Child Support</i> May not be delinquent – verified through credit report or other verification process Must be included in Ratios – include on 1003 Divorce Decree required. Please insure underwriting has the most recent order and original divorce decree, as the situation calls for. If most recent court ordered amount differs from the amount being paid, additional documentation may be required.</p>
Guarantee Fee	Effective 10/1/2016 and after – Upfront Guarantee Fee: 1.0%; annual fee .35%
Qualification Definition	<p>RD 3555-21, “Request for Single Family Housing Loan Guarantee” requires both the lender and the applicant to certify that the applicant is unable to secure credit from other sources upon terms and conditions which the applicant can reasonably fulfill. The certification can be made if the applicant does not meet the requirements to obtain a traditional conventional credit loan. Traditional conventional credit is defined for Agency purposes as:</p> <ul style="list-style-type: none"> ➤ The applicant has available personal non-retirement liquid asset funds of at least 20% of the purchase price that can be used as a down payment; ➤ The applicant can, in addition to the 20% down payment, pay all closing costs associated with the loan; ➤ The applicant can meet qualifying ratios of no more than 28% PITI and 36% TD when applying the 20% down payment; ➤ The applicant demonstrates qualifying credit for such a loan. Qualifying credit consists of at least two credit bureau trade lines open and paid as agreed for at least a 24- month period to include that: <ul style="list-style-type: none"> • The applicant was not currently 30 days or more past due on any trade line; and • The applicant had not been 60 days or more past due on any trade line over the past 24-month period; and • The applicant did not have a foreclosure or bankruptcy in their credit history over the past 36- month period. • The conventional mortgage loan term is for a 30 – year fixed rate loan term without a condition to obtain private mortgage insurance (PMI) <p>If the applicant meets the cumulative criteria of traditional conventional credit, as defined by USDA above, the applicant is ineligible for USDA financing.</p>
Income	<p>See Handbook Ch 9 – Income Analysis for complete requirements.</p> <p>Repayment Income – represents the stable and dependable income of parties to the note used to repay the loan.</p> <p>Household Income/Annual Income</p> <ul style="list-style-type: none"> • Income from all working adult members (age 18 or older) residing in the home must be included in the household income. The total of that income cannot

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	<p>exceed the moderate-income limits established for the area in which they are purchasing the home.</p> <p>Household income used to determine program eligibility is defined as Annual Income and Adjusted Annual Income.</p> <p>Annual Income – represents the entire household’s combined income, regardless of whether the household members are on the loan application or not. The income of all adult household members.</p> <p>Annual income will include all eligible income sources from all adult household members, not just parties to the loan note.</p> <p>Adjusted Annual Income – represents the combined household income minus qualified household deductions. Adjusted Annual Income may not exceed the program’s income limits. Limits may be checked online at http://www.eligibility.sc.egov.usda.gov/eligibility/ (Income Limits/Guaranteed) or by using GUS, the agency’s automated underwriting system)</p> <p>Stable and dependable income shall be verified and documented in accordance with Chapter 9 of the Handbook.</p> <p>USDA does require verification of the CURRENT income of all adult household members. To accommodate the USDA Guidelines, <u>FSB will require the following on all working, adult household members:</u></p> <ul style="list-style-type: none"> • 2 years W-2’s or 1099’s • Most recent 30 day paystubs • Written VOE • Tax Returns for the most recent 2 years • Tax transcripts for most recent 2 years. <p>By providing this information, FSB will have it available for validation of the income as required and needed by USDA.</p> <p><u>For non-working members of the household (adult):</u></p> <ul style="list-style-type: none"> • LOX signed by borrower and household member stating the person in question is not currently working and confirm the circumstances surrounding this • Further information may be needed by underwriting, depending on the documentation supplied • Tax returns for non-working member must be provided <p>Ability to Repay Income or Qualifying Income: Repayment Income</p> <ul style="list-style-type: none"> • Only the income from the borrower(s) on the loan application may be used in calculating the ratios • For all income situations, reference USDA’s Income and Documentation Matrix found in CH 9 of the handbook or email our Mortgage Support Team for details. mtgsupportcenter@flanaganstatebank.com
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	<p>Employment Gaps – Income Continuity The applicant should not have any gaps in employment of more than a month within the two-year period prior to making the loan application. All gaps in employment of greater than one month over the last two years must be documented and analyzed.</p> <ul style="list-style-type: none"> • LOX from borrower will be required • VOE should note any pertinent information from employer when available • Documentation to support large gaps should be provided <p><u>Form 4506-T</u></p> <ul style="list-style-type: none"> • Are required for all borrowers • Tax Transcripts will be required on all adult members of the household <p>IRS Form 4506T must be completed for each adjust member of the household for the previous two years at the time of loan application regardless if the adult household member is a party to the loan transaction. The information received from the IRS is not intended to document income, but to validate the income documentation and disclosures provided by the applicant(s) and adult members of the household.</p> <p>Mortgage Credit Certificates (MCC) are not allowed.</p> <p><u>Standard Documentation Required:</u></p> <p>Employment Must be verified with the following:</p> <p><u>Wage Earner</u> Paystubs for most recent 30 days 2 Years most recent W-2's Written VOE for 2 year history – most USDA offices are requesting this information</p> <p><u>Self Employed</u> 2 years' tax returns for personal and business as applicable (signed) Cash Flow Analysis worksheet Tax transcripts for the most recent 2 years Further information may be requested from the underwriter for clarification purposes <i>If borrower does not have a 2 year history of being self-employed, the borrower is not eligible for financing</i></p>
<p>Assets/Reserves</p>	<p>All assets disclosed by borrower on the 1003 must be documented with 2 months most recent consecutive bank statements.</p> <p>NSF or similar fees are not allowed. If borrower has NSF or overdrafts on their bank statements, FSB will need an LOX to explain why these exist. The LOX should not indicate Financial Mismanagement. The underwriter will take into consideration any information provided on the NSF's and determine if the file has merit to proceed with an approval.</p> <p><u>Cash Reserves</u></p>

Although cash reserves after closing are not required, cash reserves are considered in the risk assessment provided by GUS. Lenders must 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, IRA's, etc, may be included in the underwriting analysis up to only 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.

Note: These funds cannot be used within GUS for cash reserves but will be used in the analysis for a manual underwrite for reserves by FSB.

Funds from gifts from ANY source will NOT be included in the cash reserves calculation in GUS.

Borrower Investment

- No minimum borrower investment is required toward down payment.
- ***Cash on hand is ineligible.*** Funds must be validated in an account
- All funds used for GUS approval must be fully documented
- If the borrower(s) received any cash back at loan closing, the amount must not exceed the documented contributions made from their own funds for eligible loan purposes (e.g., earnest money deposit, appraisal fee, lender home inspections, etc.)
 - Loan funds or seller paid concessions may not be distributed to the borrower.
 - Loan fees paid by the borrower with credit cards or other short term loans may not be reimbursed at loan closing.

Seller Contribution or other Interested Party Contribution

- Maximum 6% (based upon the lesser of the sale price or appraised value)
- Must represent an eligible loan purpose
- Closing costs and/or prepaid items paid by the lender through premium pricing are not included in the seller contribution limitation

Gifts

- Eligible
- Must fully document the source, transfer and receipt of gift funds. Comply with FHA gift documentation requirements
- Donor must be disinterested third party (may not have an interest in the sale of the property)
- Gifts will never be counted as Reserves
- Gifts cannot be used that the donor sources as a cash deposit in their bank statements.

The most recent 2-month average of liquid accounts such as checking or savings accounts may be considered as cash reserves. Assets should never be overvalued as it affects the risk assessment provided by GUS and misrepresents the file. A 2-month average of liquid assets most accurately represents the true value of the account since accounts, such as checking accounts, often fluctuate significantly during the month from deposit to average balance. The true calculated value will be input on the "Assets and Liabilities" page of GUS.

	<p><u>Income calculation from Assets</u> Household members with cumulative net family assets of \$50,000 or greater, must have those assets reviewed for annual income purposes as indicated in 3555.152(d). Lenders must review asset information provided by applicant(s) and household members at the time of loan application. Net family assets with actual earnings will use the stated rate of interest to calculate annual income. Net family assets that do not earn interest will use a current passbook savings rate (verified through the lender’s personal banking rates, online website, etc.) to calculate annual income.</p> <p>Refer to the Asset section in Attachment 9-A for individual asset types and options for documentation/verification</p>
<p>Appraisal</p>	<p>Must meet USDA/RD requirements per CFR 3555 – See Chapter 12</p> <p>Must state home meets HUD Handbook 4000.1 on page three of the appraisal form in the “comment” section. Alternatively, the appraiser may make their certification in an addendum to the appraisal.</p> <p><u>Swimming Pools</u> Per CFR 3555 – USDA may approve dwellings with in-ground swimming pools</p> <p><u>Use of Property</u> 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 not eligible for a USDA 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. (Chapter 12)</p> <p><u>Age of Appraisal</u> The appraisal must have been completed within 120 days of loan closing. The lender may pass the cost of the appraisal on to the borrower. All appraisal reports must include a Market Condition Addendum (Form FNMA 1004MC) and meet the Uniform Appraisal Dataset (UAD) requirements set forth by Fannie Mae and Freddie Mac.</p> <p>Residential appraisals will be completed using the sales comparison approach. The cost approach is not required for the Guaranteed Loan Program. (USDA Message 5-14-15) An appraisal prepared for REO purposes, or for any other purpose other than for a purchase transaction, is not acceptable for a loan guarantee. A new appraisal with the intent to arrive at an opinion of value for a purchase transaction must be obtained. (e.g., FHA REO appraisals are not allowed)</p> <p>Lenders 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 days 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 report can be updated on time with an Appraisal Update Report.</p>

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Note: When a client seeks a more current value or analysis of a property that was the subject of a prior assignment, this is not an extension of that prior assignment that was already completed. It is simply a new assignment.

Note: The ECOA Valuations Rule requires copies of appraisals and other written valuations be delivered to borrower promptly upon completion, or three (3) business days before consummation, whichever is earlier.

Use of Property

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 not eligible for a USDA 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.

Economic Life

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.

Appraisal transfer

An appraisal ordered by another lender for the applicant can be transferred to the lender who will complete the purchase transaction. The initial lender must agree to the transfer of the report. A letter from the initial lender who ordered the appraisal report must be retained in the permanent loan file as evidence the lender transferred the report to the lender completing the purchase transaction. The receiving lender must assume full responsibility for the integrity, accuracy and thoroughness of the appraisal report including the methods that the original lender used to acquire the appraisal. The appraisal report must be no older than 120 days at loan closing to be valid

Existing Dwelling vs New Construction

An existing dwelling, per USDA, has been completed for more than 12 months or has been completed less than 12 months but has been previously occupied.

A new construction dwelling is defined as a property that has been completed in the last 12 months and/or not previously occupied.

If the property is considered new construction, further conditions will be required. Please see “New Construction” section in this matrix.

Required repairs under the noted handbooks are limited to those repairs necessary to preserve the continued marketability of the property and to protect the health and safety of the occupants. Applicants are encouraged to obtain a detailed home inspection of the property independent of any other inspections.

Termite inspections are not required unless the lender, appraiser, inspector or State law requires the inspection to confirm the property is free of active infestation. *See Special Requirements Section for further information on Termite Inspections.*

	An inspection to confirm thermal standards is not required for existing dwellings.
Appraiser Requirements	<p>Appraisers must be on FHA’s approved list on the FHA Connection with State Certification designation of Certified General or Certified Residential.</p> <p>The assigned appraiser must perform the physical inspection of the property and may not sign the appraisal performed by another appraiser.</p> <p>Only appraisers who are properly licensed or certified, as appropriate, to make residential real estate appraisals in accordance with the criteria set forth by the Appraiser Qualification Board of the Appraisal Foundation regardless of the amount of the loan.</p>
Escrow Repair	<p>Allowed per HB-1-3555</p> <p><u><i>Escrow for Interior Development (7 CFR 3555.202(c))</i></u> When the dwelling is complete with the exception of minor interior development work, the Agency may issue the loan note guarantee on the loan if the following conditions are met:</p> <ul style="list-style-type: none"> ➤ The cost of any remaining interior work is not greater than 10 percent of the final loan amount; ➤ The livability of the dwelling is not affected; ➤ A signed contract between the borrower and the contractor is in effect for the proposed work and the funds to be escrowed are not less than the contractor’s contract; ➤ The CD reflects the holdback; ➤ FSB will require the amount to be held for escrow of the repairs to include 150% of the bid(s). Funds can come from the buyer, seller or financed in the loan. ➤ The repairs will be completed within 30 days of closing; and ➤ The escrow account is established in a federally supervised financial institution. ➤ FSB requires an Escrow Repair Agreement to be executed outlining all repairs and amounts to be signed by the Borrower and Seller as applicable. Form is available at www.fsbtpo.com ➤ The only repairs that can be included are repairs noted by the appraisal to meet HUD requirements. <p>Certification of completion/Final Inspection is required to verify the work was completed and must:</p> <ul style="list-style-type: none"> ➤ Be completed by the appraiser, ➤ State that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and ➤ Be accompanied by photographs of the completed improvements. ➤ The individual performing the final inspection of the property must sign the completion report. <p><u><i>Escrow for Exterior Development (7 CFR 3555.202(c))</i></u> When exterior development work is planned and cannot be completed because of inclement weather, material shortages, or other acceptable reasons, an escrow account may be established. The Agency may issue a Loan Note Guarantee prior to the completion of repairs provided the following conditions are met:</p>

	<ul style="list-style-type: none"> ➤ The cost of any remaining work, exterior or interior, is not greater than 25 percent of the final loan amount; ➤ The livability of the dwelling is not affected; ➤ A signed contract between the borrower and the contractor is in effect for the proposed work and the funds to be escrowed are not less than the contract; ➤ The CD reflects the holdback; ➤ The work will be completed within 30 days of closing; and ➤ The escrow account is established in a federally supervised financial institution. <p>Certification of completion/Final Inspection is required to verify the work was completed and must:</p> <ul style="list-style-type: none"> ➤ Be completed by the appraiser; ➤ State that the improvements were completed in accordance with the requirements and conditions in the original appraisal report; ➤ Be accompanied by photographs of the completed improvements; and ➤ The individual performing the final inspection of the property must sign the completion report. <p><u>Weather related repairs will be acceptable but must be completed at the first available opportunity or a penalty may be incurred.</u></p> <ul style="list-style-type: none"> ➤ Weather related repairs will require 2 bids from licensed contractors. If licensing is not required in a state, the bids must be from a professional contractor. Valid insurance may be requested from the contractor. ➤ The higher bid will be used for the holdback. ➤ 150% of the higher bid will be used, regardless of who is providing the funds at closing. ➤ A Final Inspection for the repairs will be required to release funds ➤ Final Inspection with Final Invoices to be sent to rebeccamoorehead@flanaganstatebank.com for approval to release funds ➤ Escrow Repair Holdback Agreement must be fully executed by all parties providing funds toward repairs to be completed after closing. Form is available at www.fsbtpo.com.
<p>Documentation</p>	<p>FSB will prepare all USDA files for the possibility of a GUS Refer. Our protocol is to keep the file moving with the intent to send the file to USDA at the first available opportunity. Many times, our Underwriting Team will be ready to send the file to USDA for the Conditional Commitment and the findings change on them from an Approve to a Refer. This then requires additional information and the file is delayed by several more days from being sent to USDA. If we prepare all USDA files to manual underwriting, then we do not have any setbacks when it is time to send the file to USDA. In addition, if the reviewer determines they want any further documents for their approval, we will have them on hand.</p> <p>FSB will ALWAYS require the following documentation, regardless of the findings:</p> <ul style="list-style-type: none"> • VOE on all working household members – regardless of who is on the loan or not • If a household member does not work, we will need an LOX signed by that person stating they do not work and the circumstances for this situation

	<ul style="list-style-type: none"> • On a non-borrowing household member (Adult), we will require paystubs, W-2's and tax transcripts in the same manner as provided for the applicant on the loan. • VOR is always needed, if the 1003 shows a rental history • If rental history is not available, we will require a rent free letter from the person(s) they are living with • Each USDA office and each individual reviewer for the USDA loans reserves the right to requests additional information and documentation. By having this information on hand, we are not only insuring the program guidelines are met, but we can provide USDA this same information to insure there are no delays. <p><u>CAIVRS – Credit Alert Verification Reporting system</u> Lenders must verify the applicant has no delinquent Federal debt through CAIVRS. CAIVRS is a Federal government wide repository of information on those individuals with delinquent or defaulted Federal debt, and those for whom a payment of an insurance claim or guarantee loss claim has occurred. An applicant 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 unless otherwise stated in Chapter 10 of the USDA handbook.</p> <p>When a lender uses the USDA automated underwriting system (GUS), the CAIVRS confirmation is automatically retrieved once the application is entered.</p> <p><u>Government Services Administration’s (GSA) & System for Award Management(SAM)</u> Lender must screen the applicant and parties to the transaction on the U.S. GSA’s SAM.gov website as part of the eligibility determination for the applicant. Lender must document their permanent file with the date and screen print of the results of that check. Form RD 3555-21 will document the lender performed the check. The check should occur prior to the request for commitment and be no greater than 30 days prior to loan closing, otherwise updated documentation of a more current check of SAM will be required.</p> <p><u>Electronic Signatures</u> Allow per USDA Handbook except for closing documents. FSB does not allow electronic signatures on any closing documents. All documents at closing for signature must have original signatures.</p> <p><u>Power of Attorney</u> POA’s must be reviewed by management on all loans using this feature. Please email POA for review to mtgsupportcenter@flanaganstatebank.com prior to CTC.</p>
<p>Student Loans</p>	<p>May <i>not</i> be excluded from the DTI at any time.</p> <p>Lenders must include the greater of one (1%) percent of the loan balance reflected on the credit report or the verified fixed payment due by the loan servicer. Fixed payments have a monthly amount that is not subject to change through the fixed repayment time frame. Income Based Repayment (IBR) plans, graduated plans, adjustable rates, interest only and deferred plans are examples of repayment plans that will require a calculation of one percent of the loan as these plan types do not represent a fixed payment.</p>

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	<p>FSB will require verification of the loan type and terms of each student loan to calculate the DTI correctly</p>
<p>Non-Purchasing Spouse/Community State</p>	<p>Non-Purchasing Spouse in a Community Property State</p> <p>Community Property States are as follows.</p> <ul style="list-style-type: none"> • Arizona • California • Idaho • Louisiana • Nevada • New Mexico • Texas • Washington • Wisconsin <p>Note: 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.</p> <p>If property is located in a community property state, or the borrower resides in a community property state, the following requirements apply</p> <p>A credit report for the non-purchasing spouse is required to determine any joint or individual debts. The spouse’s authorization to pull a credit report must be obtained. If the spouse refuses to provide authorization for the credit report, the loan must be rejected</p> <ul style="list-style-type: none"> • Even if the non-purchasing spouse does not have a social security number, the credit reporting company should verify that the non-purchasing spouse has no credit history and no public records recorded against him/her. • Credit Company should be given non-purchasing spouse information: Name(s), address, birth date and any other significant information requested in order to do the records check. <p>All defaulted federal debt, open judgments and liens, including those of the non-purchasing spouse, must be satisfied prior to or at closing.</p> <p>Disputed debts of the non-purchasing spouse need not be counted provided the file contains documentation to support the dispute.</p> <p>Credit history of the non-purchasing spouse should not be the basis for declining the loan.</p> <p><u>Non-Purchasing Spouse</u></p> <p>Income of a non-purchasing spouse must be verified and included in the household income calculation to determine if household is “income eligible.” However, the non-purchasing spouse’s income will not be counted toward repayment/qualifying income.</p> <ul style="list-style-type: none"> • Social Security income is included, but it is not “grossed up” for purposes of the income limits • Full income verification/documentation is required for all adult household members regardless of refinance program (includes non-streamlined refinance, and streamlined refinance)

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	<p>Streamlined-Assist refinance program</p> <ul style="list-style-type: none"> • FSB requires all borrowers on the loan to be employed at the time of closing on the refinance transaction or have alternate sources of income such as: retirement income, social security income, disability income, alimony or child support. (Exception: When husband and wife are on the loan, income from only one spouse is acceptable) • The applicants must meet the income eligibility requirements of Handbook 3555.151(a) and must not have had any defaults during the 12-month period prior to the refinance loan application. • While there are no required DTI ratios, if borrower's employment/income situation has materially changed within the last 6 months, FSB reserves the right to disallow the loan
<p>4056T & Tax Transcripts</p>	<p>Transcripts are required on all borrowers and all household members.</p> <p>It is the submitting lender/broker that is responsible to provide FSB with tax transcripts on all members accordingly. The 4506T must be properly completed to insure acceptance by the IRS. FSB provides access to Partners Credit for the completion of tax transcripts. If a log in is needed by an approved customer of Flanagan State Bank, please email mtgsupportcenter@flanagansatebank.com.</p> <p>If transcripts are not delivered to FSB for underwriting, this WILL NOT delay the submission to USDA but will delay the CTC of the file.</p>
<p>Limitations on Other Real Estate Owned</p>	<p>An applicant who owns a dwelling to which they will retain ownership is eligible for a guaranteed loan to purchase another home if:</p> <ul style="list-style-type: none"> ➤ The homeowner's current dwelling is not financed by a Rural Development guaranteed or direct Section 502 or 504 loan or active grant; ➤ The homeowner is financially qualified to own more than one house (the loan applicant is limited to owning one single family housing unit other than the one associated with the loan request); ➤ The homeowner will occupy the home financed with the guaranteed loan as their primary residence on a permanent basis. ➤ The current home owned no longer adequately meets the applicants' need. As an example – the applicant is disabled and requires handicap accessibility. The applicants' present home is not handicap accessible and no longer meets the applicants' needs.
<p>Refinance</p>	<p><u>Three options for refinancing are available: refinance loans are only available for current USDA Mortgage holders.</u></p> <p>No Score borrowers are ineligible for refinance loans.</p> <p>Non-Streamlined Refinance Streamlined Refinance Streamlined Assist Refinance</p> <p><u>Net Tangible Benefit</u> The borrower must receive a tangible benefit to refinance under the streamline options. A tangible benefit is defined as a \$50 or greater reduction in their principal, interest and annual fee monthly payment compared to the existing principal, interest and annual fee monthly payment.</p>

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Appraisal Requirements for refinance loans:

Non-Streamlined refinance – a new appraisal is required
 Streamlined refinance – a new appraisal is not required
 Streamlined-Assis refinance – a new appraisal is not required

Inspections – all refinance loans
 No additional inspections or repairs are required by USDA.
 However, the lender may require inspections or repairs based on information in appraisal. Expenses related to inspections or repairs may NOT be financed.

Borrower Eligibility

All USDA guidelines that are required for purchase loans, must be meet for a refinance loan.

Adding or deleting borrowers for any reason is permissible on a Non-streamlined transaction. At least ONE of the original borrowers must be retained in order to qualify as a refinance loan.

Streamlined-Assist refinances – borrowers may be added BUT NOT REMOVED (unless deceased) from the current loan.

Co-Borrowers/Co-Signers

- Co-borrower must occupy the property
- Co-borrower must take title to the property AND sign the Note and the Security Instrument
- Co-Signors are ineligible
- The co-borrower cannot be an interested party to the transaction
- Non-occupant co-borrowers are ineligible

Credit Eligibility

Must meet all credit eligibility requirements as noted in the Credit Section.

Non-streamlined refinance

Loan amount may include:

- Principal and interest of the existing loan
- Closing costs, lender fees, including funds to establish a new tax and insurance escrow account
- Guarantee fee amount to the extent sufficient equity in the property exists, as determined by an appraisal. The appraised value may be exceeded only to the amount financing represents the guarantee fee.

Additional borrowers may be added to the new loan. Existing borrowers on the current mortgage note may be removed, however at least **ONE** of the original borrowers must be an applicant for the new refinance loan.

The existing loan must have closed 12 months prior to request for a refinance and must be current.

All regular USDA guidelines for credit, income and assets must be met.

Streamlined refinance

- Refinance loan amount may not exceed the original purchase loan amount (i.e., the original purchase loan amount will establish the maximum loan amount of the refinance transaction). The loan amount may include:
 - Outstanding principal balance of existing loan
 - Current interest charges due
 - Reconveyance fee for the existing USDA loan
 - Guarantee fee to be financed into the loan
- Not included: Delinquent interest, closing costs, or lender fees may **not** be financed into the loan

The following requirements apply to BOTH Non-streamlined and Streamlined refinances:

- Guaranteed Underwriting System (GUS) – loans may be originated with assistance from GUS
- Term must be 30 years
- Interest rate must be a fixed rate. Interest rate must not exceed the original rate of the loan being refinanced
- Funded buy-down accounts are not permitted
- Property must be the same as the original loan. It must be owned and occupied by the applicants as their principal residence.
- Total adjusted income for the household cannot exceed the moderate level for the area
- An approved SFHGLP lender must make the loan
- Subordinate financing such as home equity seconds and down payment assistance “silent” seconds cannot be included in the new loan amount. A subordination agreement will be needed. CLTV cannot exceed 100%.
- Applicants may not receive “cash out” from the refinance transaction. However, applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinance transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of “cash out” to the applicants may occasionally result due to final escrow and interest calculations.
- Unpaid fees, such as late fees due the servicer, are not eligible to be included in the new loan amount
- SFHGLP refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made
- Additional borrowers may be added to the new SFHGLP loan. Existing borrowers may be deleted from the current loan. All applicants that will be a party to the promissory note must meet all eligibility requirements. At least one of the original borrowers must be retained to qualify as a refinance transaction
- To be eligible for refinance, the original loan must have closed at least 12 months prior to the USDA’s receipt of a conditional commitment request for the new refinance
- To be eligible for refinance, the existing loan must have been current for the 180-day period prior to the USDA’s receipt of a conditional commitment request to refinance

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- Any late mortgage payments within the past 36 months on the existing USDA loan must be analyzed and addressed by the lender to determine if any late payments were a disregard for financial obligations, an inability to manage debt, or factors beyond the control of the borrower when considering the underwriting decision.
- There is no limit placed on the number of refinance loans made to an existing SFHGLP borrower, however the loan to be refinanced must have closed at least twelve months prior to the USDA's receipt of a conditional commitment request for refinance.

Property inspections are not necessary.

Although Rural Development does not require repairs to be completed for refinance transactions, the lender may require completion of repairs as a condition of loan approval. Expenses related to property inspections and repairs may not be financed into the new loan amount.

Discount Points

Discount points are not eligible to be financed, except for low-income applicants. In such cases, discount points financed will not exceed two percentage points of the loan amount and must represent a reduction to the interest rate.

The following information pertains to the Streamlined-Assist refinance program:

- Streamlined-Assist refinance loans must be manually underwritten. They cannot be processed through the Guaranteed Underwriting System (GUS).
- A credit report with scores for each borrower must be submitted with the file.
- Mortgage History Borrower must have made timely mortgage payments for the 12-month period prior to the refinance.
- Lender must secure evidence to document the borrower(s) has paid the loan on time for the previous 12 months. If the mortgage account is currently delinquent or has been reported delinquent in the previous 12 months, the borrower is not eligible.
- The lender may utilize a Verification of Mortgage obtained from or provided directly by the loan servicer that lists the payment history for each of the previous 12 months. As an alternative, the lender may submit a credit report which reflects a satisfactory mortgage payment history over the past 12 months. If the lender submits a credit report to Rural Development as proof of payment history, only the payment history of the current mortgage will be considered. Credit waivers or explanations for adverse credit that may be present on the report are not required.
- Existing USDA Guaranteed Loans that have less than a 12-months payment history at time of application are ineligible for the Streamlined-Assist refinance program.
- The new interest rate must be a fixed rate, and must not exceed the interest rate of the original loan being refinanced.
- The loan amount may include the principal balance of the existing loan, plus the applicable upfront guarantee fee, accrued interest and eligible loan closing costs. No cash out is permitted to the borrower.
- Customary and reasonable closing costs and other fees may be collected from the borrower by the lender. Such charges may not exceed the cost paid by the lender or charged to the lender by the service provider.

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	<ul style="list-style-type: none"> • Unpaid fees, home equity lines of credit, down payment assistance funds used for the original purchase of the property or other second liens on the property are not eligible to be included in the new loan amount. • Bona Fide discount points may be financed into the loan amount for low income borrowers only, as defined by USDA. • The origination fee does not include charges for credit reports, title examination, verification requests, appraisals, settlement costs or other eligible costs associated with processing and closing the loan. • The borrower must receive a tangible benefit to refinance under this option. A tangible benefit is defined as a \$50 or greater reduction in their principal, interest, taxes and insurance (PITI), which includes the annual fee payment on the new guaranteed loan when compared to the existing PITI including the annual fee payment. [This should be easier to achieve with the new lower Upfront Guarantee Fee and Annual Fee for fiscal year 2017.] <p><i>Additional guidelines for Streamlined Assist Refinance</i> Borrower(s) must have made timely mortgage payments for the 12-month period prior to the refinance.</p> <p>Borrowers may not be removed when using the Streamlined Assist Refinance</p> <p>Lender must secure evidence to document the borrower(s) has paid the loan on time for the previous 12 months. If the mortgage account is currently delinquent or has been reported delinquent in the previous 12 months, the borrower is not eligible.</p> <p>FSB requires all borrowers on the loan to be employed at the time of closing on the refinance transaction or have alternate sources of income such as: retirement income, social security income, disability income, alimony or child support. (Exception: When husband and wife are on the loan, income from only one spouse is acceptable)</p> <p>The applicants must meet the income eligibility requirements of Handbook 3555.151(a) and must not have had any defaults during the 12-month period prior to the refinance loan application.</p> <p>While there are no required DTI ratios, if borrower's employment/income situation has materially changed within the last 6 months, FSB reserves the right to disallow the loan</p>
<p>Special Requirements/Restrictions</p>	<p>Documenting Eligibility of the Applicants/Parties Participating in Rural Development Loan Guarantees</p> <p>Lenders must document that the applicant(s) are not on the:</p> <ul style="list-style-type: none"> • U.S. General Services Administration (GSA) System for Award Management (SAM) and • HUD's Credit Alert Verification Reporting System (CAIVRS) <p>An applicant is ineligible if he/she is presently delinquent on any Federal debt or is suspended or debarred, or otherwise excluded from participating in Rural Development programs. The GSA list may be found at: https://www.sam.gov/portal/public/SAM/</p>

Lenders must certify on Form RD3555-21 the applicant(s) and all parties to the mortgage transaction are not on the GSA list. Appendix 7 of the Handbook contains additional information concerning CAIVRS.

Wood Destroying Insects/Organism (Termite) Requirements

All geographic areas as required by USDA, and/or:

- There is evidence of active infestation
- It is mandated by the state or local jurisdiction
- It is customary to the area
- At lender’s discretion
- The purchase contract requires a termite inspection

Well/Water Supply

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.

Well/Water Supply – Individual Privately Owned

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 the lender. Lender 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.
- The well location for individual water supply systems must be measured to establish the distance from the septic system. Distances must meet the most aggressive approach of the local and/or State Health Authority codes or 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 the lender’s permanent loan file as acceptance of the well as the primary source of water.
- Properties served by cisterns are not acceptable.

Well/Water Supply – Individual – Privately Owned - Shared

If the property is served by a shared well or off-site facility, the lender must ensure the private system will provide a continuous and adequate supply of safe and potable water.

The following requirements must also be meet.

- The well serves properties that cannot feasibly be connected to an acceptable public or community water supply system. It is the lender'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:
 - o Is binding upon all signatory parties and their successors in title.
 - o Is recorded or will be recorded no later than the closing date.
 - o 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.

Well/Water Supply – Community Owned

If the property is served by a community water system operated by a private corporation or nonprofit property owners association, the lender 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.

Required Inspections and Documentation

The lender must obtain documentation that the water quality meets state and local standards as discussed in this section. All documentation must remain in permanent loan file

Wastewater/Septic – 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 the lender. The lender is required to obtain a septic evaluation. An 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, the lender must ensure the system:

- Meets any applicable requirements of the estate or local health authority with jurisdiction.

	<ul style="list-style-type: none"> • Is located entirely on the subject property. If any part of the system is located on an adjacent property (e.g., 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. <p>Wastewater/Septic – Community Owned If the property is served by a community wastewater system operated by a private corporation or nonprofit property owners association, the lender must ensure that the system:</p> <ul style="list-style-type: none"> • 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. <p>Required Inspections and Documentation The lender must obtain documentation that the wastewater system meets state and local standards as discussed in this section. All documentation must remain in permanent loan file.</p> <p>Street Access The site must be contiguous to, and have direct access from, a public or private street, road, or driveway. If the driveway is shared, there must be a permanently recorded easement for ingress and egress. This agreement must be binding to successors and title. A copy of a title report may be used to evidence the easement. Private streets must have a permanently recorded easement, or be owned and maintained by a home owners association (HOA). All recorded easements must be reviewed and approved by the approved lender’s underwriter and documented in the lender’s permanent loan file.</p> <p>Street Maintenance Streets and roads must be hard surfaced or all-weather surfaced. An all-weather surface is a road surface over which emergency and the area’s typical passenger vehicles can pass at all times. A publicly maintained road is automatically assumed to meet this requirement. If an HOA is responsible for maintaining streets and roads, it must meet the criteria set forth by Fannie Mae, Freddie Mac, the U.S. Department of Housing and Urban Development (HUD), or U.S. Department of Veterans Affairs (VA).</p> <p>Private Road Maintenance Agreements Properties located on private roads require evidence in the loan file of a permanent recorded easement (nonexclusive, non-revocable roadway/driveway easement without trespass from the property to a public street/road). Private road maintenance agreements are not required.</p>
<p>Underwriting</p>	<p>The Guaranteed Underwriting System (GUS) was developed to automate the process of credit risk evaluation for the SFHGLP. GUS is a tool that helps evaluate the credit risk of the loan request. It compliments, but DOES NOT replace the considered judgment of experienced underwriters.</p>

No borrower should be denied a SFHGLP guarantee solely on the basis of a risk assessment generated by GUS. Mitigating circumstances according to Agency standard guidelines may be considered.

GUS Resubmission Policy (Ch. 5)

If data changes during the loan application stage, after Conditional Commitment or prior to loan closing, the GUS underwriting recommendation could be compromised.

Under the following conditions, lenders must resubmit the loan through GUS for an updated evaluation:

- Borrowers were either added or deleted from the loan application or critical information has changed.
- A decrease in the borrower’s income and/or cash assets/reserves.
- An increase in loan amount or interest rate on the mortgage loan request.
- Any changes that would negatively affect the borrower’s ability to repay the mortgage.
- Information regarding the property changes—such as a change in sales price or value.

Some data changes do not affect the outcome of an underwriting recommendation. Once a mortgage loan has been sent to the Agency as a “Final Submit,” the following data changes do not require that the GUS loan application be updated:

- A decrease in loan interest rate
- A decrease in loan amount
- A decrease of mortgage or personal liabilities
- An increase of assets

All loans must be submitted to GUS (Guarantee Underwriting System)

Loans which receive an underwriting recommendation of “Refer” or “Refer with Caution” require a manual underwrite per USDA guidelines.

A GUS underwriting recommendation of “Accept” may require a manual downgrade to “Refer” if:

- Open authorized user tradelines are reported on the credit report
- Credit report indicates a tradeline or public record is in dispute
- Installment and/or revolving debts not listed on the credit report were manually entered into GUS
 - o Exception: The manual entry of Non-Purchasing Spouse (NPS) debts (community property states only) will not require an “Accept” to be downgraded to a “Refer”

The manual entry of child support, alimony, garnishments, or other court ordered debts, or business debts into GUS will not require an “Accept” to be downgraded to a “Refer”.

If GUS renders an underwriting recommendation of ACCEPT and ELIGIBLE, the loan is eligible for Rural Development’s guarantee. All files must be submitted to the RD office in the state in which the property is located to obtain a Conditional Commitment prior to closing. The Conditional Commitment must be retained in the file.

Refer to the Underwriting and Loan Closing Documentation Matrix Administrative Notice (AN) 4699 for required documentation for all loans at the following link:

	<p>https://usdalinc.sc.egov.usda.gov/docs/rd/sfh/loanorigination/UW_Loan_Closing_Matrix_Document.pdf</p> <p>Property Flipping When the Seller of the property has been on title less than 90 days extra diligence must be taken with the transaction. Underwriter in its sole discretion reserves the right to condition for additional information and collateral support to include desk review, field review, or additional appraisal in order to support value. There is not a specific USDA requirement.</p> <p>A copy of the divorce decree is required when the loan file indicates income or liability due to divorce.</p>
<p>Construction to Perm – <i>this section is currently under construction and the information is for information purposes only until the official release of the program by FSB. For more info contact your AE or Sales Manager</i></p>	<p>A single close construction loan that combines the construction phase for a new single-family residence and the permanent financing.</p> <p>Closing will occur prior to ANY construction starting on the lot/land.</p> <p>The permanent mortgage loan interest rate will be established at closing and will be applicable for a 30 year term. ARM's or other variable rates will not be allowed.</p> <p><u>General Contractor/Builder Requirements</u></p> <ul style="list-style-type: none"> • Resume showing 2+ years of experience building and constructing all aspects of single family dwellings similar to the type of project being proposed • Evidence of a state-issued construction or contractor license, as required by state law or local law • Evidence of commercial general liability insurance with a minimum coverage of \$500,000 • The builder/contractor must have an acceptable credit history being free of open judgments, collections or liens related to previous construction projects. An individual credit report is required in addition to a commercial report on the business. A builder/contractor cover page will be required to gather the information to pull credit. • The builder/contractor must not have a previous felony criminal record. Aa background check will be performed by the approved lender • A builder may be limited to an Agency determined number of unites or terminated from participating in this program due to poor workmanship or failure to meet program guidelines <p>Contractors or builders who are constructing their own residence are ineligible for USDA financing for CTP.</p> <p><u>Loan Costs</u> The loan will be used to finance the construction of a new single-family housing residence. This can include modular or manufactured home construction as well as stick-built homes.</p> <p>Loan costs may be included in the loan amount are subject to the maimum LTV and must be reasonable and customary construction costs such as:</p> <p>Land</p>

	<ul style="list-style-type: none"> • Acquisition of lot/land • Payoff the balance of land to be utilized in the construction of the dwelling <p>Construction Hard Costs</p> <ul style="list-style-type: none"> • Costs inside the contract must be detailed on the construction budget agreed upon by the builder and borrower. Signatures of both parties to the contract will be required • Costs outside of the contract, paid to subcontractors, for contributive work such as well and septic installation, roads/driveways, utility hookups, landscaping, etc <p>Construction Soft Costs</p> <ul style="list-style-type: none"> • Appraisal fees • Inspection fees • Survey • Permits • Plan review fees • Architecture or Design fees • Engineering fees • Title updates • Lender construction administration fees • Contingency Reserve • Interest Reserve • Project review fees • Builder Acceptance or review fees • Tax and insurance reserve • Other reasonable and customer closing costs are allowable as defined in Ch 6 of the USDA Guaranteed Loan Handbook. The closing costs may not exceed the max LTV to allow them to be included in the loan amount <p><u>Contingency Reserve</u> A contingency reserve will be required to cover eligible expenses associated with unplanned problems with construction. The required reserve amount is 10% of the cost of construction.</p> <p><u>Plan and Thermal Certification</u> Certification of plans and confirmation of thermal requirements are required per USDA Guaranteed Loan guidelines</p> <p>The Lender’s file must contain evidence the plans and specifications comply with all development standards* applicable to the new construction. Acceptable evidence includes:</p> <ol style="list-style-type: none"> 1. Copy of the certification from a qualified individual or organization that the reviewed documents comply with applicable development standards. Form RD 1924-25 is an acceptable format, but may not be required by the Agency for guaranteed loans. -OR- 2. Certificate of Occupancy issued by a local jurisdiction.** -OR- 3. Building Permit (or equivalent) issued by local jurisdiction.**
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The lender may accept certifications from individuals or organizations trained and experienced in the compliance, interpretation or enforcement of the applicable development standards* for drawings and specifications. Plan certifiers may be any of the following:

- (1) Licensed architects;
- (2) Professional engineers;
- (3) Plan reviewers certified by a national model code organization;
- (4) Local building officials authorized to review and approve building plans and specifications; or
- (5) National codes organizations.

* Applicable development standards. The current International Code Council (ICC) standards or current state adopted ICC code(s) for residential construction.

** If this method is used, the State Director must determine whether local communities or jurisdictions qualify to use this form of “acceptable evidence” under RD Instruction 1924- A. The State Director will publish a state supplement if this method can be utilized to document plan certifications.

Evidence of thermal standards for new construction.

The Lender’s file must contain evidence thermal standards meet or exceed the International Energy Conservation Code (IECC) in effect at the time of construction. Documentation of conformance may be by one of the following options:

1. The builder may certify confirmation with the IECC standards.
2. A qualified, registered architect or a qualified, registered engineer may certify confirmation with IECC standards.

Appraisals

Appraisal orders will be placed through a specific AMC. The appraisal will be subject to plans and specs.

The fair market value of the proposed (to-be-constructed) subject property will be utilized to establish the maximum loan amount. Land value is based on the value as reported in the Appraisal Report, with no seasoning requirement.

Builder Warranty

The Lender must be supplied documentation as follows:

The Lender’s file must contain copies of the documents described in one of the following three options:

1. Certificate of Occupancy issued by a local jurisdiction that performs at least 3 construction phase inspections, including inspections noted in option 2 below and a 1-year builder warranty plan acceptable to Rural Development.

-OR-

2. Three construction inspections performed when:
 - Footings and foundation are ready to be poured and prior to back-filling;
 - Shell is complete, but plumbing, electrical and mechanical work is still exposed;
 - Final inspection of completed work prior to occupancy;
 - A 1-year insured builder warranty plan acceptable to Rural Development.

Builders may utilize their own warranty form, HUD-92544 or Form RD 1924-19.

Applicants who build their own homes cannot provide a self-warranty.

	<p style="text-align: center;">-OR-</p> <p>3. Final inspection and a 10-year insured builder warranty.</p> <p><u>Loan Approval Process</u> All USDA Guaranteed Housing guidelines will still be applicable and must be met for the borrower to qualify for the loan. A Conditional Commitment must be issued prior to closing the CTP loan.</p> <p><u>Change Orders</u> No change orders will be allowed.</p> <p><u>Interest During Construction</u> During construction, interest on the construction loan is payable monthly. The interest may be paid by the customer directly, if they show the ability to do so, or from an established interest reserve. The interest rate on the construction period will be the interest rate on the permanent financing and must be a fixed rate.</p> <p>Annual Guarantee fees, property taxes and homeowner's insurance begin at the closing of the loan. These fees may be due and payable during the construction phase and will be built into the reserve account as needed.</p> <p>The borrower will begin making regularly scheduled (amortized) principal and interest payments on the loan after construction is complete. Only interest payments on the advanced construction loan balance will be due and paid during the construction phase.</p>
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For any other USDA guidelines, please reference the 7 CFR 3555