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<td>USDA Manual Underwriting Requirements</td>
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<td>Authorized User Accounts</td>
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</tbody>
</table>
604 - Rural Development

Product Description and Product Codes

This product suite provides details on “special products” offered by MSI. A “special product” is one that doesn’t fit into the conforming conventional, Jumbo or FHA/VA product suite.

Special Products contained in this suite are as follows:

✓ Rural Development

Product Codes

The following Product Code Matrix outlines the applicable product codes for our special products.

<table>
<thead>
<tr>
<th>Product Name</th>
<th>Product Code</th>
<th>Term</th>
<th>Product Feature Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Development</td>
<td>300300</td>
<td>30-Years</td>
<td>Loans are guaranteed by the U.S. Department of Agriculture (USDA)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Borrowers must meet certain USDA income limits.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The property must be designated “rural” by USDA.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Loans are assumable.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>There are no pre-payment penalties.</td>
</tr>
</tbody>
</table>

Price Adjustments

Loan Level Price Adjustments (LLPA) may be applied against special products. See the Price Sheets for details.

Continued on next page
Product Description and Product Codes, Continued

**Mortgage Credit Certificate (MCC)**

- MCCs are eligible to MSI for USDA loans under the following restrictions:
  - The borrowers must be able to qualify with the full tax rate.
  - All applicable paperwork must be completed prior to/ at closing; **there may be no impact to loan servicing.**

- USDA requires that the Lender retain the following documentation in the loan file:
  - Copy of the active MCC that states the rate of tax credit allowed.
  - Copy of the applicant's W-4 "Employee's Withholding Allowance Certificate" to reflect the borrower is taking the tax credit on a monthly basis
  - The applicable documents to show that the borrower has fulfilled all terms and processed all documentation required to obtain the tax credit.

**Eligible States (7/02/14)**

See the states in which MSI is able to accept loans on the Web Site at this link: [MSI Eligible State List](#); see [MSI State-Specific Guidelines](#) for product/lending restrictions in these states.

- The Seller must be fully licensed or legally exempt to originate loans in the state.
- Properties must be located in areas in which Rural Development loans are eligible.
## Restrictions

### High Cost and Responsible Lending Restrictions

- MSI high cost policy will conform to all Federal, State, County, City, and Agency requirements, including consumer laws.
- No loan MSI loans may violate high cost regulations as set forth by the above mentioned entities.
- No MSI mortgage loan is subject to the provisions of the Home Ownership and Equity Protection Act of 1994 as amended or is considered a “high cost”, “covered” or “predatory” or “sub-prime” loan under any applicable state, federal, or local laws or ordinances.

### State Restrictions

MSI purchases loans on properties located only in specifically approved states. See [Eligible States](#) for full details. The matrix below outlines additional geographic restrictions applied by MSI.

<table>
<thead>
<tr>
<th>State</th>
<th>MSI State-Specific Guidelines</th>
</tr>
</thead>
</table>
| All    | ✓ MSI product or underwriting guidelines and/or restrictions do not supersede any more-restrictive regulatory, state or local requirements.  
✓ MSI is responsible to ensure that each loan originated, underwritten and closed is in full compliance with all regulatory, state or local guidelines and/or restrictions.  
✓ If MSI does not offer pricing in a specific geographic location, it is not eligible, regardless whether or not MSI has published the restriction. |
| California | ✓ MSI will not lend in the following California Counties:  
• Merced; San Joaquin; Stanislaus |
| Nevada | ✓ MSI does not accept properties located in Clark County Nevada. |
| Ohio | MSI must warrant that each loan secured by property located in Ohio, irrespective of the originating lender’s exempt status under the Ohio Consumer Sales Practices Act, relies on full verified documentation of the borrower’s financial resources to determine the borrower’s probability of repayment. MSI requires that all supporting documentation used by the originating lender to analyze the probability of repayment at time of origination be included in the delivered mortgage loan file. |
| Texas | Cash Out Refinance loans for primary (homestead) properties are not acceptable for purchase. |
## Closing Documentation

<table>
<thead>
<tr>
<th>Description</th>
<th>MSI must use the most current uniform instrument adapted as required by the applicable agency or product for the Note and for the Security Instrument. See <a href="#">Pre-Close</a> details.</th>
</tr>
</thead>
</table>
| USDA Fees   | **Important Note:** MSI does not accept paper checks for any USDA fees.  
✓ MSI nets the USDA fee amounts from the final funding proceeds for the loan. |
| USDA Hazard Insurance Deductible | MSI requires the following Hazard Insurance Deductibles for all USDA loans:  
✓ The USDA maximum Hazard Insurance (for all types of Hazard except Flood) deductible is 1% of the face value of the insurance or $1,000.00, whichever is greater. |
| Interest Credit | MSI does not permit interest credit under any circumstances. |
| Title Requirements | All loans funded by MSI must be covered by an acceptable form of Title Insurance issued by a company that meets the current applicable agency guidelines; unless otherwise specifically restricted by MSI. |

### MSI Title Restrictions

✓ **TICOR Title**
  - **Effective with loans locked on/after 5/18/09,** MSI will accept TICOR titles only if TICOR is the actual title underwriter and settlement agent.
  - TICOR titles issued by settlement agents or underwriters other than TICOR are not acceptable.
  - **Exception:** MSI will accept TICOR title insurance from TICOR affiliates if the affiliate has a valid, active E&O policy.
    - Documentation of the valid/active E&O policy must be included in each loan file delivered to MSI (A copy of the current declarations page showing that the policy is current and active will be accepted.)

*Continued on next page*
Closing Documentation, Continued

**USDA Flood Insurance**

In accordance with recent clarifications from the National Flood Insurance Program (NFIP) and Federal Emergency Management Agency (FEMA) regarding proof of flood insurance, MSI is updating our USDA guidelines as follows:

- A property with **any part of the structure or improvements** in a special flood hazard zone and requiring flood insurance, must have one of the following documents in the loan file submitted for purchase:
  - Copy of Flood Insurance Application with evidence of payment for the first year’s premium provided by:
    - Documentation on the [Closing Disclosure](#)
    - Paid receipt if Paid Outside Closing (POC)
  - Copy of the “in-force” Declarations Page of the Flood Policy with evidence of premium payment for the first year’s premium
    - Documentation on the [Closing Disclosure](#)
    - Paid receipt if Paid Outside Closing (POC)
  - As a reminder, a Declarations (Dec) page is acceptable, provided it describes the term of the policy and the limits of coverage and displays the premium and the insurer’s name.

**Note:**

- Certificates of Flood Insurance and Binders do not meet MSI, NFIP or FEMA requirements.
- See the complete USDA guidelines at 3555.12.10 B.
Rural Development Loans

Overview

MSI’s Rural Development product is a U.S. Department of Agriculture (USDA) Guaranteed Rural Housing (GRH) fixed rate mortgage. The loans are directly insured/guaranteed by the government.

It is offered to low to moderate income borrowers (as defined by USDA) with property located in a USDA-designated rural area and is guaranteed by the USDA.

Benefits

Benefits to qualified borrower include, but are not limited to the following:

- Provides 100% LTV financing for existing homes and new construction based on appraised value.
- Available to low and moderate-income rural borrowers who are unable to meet the “upfront” cash-to-close requirements for conventional loans.
- No “first-time-homebuyer” requirements.

USDA Eligibility

The eligibility of the property and the borrower’s adjusted income for this product may be confirmed by using the USDA web site: http://eligibility.sc.egov.usda.gov.

Note: If the link does not work, key in the address.
Rural Development Loans, Continued

**Loan Limits**

- **MSI Minimum**
  - $20,000

- **MSI Maximum**
  - MSI limits the maximum loan amount to the lesser of current Fannie Mae/Freddie Mac Single Family loan limits or
  - **For Purchase Transactions:**
    - The maximum guaranteed loan cannot exceed the appraised value, plus the Guarantee Fee if financed, or the amount the applicant can repay based on their ratios, whichever is less.
  - **For Refinance Transactions:**
    - The maximum loan cannot exceed the balance of the loan being refinanced, plus the Guarantee fee, and reasonable and customary closing costs, including funds necessary to establish the new escrow for taxes and insurance.

**Notes:**

- USDA requires a minimum LTV, based on purchase price of 81.00%; there is no minimum for refinance transactions.
- All loan amounts are subject to current USDA income eligibility guidelines.
  - Discount points may never be included in the final loan amount.
### Rural Development Loans, Continued

**Loan Parameters – Rural Development 30 Year – FRM**

<table>
<thead>
<tr>
<th>Units</th>
<th>Owner Occupied</th>
<th>Second Home</th>
<th>Investment</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Maximum</td>
<td>Minimum</td>
<td>Maximum</td>
<td>Minimum</td>
</tr>
<tr>
<td></td>
<td>LTV</td>
<td>CLTV</td>
<td>LTV</td>
<td>CLTV</td>
</tr>
<tr>
<td>Purchase</td>
<td>102.00</td>
<td>Unl</td>
<td>640</td>
<td>Not Permitted</td>
</tr>
<tr>
<td>Rate/Term Refinance – Permitted only if original (current) loans is Rural Development</td>
<td>102.00</td>
<td>Unl</td>
<td>640</td>
<td>Not Permitted</td>
</tr>
<tr>
<td>Cash-Out (C/O) Transactions</td>
<td>Not Permitted</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**

- **Loan Limit:** Current Fannie Mae/Freddie Mac subject to current USDA income eligibility guidelines. See [Loan Limits](#) for details.
- **REV (10/01/15):** USDA Guarantee Fee required: Purchase and Refinance Transaction = UpFront, 2.75% of loan amount; Annual 0.50%. Subject to USDA change at any time. Maximum LTV/CLTV is based on 100% of the appraised value plus Guarantee Fee.
- USDA has a maximum Housing Ratio of 34%; see [Maximum Qualifying Ratios](#) for details.
- See [Loan to Value](#) for additional details.
- Loans must be submitted to GUS.
  - All loans must meet the more restrictive of MSI and U.S. Department of Agriculture Rural Development (USDA-RD) guidelines.
  - Full documentation is required.

*Continued on next page*
Rural Development Loans, Continued

Assumability

**Important:**

MSI does not “underwrite” or purchase loans subject to exercising the assumable feature of the loan. Borrowers must work with the current servicer of the loan to activate the assumability aspect of their current loans.

Rural Development (GRH) loans are assumable subject to the following conditions:

- Subject property and new applicants must meet all criteria for Rural Development loans.
- New borrower must be credit-approved by the current servicer.
- In accordance with USDA-guidelines (in RD Instruction 7CFR 3555) there is no release of liability for the current (original)
- A new title is required.
- Please contact the current servicer for current requirements.

*Continued on next page*
Rural Development Loans,  Continued

Borrowers

The following matrix outlines the applicable borrower types. All borrowers must meet current FHA guidelines:

<table>
<thead>
<tr>
<th>Eligible Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Loans are granted only to natural persons</td>
</tr>
<tr>
<td>✓ Title must be held in individual names only</td>
</tr>
<tr>
<td>✓ Each borrower must have a valid social security number</td>
</tr>
<tr>
<td>✓ The following are permitted to the applicable MSI/agency underwriting guidelines:</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>✓ Permanent Resident Aliens</td>
</tr>
<tr>
<td>✓ Mortgage Company Employees have special requirements.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ineligible Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Borrowers that exceed the USDA moderate-income limits</td>
</tr>
<tr>
<td>✓ Borrowers without a clear credit alert number (CAIVRS)</td>
</tr>
<tr>
<td>✓ Possession by corporations or partnerships is not acceptable, including, but not limited to, the following:</td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>✓ Inter Vivos Revocable Trust</td>
</tr>
<tr>
<td>✓ Illinois Land Trust</td>
</tr>
<tr>
<td>✓ Non-Occupant Co-Borrowers</td>
</tr>
<tr>
<td>✓ Non-Permanent Resident Aliens</td>
</tr>
<tr>
<td>✓ Borrowers without a social security number</td>
</tr>
<tr>
<td>✓ Borrowers with diplomatic immunity</td>
</tr>
<tr>
<td>✓ Co-signors</td>
</tr>
<tr>
<td>✓ Life Estates</td>
</tr>
<tr>
<td>✓ Foreign Nationals</td>
</tr>
<tr>
<td>✓ Non-profit organizations</td>
</tr>
<tr>
<td>✓ Borrowers specifically prohibited by current FHA/USDA guidelines</td>
</tr>
</tbody>
</table>

Notes:

✓ Each borrower must have a valid U.S. Social Security Card.
  • Each borrower must be identified by one of the following tools: Driver’s License, State ID Card, Passport or Government-Issued ID with photo. Must match all credit source documents. No multiple social security numbers.
  • For Permanent Resident Aliens, in addition to one of the “tools” noted above, the borrower must provide current valid “Green Card”. A copy must be included in the loan file at time of submission for underwriting. The documentation must be approved by USDA.

✓ Borrowers may not exceed the current USDA-designated moderate income limits.
  • You may use the following direct link to the current GRH Income Limits: [http://www.rurdev.usda.gov/rhs/sfh/sfh%20guaranteed%20loan%20income%20limits.htm](http://www.rurdev.usda.gov/rhs/sfh/sfh%20guaranteed%20loan%20income%20limits.htm)
  • Once you select the State and the income limits display, use the moderate income limits that are shown as “RHS MOD.INC-GUAR.LOAN” See Lending Guide/Underwriting/Borrowers for any additional details.

✓ Adding borrowers to Title: If a spouse is not on the Note, they may be added on the Title.

✓ MSI has specific requirements for borrowers who are employees/owners of a mortgage company, see Lending Guide/Underwriting/Borrowers/Mortgage Company Employee for details.

Escrow/Impound Waiver

Waiver of escrow/impounds is not permitted under any circumstances.
Rural Development Loans, Continued

The following matrix outlines the applicable property types:

<table>
<thead>
<tr>
<th>Eligible Property Types</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unless otherwise specifically restricted or not permitted by the applicable loan parameters, the following property types are acceptable to MSI/agency Guidelines:</td>
</tr>
<tr>
<td>✓ 1 Unit Properties, attached &amp; detached (1)</td>
</tr>
<tr>
<td>✓ Condominiums – Eligible - FHA/VA approved only- Document approval in the loan file.</td>
</tr>
<tr>
<td>✓ PUDs – to FHA guidelines-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ineligible Property Types</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Auction – Properties purchased at Auction.</td>
</tr>
<tr>
<td>✓ 2-4 Unit Properties</td>
</tr>
<tr>
<td>✓ Commercial operations</td>
</tr>
<tr>
<td>✓ Condotels</td>
</tr>
<tr>
<td>✓ Condex (converted to 2 units zoned as condo w/o HOA)</td>
</tr>
<tr>
<td>✓ Cooperative Projects</td>
</tr>
<tr>
<td>✓ Geodesic Domes</td>
</tr>
<tr>
<td>✓ Earth Homes</td>
</tr>
<tr>
<td>✓ Houseboats</td>
</tr>
<tr>
<td>✓ Income producing properties of any kind</td>
</tr>
<tr>
<td>✓ Mobile (Manufactured) Homes, single- or double-wide</td>
</tr>
<tr>
<td>✓ Model Home Leaseback properties</td>
</tr>
<tr>
<td>✓ Modular Homes (See Notes for exceptions)</td>
</tr>
<tr>
<td>✓ Multi-dwelling or Multi-Unit condominiums</td>
</tr>
<tr>
<td>✓ Non-Warrantable Condos</td>
</tr>
<tr>
<td>✓ Non-conforming zoning projects</td>
</tr>
<tr>
<td>✓ Own-your-Own&quot;, Timeshare/segmented ownership</td>
</tr>
<tr>
<td>✓ Leasehold Estate Properties</td>
</tr>
<tr>
<td>✓ Properties currently listed for sale or listed for sale within the past 6-months</td>
</tr>
<tr>
<td>✓ Properties with pending litigation</td>
</tr>
<tr>
<td>✓ Properties with deed restrictions that limit transferability of title, or contain a &quot;first right of refusal&quot; provision</td>
</tr>
<tr>
<td>✓ Properties located outside the United States or District of Columbia</td>
</tr>
<tr>
<td>✓ Properties that can be legally subdivided, regardless of site or site value restrictions</td>
</tr>
<tr>
<td>✓ Unimproved (Raw) Land</td>
</tr>
<tr>
<td>✓ Working farms, ranches or orchards</td>
</tr>
<tr>
<td>✓ Properties located on Indian Reservations</td>
</tr>
<tr>
<td>✓ Properties with assignments of purchase (assigning the purchase contract to another party)</td>
</tr>
<tr>
<td>✓ Properties specifically prohibited by current USDA/FHA guidelines</td>
</tr>
</tbody>
</table>

Notes:
- Property must be a nonfarm, non-income-providing property. Income producing building used chiefly for agricultural, commercial or livestock production are not eligible.
- In-ground swimming pools are acceptable, but must meet safety requirements.
- Properties are eligible only in strict accordance with current USDA/FHA guidelines.-
- Condos and PUDs must be served by a Homeowner’s Association (HOA). See Government Product Suite for insurance requirements for Condos and Attached PUD. Note: Properties that are covered under a Master Policy must provide the full Master Policy that covers the subject property specifically.
- MSI will accept modular homes that are built like traditional "stick built homes" and are in full compliance with HUD Handbooks 4000.1 and 4905.1.
- Outbuildings are subject to review by USDA; subject to 3555.12.4.
Rural Development Underwriting Guidelines

**Overview**

All Rural Development loans sold to MSI must:
✓ Meet all applicable guidelines of USDA/FHA/MSI
✓ Be guaranteed by USDA Guaranteed Rural Housing (GRH)
✓ Be prudently underwritten and be of sound investment quality.

**Note:** MSI reserves the right to refuse to approve any loan that does not meet our guidelines.

**Special Underwriting Approval**

Rural Development loans must be approved by:
✓ The MSI USDA-Delegated Underwriter and
✓ The USDA.

- A USDA Conditional Commitment of Loan Approval (Form 3555-21) must be included in the loan file submitted to the USDA-Delegated USDA underwriter.
- Both approvals (and any “prior to doc/prior to close” conditions are required to be satisfied/cleared prior to close/disbursement of the loan.

*Continued on next page*
Rural Development Underwriting Guidelines, Continued

Underwriting Method | AUS
---|---
+ DU/LP not permitted.
+ The USDA Guaranteed Underwriting System (GUS) will be used to underwrite USDA loans.
  - MSI requires a GUS Accept, no other “decision” is acceptable.
  - Access to the USDA Lender Inactive Network Connection (LINC) is at this address, [https://usdalinc.sc.egov.usda.gov/](https://usdalinc.sc.egov.usda.gov/)
  - Underwriters must have an authorized ID and Password to use the GUS system.

Manual Underwriting Required
+ If access to GUS is not authorized, the loan must be manually underwritten to MSI/USDA/FHA requirements.

USDA Underwriting Required
+ After the loan has been initially approved by the delegated underwriter (GUS or manually), it must be submitted to USDA for conditional approval.
+ Once the loan has been conditionally approved by the USDA, loan terms, documentation, etc. may not be changed.
  - The loan must be closed and delivered for purchase using the exact terms conditionally approved by the USDA.

*Continued on next page*
Rural Development Underwriting Guidelines, Continued

Underwriting Method, Continued

**GUS Credit Reports**
- When a loan is submitted to GUS, a new, GUS-credit report is pulled as part of the submission process; this may result in a change to the borrower’s FICO or other credit issues.
- The information from the GUS-credit report is used to underwrite the loan.

Underwriting Guidelines

Rural Development loans must be originated, processed, underwritten and closed in strict compliance with current USDA/FHA guidelines unless MSI guidelines are more restrictive.

Presentation

The guidelines in this section are presented in alphabetical order.

4506-T

MSI requires that a 4506-T is signed/dated by each household member aged 18 or older at underwriting and closing for each loan, even though tax transcripts are already included in the loan file.

**Note:** See the Underwriting Chapter for details regarding Tax Payer Identification Theft.
- MSI requires the tax transcripts/Record of Account as follows:
  - Salaried borrowers require the most recent 2-years tax transcripts/Record of Account.
  - Self-employed (passive income) borrowers require the most recent 2-years tax transcripts/Record of Account.

Continued on next page
Rural Development Underwriting Guidelines, Continued

4506-T, Continued

 ✓ MSI requires the Seller order the tax transcripts/Record of Account and include in the underwriting submission package.

**Important Note: Amended Tax Returns**
The IRS permits tax returns to be amended up to 3-years after the initial tax-filing year. If tax returns have been amended, the underwriter (and MSI) must be able to document the following, via the tax transcripts obtained using the 4506-T:

 ✓ The IRS has processed **and** accepted the amended tax returns; that information is contained in the transcripts.
 ✓ All outstanding liabilities and/or tax penalties have been paid; the transcripts show no outstanding money owed to the IRS.

**Additionally**, the underwriter must carefully review any increased income to insure its validity, and the loan file should contain:

 ✓ Documentation to support receipt of the income as well continuation of the income (reasonably for at least 2-years in the future).
 ✓ The underwriter in these cases must make every effort to prudently document the added income and the reasonable expectation of continuation.

Continued on next page
**Rural Development Underwriting Guidelines, Continued**

**Anti-Flipping Rule**

Rural Development loans purchased by MSI must be in full compliance with the FHA anti-flipping rule and the additional guidelines below.

<table>
<thead>
<tr>
<th>If the property was sold ...</th>
<th>Then ...</th>
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<tbody>
<tr>
<td>0 – 90 days of the seller’s acquisition.</td>
<td>The loan is not eligible for sale to MSI. See Temporary Waiver. See <a href="#">Temporary Waiver – 90-Day Anti-Flipping Rule</a>.</td>
</tr>
<tr>
<td>Between 91 and 180 days of the seller’s acquisition and the current sales price is increased &gt; 20% but &lt; 100%.</td>
<td>✓ MSI requires a Desk Review to support the increased value.</td>
</tr>
</tbody>
</table>
| Between 91 and 180 days of the seller’s acquisition and the current sales price is increased by 100% or more | ✓ Acceptable documentation to support the increased value including any rehabilitation or remodeling.  
✓ A second FHA appraisal is required.  
• The borrower may not be charged for the appraisal.  
• The LTV must be based on the lower value of the 2 appraisals.  
| Between 181 and 365 days and the current sales price is increased ≥ 20.00% | MSI requires documentation to support the increased value including any rehabilitation or remodeling.  
✓ MSI reserves the right to request a second FHA appraisal which may not be charged to the borrower. |

*Continued on next page*
Rural Development Underwriting Guidelines,
Continued

Temporary Waiver – 90-Day Anti-Flipping Rule

✔ MSI does not accept or permit the Temporary Waiver of the 90-Day Anti-Flipping Rule.

Age of Documents

✔ Credit Documents
  • The credit report must be dated no earlier than 90-days from the Note Date.
  • Paystubs and Bank Statements must be within 30-days of underwriting.
    • Documents may be no older than 120-day from the Note Date at time of closed loan delivery.

✔ Appraisal – Appraisals must be dated no earlier than 120-days from the Note Date (following FHA guidelines.) Recertification (1004D/442) is not permitted.

Appraisal

✔ Appraisal requirements must meet current FHA/USDA/MSI guidelines. The appraisals must be completed by an appraiser that meets FHA requirements.

✔ USDA appraisals must meet UAD requirements including MSI Quality (Q1 – Q5 are acceptable, Q6 is not) and Condition (C1-C4 are acceptable, C5 & C6 are not) requirements.

✔ The Appraisal must be ordered in full compliance with current Appraiser Independence guidelines:
  • For loans using MSI funds to close (Wholesale Loans): The appraisal must be ordered using an AMC from the MSI Web Site. The appraisal must include the AMC Certification of compliance and the Borrower’s Acknowledgement form.

✔ A complete Uniform Residential Appraisal Report (URAR) is required
  • 1-Unit – Form 1004
  • Condos – Form 1073
  • Note: The entire Section VI Cost Approach of the appraisal must be completed on properties less than 1 year old.

✔ The appraisals are valid for 120-days from the Note Date.
  • Recertification of value (or updating the appraisal) is not permitted.

✔ The information must be accurate, internally consistent, written in clearly understandable language, fully supported and sufficiently documented.

Continued on next page
Rural Development Underwriting Guidelines, Continued

Appraisal, Continued

✓ Color pictures of the subject and comps are required.
✓ A fully completed Market Conditions Addendum (1004MC) is required for each appraisal in accordance with USDA requirements.

Notes:
✓ New construction properties are required to be a minimum 90% complete before they are submitted to the USDA office for a commitment. A final inspection, in addition to required certifications, will be required prior to close with proof the property is 100% complete and meets HUD Handbooks 4000.1 and 4905.1.
✓ Properties must be in a USDA-designated rural area.
✓ Properties with in-ground swimming pools are not acceptable (unless a waiver from the applicable USDA State Director is included in the loan file).
✓ Dwellings must comply with USDA thermal standards for new construction; there are no thermal requirements for refinance loans.
✓ Private Septic: The system must be free of observable evidence of failure. An FHA roster appraiser, government health authority, licensed septic professional, or qualified home inspector may perform the system evaluation (documentation of their evaluation must be included in the loan file). An FHA roster appraiser or qualified home inspector may require an additional inspection due to their observations.
  • Iowa Time Of Transfer Law requires a septic inspection be performed by an approved inspector from Iowa DNR.
  • Inspectors may be found at: http://www.iowadnr.gov/files/tot_list.pdf full information on the legislation can be located at http://www.iowadnr.gov/tot.html.
✓ Private Well/Water Supply: Private water supply and/or well water must meet the current guidelines published by the USDA. (See 3555 12.6 for full details.)
✓ Termite: If required by the appraiser, inspector, or State law, a pest inspection must be obtained to confirm the property is free of active termite infestation.

Continued on next page
Rural Development Underwriting Guidelines, Continued

Appraisal, Continued

**Refinance Appraisal Requirements**
✓ Non-Streamline: This refinance option requires a current appraisal.
  • This refinance option requires a current appraisal; Fannie Mae Form 1004.
  • Repairs cannot be included in the amount financed.
✓ Streamline Permitted **ONLY** if underwritten/Committed by MSI – **Delegated not permitted**.
  • Streamline refinance option does not require an appraisal.

**Notes:**
✓ GRH permits Rural Development refinance loans for properties in areas that have been determined to be non-rural since the original loan was made. (change in status of the area from rural to non-rural)
✓ Please be aware that currently water and septic test are not required on refinances. This could be subject to change without prior notice.

Assets

**Verification of Funds to Close**
✓ Verification of assets is required regardless of required funds to close.
  • Assets can be documented through 2 most recent concurrent bank statements or a VOD with a bank statement dated within 30 days of the VOD.

**Acceptable Documentation**
✓ Copies of the original bank statements for the past 2-months are required to validate adequate funds to close.

**Acceptable Source of Funds**
✓ In general, sources of funds that are acceptable to FHA are acceptable to USDA, with the exception of exclusions or specific requirements noted in the Assets Table.
Rural Development Underwriting Guidelines,
Continued

Assets, Continued

| Gifts (or grants) | ✓ A borrower can use funds obtained as a gift (or grant) to satisfy part of the cash requirement for closing only if the donor is a family member, or charitable organization, municipality, or nonprofit organization.  
- A “friend” is not an acceptable donor for gift funds.  
- Gift funds may not be provided by a party with interest in the sale of the property.  
✓ A “personal” gift must be evidenced by a letter that is signed by the donor, the letter must:  
  - Specify the dollar amount of the gift and the date the funds were transferred into the borrower’s account and make the statement that the donor does not expect or require repayment of the gift.  
  - Indicate the donor’s name, address, telephone number and relationship to the borrower.  
  - The lender must verify that the funds have been transferred to the borrower’s account and document the actual transfer from the donors account. (Showing a copy of the withdrawal slip or the cancelled check.)  
    - If the funds are being transferred at closing, the donor must provide good funds (certified check or wire transfer) for the gift amount. A copy of the check or the settlement statement clearly showing receipt of the gift funds will be sufficient documentation that the funds have been received.  
  - To comply with Anti-Laundering requirements, MSI requires the following:  
    - Evidence of source of funds from the donor.  
    - Copy of the account statement showing sufficient funds to provide the gift. The source of funds documentation must meet agency guidelines for “source of funds” to be acceptable.  
✓ A gift or grant from a charitable organization, municipality, or nonprofit organization must be evidenced by either a copy of the award letter or a copy of the legal agreement that specifies the terms and conditions of the gift/grant.  
  - Grant documentation must be submitted to the underwriter for full review of terms. The underwriter reserves the right to refuse to accept the grant if requirements are not met.  
  - The supporting documentation must include language indicating that no repayment of the gift or grant is expected and an indication of how the funds will be transferred (to the borrower, the lender, or the closing agent).  
  - The lender must include in the individual mortgage file evidence of the transfer of the funds - such as a copy of the donor’s canceled check or a settlement statement showing receipt of the check.  
  - Secured grants must be subordinated to the first lien.  
Important Exception: If the entire gift is going toward closing costs/prepaids (any amount), or being used to pay-off debt of ≤ $1,000, only the gift letter is required as supporting documentation.

<table>
<thead>
<tr>
<th>Assets Table</th>
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Rural Development Underwriting Guidelines, Continued

**Assets, Continued**

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<th>Assets Table</th>
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<td><strong>Sale of</strong></td>
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</table>
| **Sale Proceeds of Real Estate** | A copy of the HUD-1/Closing Disclosure or any cash sales proceeds from the sale of real estate must be considered as a liquid asset to the borrower.  
  ✓ See [Qualifying for USDA](#) for USDA definition of Conventional Credit. The borrower may not qualify for the USDA loan. |
| **Notes:** | The full USDA guidelines for Assets can be found at 3555 5.3 E. MSI will follow the more restrictive of the published MSI guidelines or USDA. |

**Bankruptcy**

- **Bankruptcies completed/discharged >3 years**
  - Follow standard credit and underwriting guidelines for MSI/USDA.

- **Bankruptcies completed discharged ≤ 3 years**
  - FICO must be ≥ 660.
  - Re-established credit (since discharge) must indicate no late payments. Late payments post-bankruptcy does disqualify the borrower.
  - Housing payment must be verified for 12-months showing zero late payments.
  - Ratios may not exceed 29/41%.
  - Payment shock (from current total housing to new total housing) cannot exceed 100%. (See [Payment Shock](#) for calculation.)
  - MSI requires a copy of the bankruptcy papers and discharge.
    - Full letter of explanation on all derogatory credit
    - Must have clear CAIVRS.
    - Decision based on prudent underwriting judgment is the final determination.

- **Current, non-discharged bankruptcy**
  - Borrowers are not eligible for an MSI Rural Development loan.

*Continued on next page*
Rural Development Underwriting Guidelines, Continued

Bankruptcy, Continued

Real Estate Involved in a Bankruptcy

- Real Estate Mortgages discharged in a Chapter 7 Bankruptcy require the lender to document foreclosure action and date as well as when title was quit claimed in order to relieve the borrower of ownership of the property.
- Until title is transferred out of the borrower's name, the borrower does not meet the requirements of USDA Rural Development debt.

Builder Bailouts

MSI will not fund/purchase any loan where the subject property is a Builder Bail Out.

- MSI defines a Builder Bail Out as any property (Condo, Attached PUD, PUD, sub division or new construction single family—identified herein as “project”) where the Builder has failed to complete the project or it is complete and it has been “taken over” by the bank, its agents, a developer, contractor or any comparable entity, to complete the sale of the project.

Cash Back at Close

- The borrower may receive cash back at closing provided the amount received does not exceed the documented contributions made from their own liquid funds for expenses for eligible loan purposes (e.g. EMD, inspection fees, HOI, 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.
Rural Development Underwriting Guidelines,
Continued

**Collection Accounts**

(12/01/14)

- Outstanding collections must be paid if the aggregate amount exceeds $2,000 (less any medical collections).
  - At the underwriter's discretion of negative risk, MSI may require collections with an aggregate less than $5,000 to be paid.

**Important Note:**

- Collection accounts indicate an inability or an unwillingness to meet credit obligations when they come due.
- All open collections are subject to Underwriter review regardless of type, age or amount.
- The underwriter is required to retain within the case file all supporting documentation and written rationale when waiving payment of the collection account(s).
  - “Rationale” must be written within the “Notes” section of GUS when submitting a file to USDA with waiver of the payment of the outstanding collection.

---

**Credit**

(12/01/14)

Credit requirements are determined by borrower’s credit score (aka FICO).

- Each borrower must have a minimum of 2 useable FICO scores.
- Minimum FICO to be eligible for the product is 640.
- FICO scores must be determined from the following:
  - All credit scores must be determined from the following approved sources: Experian (FICO), TransUnion (Empirica) and Equifax (Beacon).
- The loan file must contain:
  - Either a 3-bureau merged credit report or
  - A Residential Mortgage Credit Report (RMCR)

**Minimum Trade Line Requirement**

- In order for the FICO to be a valid score, the credit report must contain a minimum of 3 trade lines with a minimum of a 12-month payment history.
  - **Note:** If the borrower has less than 3 trade lines with a 12-month history each, please see Manual Underwriting – GUS Downgrades for possible acceptability.
Rural Development Underwriting Guidelines,
Continued

Credit, Continued

✓ The report must be dated no earlier than 90-days prior to closing (the Note Date).
✓ The credit report must:
  • Contain all the standard information required by Fannie Mae/Freddie Mac regarding credit reports, and
  • Include a “SafeScan” check on the borrower social security number, and
✓ An OFAC check.

Determining the useable loan score

Borrower Score – determine each borrower’s useable FICO
✓ If the borrower has 3 valid scores, use the middle score
  • If there are 3 valid scores, and 2 are duplicates, use the duplicate score.
✓ If there are 2 valid scores, use the lowest score.
✓ If there is only 1 valid score, the borrower is not eligible for MSI.

Loan Score – Use this score to qualify (meet the product FICO guidelines) the loan
✓ More than 1 borrower, use the lowest Borrower Score
✓ Only 1 borrower, use the Borrower Score
✓ Specific credit guidelines apply based on the qualifying loan score:

<table>
<thead>
<tr>
<th>Credit Score ≥ 640</th>
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<tbody>
<tr>
<td>✓ Must have clear credit alert number. (CAIVRS).</td>
</tr>
<tr>
<td>✓ Borrowers with inquiries within the past 120 days that may result in credit must provide a Letter of Explanation (LOX). The underwriter must document any new credit obtained (a credit supplement is acceptable) and the new credit must be included in the qualifying ratios.</td>
</tr>
<tr>
<td>✓ Borrowers are not required to document adverse credit history expect for those involving delinquent federal debt and/or a previous agency loan.</td>
</tr>
<tr>
<td>✓ All Judgments and outstanding tax liens must be paid in full.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credit Score &lt; 640</th>
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<tbody>
<tr>
<td>✓ Loans with a credit score (FICO) less than 640 are not eligible for sale to MSI.</td>
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<tr>
<th>No Useable Score –</th>
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<tbody>
<tr>
<td>✓ Loans with no useable FICO scores are not eligible for sale to MSI.</td>
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</tbody>
</table>

(12/01/14) Maximum Qualifying Ratios
✓ Qualifying ratios may not exceed 34/46.
✓ There are no exceptions to these ratios.
Also see Qualifying Ratios.
Rural Development Underwriting Guidelines, Continued

Credit, Continued

(12/01/14) Credit Qualifying Considerations
- The total debt ratio should include revolving debt, regardless when the debt will be retired.
  - Revolving debt with a reported balance without a payment listed on the credit report, must have a payment calculated as follows:
    - Estimate the monthly payment based on 5% of the current outstanding balance, or
    - Request documentation of the repayment terms of the debt to be retained in the permanent case file.
- Installment loans will only be considered if the debt will not be retired within 10-months.
  - If the debt on the installment is substantial, it should be included in the long term debt, regardless of number of months to retirement.

Note: Debts may be paid-Off to Qualify:
- All funds must be properly documented and sourced.
- Paid prior to application/still on the credit report:
  - Properly documented as paid in full and closed. Provide source of funds.
- Paid during the transaction, provide:
  - A copy of the cancelled check used to pay the debt.
  - A copy of the paid statement from the creditor or credit supplement showing the balance as $0.
  - Evidence that the account is closed.
- Debts may not be paid at closing.
- Debts may never be paid down to qualify.

Continued on next page
Rural Development Underwriting Guidelines, Continued

Credit, Continued

Direct Verification of Other Debts
✓ Lenders must verify the previous 12 months repayment history of additional debts disclosed by the applicant that do not appear on a credit report.
  • All liabilities owed by the borrower must be considered in the borrower's ratios regardless of reporting status on the credit report.
✓ Written third party verifications that meet stated guidelines and/or canceled checks or money order receipts are acceptable.
✓ Lenders must apply due diligence to every GUS loan file regardless of the underwriting recommendation.
✓ The GUS Underwriting Findings Report requires lenders to ensure all liabilities were listed on the credit report and/or made available to GUS.
✓ If some debts were not listed on the credit report but manually entered into GUS by the lender, an “Accept” recommendation must be downgraded to a “Refer.”
  • A manual underwrite, by MSI, must then be completed for loan files with these characteristics (Note that MSI will accept this downgrade only if GUS rendered an “Accept” prior to the additional debt disclosure.) See Manual Underwriting – GUS Downgrades and Streamline for additional guidelines.
  • Important: MSI prefers that the credit report is “updated” to include the debts and the loan is re-entered into GUS to obtain an Accept.

Note: Non-Purchasing spousal debts, court ordered payments for child support/alimony/garnishments/etc. or business debts not included on the applicant's credit report in GUS do not require a manual downgrade. (See Non-Purchasing Spouse in Community Property States)

Co-signer on a loan
✓ If the borrower has co-signed on a loan for another party, an acceptable 12-month history validating that the borrower does not make payments is required to exclude the payment from total debt.
  • Exception: Debts identified as ECOA Code “I” or “Individual” or “J” as joint, must always be considered in the debt ratio regardless of the party making payments as the legal obligation resides with the applicant.

Continued on next page
Rural Development Underwriting Guidelines, Continued

Credit, Continued

(12/01/14) **Student Loans**
- All student loans are subject to a 1% payment, based on the current outstanding balance, except Student Loans with a documented fixed payment.

✓ **Student Loans – Fixed payment**
- A fixed payment indicates a loan that is currently in repayment status that reflects a periodic payment that includes both principal and interest over a set period of time that does not adjust through the repayment period of the loan.
- The payment on the documentation may be used in the debt ratios.

**Transferred Loans or Loans in Transfer:**
✓ Regardless whether the student loan has been recently transferred, or is in the process of being transferred to a new servicer; MSI requires that the loan must be reported current.
- The underwriter must require documentation for the payment history and actual payments for student loans.

**Credit Counseling**
If the borrowers are currently in credit counseling, MSI requires a letter from the agency stating:
✓ That the borrowers are fulfilling the terms of the counseling agency
✓ The length of time remaining for counseling
✓ The terms of the counseling (to ensure the borrowers qualify for the new debt)
✓ Whether the agency feels the borrowers can obtain new debt and
✓ Whether or not the agency feels counseling should continue after the new debt is obtained.

Continued on next page
Credit, Continued

Non-Purchasing Spouse in Community Property States

- Except for obligations specifically excluded by state law, the debts of Non-Purchasing Spouse (NPS) must be included in the applicant’s qualifying ratios when the applicant resides in a community property state or the property guaranteed is located in a community property state.
- The NPS’s credit history is not considered a reason to deny a loan application.
- However, the NPS’s obligations must be considered in the debt-to-income ratio unless excluded by state law. A credit report that complies with Rural Development requirements must be obtained for the NPS in order to accurately determine the debts that must be counted in the total debt ratio.
- Community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

Note: GUS will only retrieve credit reports for applicants. Therefore, lenders must obtain an acceptable credit report outside of GUS for applications in community property states. On the “Asset and Liabilities” application page lenders must enter the debt obligations (those obligations not excluded by state law) of the NPS in the appropriate liability section. In the “Notes” data field lenders should identify the debt as “spousal debt” or “NPS debt.” Lenders must retain a copy of the NPS’s credit report in their permanent loan case file and submit to Rural Development.
Credit, Continued

**Previous Mortgage**
- All previous mortgage liabilities disposed of through a sale, trade, or transfer without a release of liability, must be included in the debt ratio calculation unless evidence can be obtained to confirm the remaining party has made payments over the last 12 months.
- In divorce settlements when one person retains ownership of a residence as a result of the proceedings, it does not imply that the person relinquishing ownership is automatically released of the financial liability associated with an existing mortgage debt.
- The divorce decree along with a release of liability from the mortgage creditor must be presented as evidence that an applicant is no longer legally responsible for the mortgage payment.
- If no release of liability is granted by the creditor then the applicant remains legally obligated for the debt.
- Quit claim deeds do not remove liability for mortgage debts

**Authorized Users**
Borrowers that are Authorized Users on any current, active account(s) must meet the following requirements to be eligible for MSI:
- The borrower must have at least two other open and active trade lines with a 12 month history each (to ensure a fair credit score).
- The authorized user account must fit one of these three profiles:
  - The account belongs to another mortgage applicant, or
  - The owner of the trade line is the spouse of the applicant, or
  - It must be clearly evident that the applicant has been making payments on the account for the last 12 months.

**Conditions/ Stipulations**
All “prior to close/prior to doc” conditions/stipulations on loans required must be approved by the underwriter or assignee and the supporting documentation must be included in the loan file.
Rural Development Underwriting Guidelines, Continued

**Delinquent Property Taxes**

For all Refinances

- If taxes are 60 days or more delinquent, in order to be paid by the refinance, the following apply:
  - The loan must be considered a Cash Out Transaction and meet the applicable guidelines, and
  - The loan must have an escrow (impound) account established.

**Digital Signatures**

- MSI will not accept digital signatures on the following documents within the underwriting submission package. A live signature is required on the following documents:
  - The 1355-21; Initial 1003; Borrower's Authorization; 4506T and Purchase Agreement.

  **Note:** Digital signatures on closing documentation is not acceptable.

**Disaster Policy**

See Underwriting/Pre-Purchase Chapters for details on MSI Disaster Policy, for all loans, including USDA.

USDA loans without an appraisal:

- If the USDA loan does not require an appraisal and the property is located in a FEMA declared disaster area, MSI will require the following:
  - A Non-AMC 2075 with exterior photos and a statement from the appraiser regarding damage to the property during the incident.
  - It is considered an acceptable Change of Circumstance (COC) to add the fee for the appraisal inspection to the GFE; the COC must detail the reason for the fee.

**Disputed Credit Trade Lines**

- MSI will not accept credit with open and active trade lines or public records that are in dispute.

  The following limited exceptions are permitted:
  - The trade line has been paid in full with a zero balance – provide acceptable evidence to validate the closed trade line.
  - The trade line has a balance outstanding of less than $500.00 and is more than 24 months old.

*Continued on next page*
Rural Development Underwriting Guidelines, Continued

Down Payment Assistance

Grants and Down Payment Assistance (DPA/DAP) are permitted provided the following guidelines are met:

- The CLTV must be greater than 80.00%.
- Seller-funded DAP’s/DPA’s are not permitted.
- The DAP/DPA must not contain any special servicing requirements or reporting.
- The DAP must not “interfere” with the first lien position.
- “Time-honored” grants are permitted, provided the USDA is in first lien position

Earnest Money Deposit (EMD)

- Earnest money may be considered an asset to the borrower and returned on the HUD-1/Closing Disclosure at close provided the EMD can be documented through validation of withdrawal from the borrower’s liquid asset account in the form of a canceled check, money order or cashier’s check.
  - Earnest money in the form of a gift requires the gift to be deposited into the borrower’s asset account prior to withdrawal.

FICO Scores

See Credit for details.

Financial Reform – ATR/QM

MSI accepts only those loans that meet the Consumer Protection Financial Board Qualified Mortgages/Ability to Repay (QM/ATR) guidelines published in the final rule.

- See Underwriting/CFPB for full details.

Foreclosure

MSI will not purchase loans for a borrower with a foreclosure within 36 months of the application date.
Rural Development Underwriting Guidelines, Continued

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**Guarantee Fee**

*REV (10/01/15)*

Follow current USDA requirements/guidelines for Guarantee Fees.

- **Purchase and Refinance UpFront** = 2.75% of outstanding balance,
- **Purchase and Refinance Annual Fee** = 0.50% of the outstanding principal balance.

---

**Homeowner Counseling**

Homeownership Counseling is not a requirement for every Rural Development loan, however, Counseling may be required by the underwriter for the following reasons:

- Borrowers with no previous housing experience (ownership or rental).
- Borrower with no established positive credit trades to demonstrate an ability to handle the proposed housing payment on a timely basis.
- If “borrowers to complete Homeownership Counseling” is a condition of the loan it may be satisfied at closing by providing a signed certificate of completion and the household budget worksheet information from one of the following:
  - Fannie Mae’s Guide to Homeownership or a comparable program offered by a local non-profit organization or a standard mortgage insurance class.
- Rural Development offices in the following states require Home Ownership Counseling for all first-time homebuyers.
  - For states not listed below, MSI suggests that underwriters confirm with their local Rural Development offices as many states are considering making counseling mandatory for first time homebuyers.

- CA ✔
- FL ✔
- GA ✔
- IN ✔
- LA ✔
- MN ✔
- NE ✔
- TX ✔
- WA ✔
- WI ✔

Continued on next page
Rural Development Underwriting Guidelines, Continued

HUD Repo

MSI will purchase HUD repo/reo:

- The finished/completed property must meet HUD Handbooks.
- Repairs may be completed after closing as long as escrow for repairs meets current guidelines. See Repairs for details.

See Underwriting/REO/Rep Properties for full details.

Income Documentation (12/01/14)

Total (Annual) household income cannot exceed the moderate level for the area as established by USDA. The Total Annual Income eligibility may be found on the USDA Web Site.

- All income must be derived from a source that is legal in accordance with governing State/Federal laws.
- Income must be reviewed for a 24 month period.
- All income within a household (household members 18 years and older) must be considered in the USDA Income Eligibility Limits, regardless whether the household member will be a “borrower” on the loan.
  - Adult household members that are not on the loan application must provide income verification to the lender for their employment status as outlined in this section.
  - Household income must be documented in the same manner as qualifying income.
  - This verification must include a Verbal VOE to meet MSI standards and 4506-T signed by each household member aged 18 and over, and the 2 most recent years of IRS transcripts pulled and included in the underwriting file (for each household member aged 18 years and older).
  - Household income may be adjusted by child care costs for dependents under 12 years of age. The adjustment must be fully documented to USDA guidelines.
    - Documentation can be in the form of tax returns, third party verifications, canceled checks, or money order receipts.
    - Child support payments and/or private school tuition paid by an applicant are not eligible child care expenses.
    - Applicants that have not yet placed their child into care of have no evidence to support payments made will be unable to qualify for this deduction.
- Adhere to USDA/FHA Guidelines. See USDA guidelines in 3555 9.3 for full details on allowable income and calculation and verification.
- Income must be carefully evaluated for the past 2 years to ensure the stability and continuity of the borrower’s income.

Continued on next page
Rural Development Underwriting Guidelines, Continued

Income Documentation, Continued

✔ Verbal VOE must be completed on all loans prior to MSI funding/purchasing the loan. See Underwriting/Verbal Verification of Employment for full MSI requirements.
  • On all loans received by MSI for underwriting MSI performs, prior to underwriting the loan, a Verbal VOE to confirm that the borrowers are still employed. If the borrower and/or co-borrower(s) are no longer employed and it appears they can no longer qualify for the loan, MSI will return the loan without underwriting.
  • Additionally, MSI performs a verbal verification of employment prior to close.
    o If the borrower(s) is no longer employed and it appears he/she (they) can no longer qualify for the loan, MSI will refuse to close the loan.

Salaried
✔ Provide the most recent paystub for the most recent 30-day pay period showing year-to-date income.
✔ W-2’s for the most recent 2-years.
✔ A verbal VOE must be included at time of underwriting, see Underwriting/Verbal Verification for full requirements and details.
✔ Where there has been a change in employers, the borrower must explain any gap in employment that extends beyond 1 month.

Continued on next page
Rural Development Underwriting Guidelines,
Continued

Income Documentation, Continued

Self-Employed
✓ Self-employed borrowers for this purpose are defined as:
  • Borrowers that own 25% or more of a company or business.
  • Commissioned borrowers
  • Borrowers employed by a relative or closely-held family business
  • Borrowers who are not commissioned, but need to validate their expenses
✓ Self-employed borrowers must provide 2 years 1040’s and an audited financial statement if the application is signed more than 120 days after the end of the business year.
  • Borrower must have 2 consecutive years in the business to consider the income as useable.
  • Newly formed businesses must be in operation for more than 1 year and a history of previous employment in the same line of work.
    o An audited financial statement is required if the application is signed more than 120 days after the end of the business year.
✓ Self-employed income must be analyzed and averaged over the 2-year period.
✓ See the Seller Guide/Underwriting Chapter/Self-Employed for additional MSI requirements.

Continued on next page
Rural Development Underwriting Guidelines,
Continued

Income Documentation, Continued

Special Considerations

✓ Part-Time Income – Part-time or second job income with a duration of 24-months may be used.

✓ Automobile Allowance
  • Only the amount by which the borrower’s automobile allowance or expense account payments exceed the actual expenditures may be considered as income.
  • These expenditures must have a 2 year history of being reported under IRS form 2106 Employee Business Expenses and full written verification from the employer that these payments will continue.
  • The monthly debt for these items must be included in the debt ratios.
  • Annual Income; if the allowance is included on the borrower’s paystub as gross earnings this is considered to be income included in the annual income calculation.

✓ Alimony, Child Support and Separate Maintenance – MSI requires documentation that the income will continue for a minimum 3-year period after the date of the mortgage application.
  • USDA will permit the income only if payments are required by court order.

(12/01/14) ✓ Income from household assets—Liquid asset accounts from all household members must be documented and dividend and interest income from these asset accounts considered in the total Annual Income Calculation The full details for Annual Income can be found in 3555 9.3

Continued on next page
Rural Development Underwriting Guidelines, Continued

Income Documentation, Continued

(12/01/14) ✓ **Grossing up Non Taxable Income** – USDA allows lenders to *gross up* income that is not subject to federal income tax for repayment purposes.
- The lender is responsible for verifying income, the non-taxable status of the income, and the likeliness for the income to continue.
- Adjustments for an amount other than the applicable tax rate are not authorized.
- The lender must fully document and support the amount of income *grossed up* for any nontaxable income source.
- USDA allows non-taxable income to be universally grossed-up by 25% regardless of the attributable tax savings.

✓ **Mileage Reimbursement**
- Only Depreciation claimed on the IRS 2106 form may be added back as income based on a 2 year average of the amount claimed.
- The per mile rate or actual cost method may not be added back as income.

✓ **Unreimbursed Employee Expenses**
- Unreimbursed employee expenses reported on IRS form 2106 Line 8 will be deducted from repayment income prior to calculating debt ratios.
- **Annual Income:** Unreimbursed employee expenses may be deducted from annual income calculations.

Continued on next page
Rural Development Underwriting Guidelines, Continued

**Interest Rate - Maximum**

The maximum interest rate for the USDA-GRH Program is defined as the greater of the Fannie Mae 90-Day actual/actual yield requirements plus 1.0 Basis.

- MSI publishes a maximum GRH Rate on the Price Sheet each day. The FRH loan may not exceed that maximum daily rate. It is the LO’s sole responsibility to ensure that the maximum interest rate is not exceeded on the lock confirmation.

**Important:** Under no circumstances can the interest on the GRH loan be greater than the max FRH Rate published for the date the loan was locked. USDA will not insure loans closed with an interest rate that exceeds the published maximum.

**Interested Party Contributions**

USDA has a 6% (of the purchase price) limit on the amount of interested party contributions. However, the following guidelines must be met:

- Contributions may be from the seller or a family member, a Down Payment Assistance Program or Grant that meets current USDA guidelines. See Down Payment Assistance and Grant that meets current USDA guidelines. See [Down Payment Assistance](#) and [Assets Table](#).

- The contributions may only be used for down payment, closing costs and/or prepaid items.

- If the contributions exceed 6%, the excess contributions must be deducted dollar for dollar from the purchase price.

*Continued on next page*
Rural Development Underwriting Guidelines, Continued

The following matrix outlines the USDA requirements for certain property inspections. See [Appraisal](#) for Well and Termite inspection requirements.

### Inspection Requirements Matrix

<table>
<thead>
<tr>
<th>New Construction – Property ≤ 1 Year Old</th>
<th>Builder Providing 1-Year Warranty</th>
<th>Builder Providing 10-Year Warranty</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Framing Inspection</td>
<td>✓ Final Inspection</td>
<td>✓ Final Inspection</td>
</tr>
<tr>
<td>✓ Footing Inspection</td>
<td>✓ Thermal Certification</td>
<td>✓ Thermal Certification</td>
</tr>
<tr>
<td>✓ Final Inspection</td>
<td>✓ Occupancy Certification (equivalent for the jurisdiction)</td>
<td>✓ Occupancy Certification (equivalent for the jurisdiction)</td>
</tr>
<tr>
<td>✓ Thermal Certification</td>
<td>✓ Satisfactory Well Test (See <a href="#">Appraisal</a> for Well Test details.)</td>
<td>✓ Satisfactory Well Test (potability and flow)</td>
</tr>
<tr>
<td>✓ Satisfactory Well Test (See <a href="#">Appraisal</a> for Well Test details.)</td>
<td>✓ Septic Permit</td>
<td>✓ Septic Permit</td>
</tr>
<tr>
<td>✓ Septic Permit</td>
<td>✓ Occupancy Certification (equivalent for the jurisdiction)</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** New construction must meet all requirements noted in the HUD Handbooks. See [Appraisal](#) for New Construction Guidelines.

### Existing – Property > 1 Year Old

✓ Existing properties must meet the current requirements of HUD Handbooks 4000.1 and 4905.1. HUD Handbook determinations may be completed by 1 of the following methods:

- An FHA roster appraiser may certify compliance to the Handbooks, Or,
- A licensed or certified appraiser who is not on the FHA roster can complete the Handbook determinations when the lender deems the appraiser qualified.

**Note:**

✓ Appraisers may certify the requirements of HUD Handbooks 4000.1 and 4905.1 have been met on page 3 of the appraisal form in the “Comment” section, in an addendum to the appraisal, or elsewhere on the appraisal form.

✓ It is not necessary for the appraiser to specifically identify each HUD Handbook by number (4000.1/4905.1).

✓ Appraiser comments that state the property “appears to meet” or “seems to meet” HUD Handbooks are unacceptable.

✓ Satisfactory Well and Septic Inspections are required by MSI. Repairs must complete prior-to-close, must follow HUD Handbook health and safety requirements.

**Note:** MSI must retain copies of all documents in the loan file, whether they were forwarded to the USDA office or not

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*Continued on next page*
Rural Development Underwriting Guidelines,  
Continued

Lender Certifications for Repairs

See the Underwriting Chapter/Property for MSI policy for FHA loans.

Loan-to-Value

The maximum LTV permitted is 100.00%

- Purchase Transactions may include the current USDA Guarantee Fee.
  - Closing costs and pre-paid items that are common and customary to the area may be included in the 100.00% LTV. The underwriter must carefully evaluate to ensure that the closing costs are not excessive.
  - In certain situations, costs for repairs, as required for health or safety may be included in the 100.00% LTV. See Repairs for additional details.
  - The Guarantee Fee is the only amount that can be added to the loan amount to increase the LTV greater than 100%-up to 102.00% maximum.

- Discount fees may never be financed.

- Refinance Transactions may include the USDA Guarantee Fee.
  - Closing costs and prepaid items, common and customary to the jurisdiction may be added to the loan amount to a maximum 100% LTV (only with a full URAR).
  - The Guarantee Fee is the only amount that can be added to the loan amount to increase the LTV greater than 100% (up to 102.00% with a URAR). See Rural Development Refinance Matrix

Notes:

- The Guarantee Fee is subject to change without notice. See Guarantee Fee

- Discount Points (premium pricing) may never be financed in the loan amount.

- Accrued Interest, Closing Costs and Pre-paids may be included in the loan amount only when a URAR is obtained.

Lot Size

See Property Types for details.
Rural Development Underwriting Guidelines, Continued

**Multiple Properties to One Borrower (12/01/14)**

Borrowers may only own one property.

**Exception:** In keeping with RD Instruction 7 CFR 3555 8.2 A, a borrower may have another financed property under the following limited circumstances.

---

**Mortgage History**

A 24-month history of residence is required on all loan files.

- See Credit for mortgage history requirements as they relate to FICO scores.

---

**Non-Occupant Co-Borrower**

Not permitted.

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**Occupancy Requirements**

- The borrower(s) obtaining a USDA Guaranteed Loan must certify that they intend to **personally** occupy the property as their home within 60 calendar days after the loan closing. This includes any occupancy delay due to repairs.
  - The property cannot be rented, back-rented, leased or sublet to any other parties after the loan closing.
- Only the borrower can satisfy this occupancy requirement (no other family member or person other than the borrowers may satisfy the occupancy requirement.)

---

**Payment Shock**

Underwriters must consider payment shock as a risk layer when the following apply:

- The housing ratio (PITI) exceeds 29% and the proposed housing expense is 100% or greater than the current housing expense, or
- When the borrower has no history of housing expense.

**Calculation for Payment Shock:**

Proposed PITI/Current PITI (-1) = ______X 100 = Payment Shock %.

*Continued on next page*
Rural Development Underwriting Guidelines,
Continued

**Personal Interview**

MSI requires that the LO have at least 1 personal interview with the borrower to confirm the information provided on the loan application is valid.

**Principal Reductions**

- MSI limits Principal reductions on the Closing Disclosure at close to $500.00 for all loan types.
  - Lender credits and Seller Contributions cannot be considered as a principal reduction.
  - If the Principal reduction exceeds $500.00 the loan will be required to be returned to the Underwriter to adjust the loan amount accordingly.

**Private Roads**

- Properties located on a Private Road must document proof of a permanent recorded easement which allows for unrestricted ingress and egress onto the subject property from a public road.
  - A Private Road Maintenance agreement is not required.

Continued on next page
Rural Development Underwriting Guidelines, Continued

**Purchase Agreement (Contract) – Re-Negotiated**

MSI will not accept re-negotiated purchase agreements (contracts) that increase the sales price *after* the original appraisal is completed if:

- The appraised value is higher than the contracted sales price provided to the appraiser, and
- The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received (completed), and
- The only change to the purchase agreement is the increase in sales price.

**Exception:** MSI will permit the re-negotiation of a USDA Sales Contract under the following circumstance:

- If the re-negotiation is completed to allow for the actual cost of a repair that is already complete, or for the bid amount for a repair intended to be completed prior to close:
  
  - The Contract Sales Price may be increased to cover *only the actual cost of the repairs* and not for any other reason.
  
  - **Note:** A credit or allowance cannot be given for the repairs, thus the re-negotiation of the Sales Contract is permitted.

**Notes:**

- MSI will rely on the appraiser to certify that he/she has seen the purchase agreement.
- MSI reserves the right to require supporting documentation if any type of real estate scheme is suspected.

**Qualifying Ratios (12/01/14)**

34/46%

- Ratios may not be exceeded. See Maximum Qualifying Ratios.

**Notes:**

- See Payment Shock for calculation and details.
- MSI requires a GUS Accept/Eligible to accept expanded ratios.

*Continued on next page*
Rural Development Underwriting Guidelines, Continued

Qualifying for USDA (12/01/14)

**USDA Definition of Conventional Credit**

A borrower seeking the use of USDA Guaranteed Rural Housing must meet certain criteria and limitations. USDA has established a definition of Traditional Conventional Credit. If a borrower meets the definition of Traditional Conventional Credit, they are not eligible for financing under the USDA GRH program.

- The USDA parameters of Traditional Conventional Credit are as follows;
  - The applicant was able to make a 20 percent down payment; and
  - The applicant was able to pay all closing costs out of pocket; and
  - The applicant’s total debt ratio was 36 percent or less (after the 20% down payment is made); and
  - The applicant’s debt ratio for principal, interest, taxes and insurance (PITI) was 28 percent or less (after the 20% down payment is made); and
  - The applicant had a good credit history consisting of at least two credit bureau trade lines open and paid as agreed for at least a 24-month period, to include that:
    - 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; and
  - The conventional mortgage loan term was for a 30-year fixed rate loan term without a condition to obtain private mortgage insurance (PMI).

- Liquid assets for conventional credit down payment purposes typically consisted of cash or cash equivalents.
  - Cash or cash equivalents included funds in the applicant’s checking or savings accounts, or investments in stocks, bonds, mutual funds, certificates of deposit, and money market funds, unless they were encumbered (pledged as collateral) or otherwise inaccessible without substantial penalty.
  - Cash equivalents typically did not include funds in Individual Retirement Accounts, 401(k) accounts, Keogh accounts, or other retirement accounts that were restricted and may not be accessed without incurring substantial monetary penalties.
Rural Development Underwriting Guidelines, Continued

**Refinance**

The following Refinance Matrix outlines the USDA and MSI guidelines for refinance mortgages.

- ✔ See [Delinquent Property Taxes](#).

<table>
<thead>
<tr>
<th>Topic</th>
<th>Refinance Guideline /Requirements</th>
</tr>
</thead>
</table>
| Adding/Deleting Borrowers | At least 1 original borrower from the original loan being refinanced must stay on the new loan.  
- ✔ Borrowers may be added and must become a party to the promissory Note and meet eligibility requirements  
- ✔ Borrowers may be deleted; the remaining borrowers must be a party to the promissory Note and meet eligibility requirements. |
| Appraisal                 | A complete URAR is required unless the following condition is met:  
- ✔ The new loan amount includes only the unpaid principal balance of the current loan, current interest and a Reconveyance fee (with or without the Guarantee Fee added.) |
| Eligibility               | Effective for all RD loans locked on/after 11/01/13:  
- ✔ The refinance loan must have a minimum of 12 satisfactory (0x30) payments made prior to the closing date of the new loan.  
  - A minimum of 12 payments (shown on the Credit Report) must be made on the current Direct or Guaranteed loan.  
- ✔ Loans must be secured by the same property as the original loan.  
- ✔ The property must be owned-occupied as the borrower’s current principal residence.  
- ✔ The original loan (the one being refinanced) must be a Guaranteed Rural Housing (GRH) or USDA Section 502 Direct only.  
  - The original loan may not be any other government (FHA/VA) or conventional mortgage.  
- ✔ Direct loans may now be refinanced as Streamline Refinances under specific limitations set by the Agency:  
  - Borrowers with 502 Direct loans that have not received payment subsidy may qualify for the Streamline option.  
  - MSI will require documented evidence from the USDA Servicing Center that the borrower has not received subsidies on their Direct loan prior to approval for the Streamline option.  
  - Copy of the current pay-off to document recapture fees must be included in the underwriting file.  
- ✔ The refinance must result in a reduction in the current interest rate of at least 100 bps (1%).  
- ✔ The new PITI must be less than the current PITI on the existing loan.  
- ✔ The new loan amount may not exceed the original purchase amount (as shown on the original HUD-1/Closing Disclosure). |

Continued on next page
Rural Development Underwriting Guidelines, Continued

**Refinance, Continued**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Refinance Guideline /Requirements</th>
</tr>
</thead>
</table>
| **Cash Out**                 | ✓ Cash Out Refinances are not permitted  
|                              | • However, borrowers may receive reimbursement (in cash) from loan proceeds at settlement for personal funds advanced for eligible loan costs that are part of the refinance transaction, e.g. appraisal fee or credit report fee.  
|                              | • Additionally, at settlement, a nominal amount of “cash back” to the borrower may occasionally result due to final escrow and interest calculations. This amount **must always** be applied as a principal reduction to the new loan, and may not be given as cash to the borrower. |
| **Guarantee Fee**            | ✓ The Guarantee Fee may be financed into any GRH refinancing transaction.  
| **Maximum LTV and Loan Amount** | o Closing costs and other prepaid items may never cause the loan amount to exceed 100% LTV.  
|                              | o **Streamline Option:** The Borrower may finance the Unpaid Principal Balance, current interest charge and a Reconveyance fee. The Borrower may only finance the interest due up to the date of closing. Excess day’s interest included in the amount financed must be reduced by a principal reduction at close.  
|                              | • The value of the new loan is permitted to reach a maximum (100% plus the amount of the current Guarantee Fee) **only** if the Guarantee Fee is financed into the loan amount.  
|                              | • The refinanced loan may not exceed the original loan amount.  
| **Note:** The maximum LTV adjusts according to the Guarantee Fee used. |
| **Interest Rate**            | ✓ The interest rate of the new loan must be fixed. Temporary Buydowns are not permitted.  
|                              | ✓ The refinance must result in a reduction in the current interest rate of at least 100 bps (1%). |
| **Late Fees**                | Unpaid fees on the loan, such as unpaid late fees are not permitted to be paid by the new loan. |
| **Mortgage History**         | ✓ The loans must be current.  
|                              | ✓ No mortgage lates in the past 12 months (0X30). |
| **Seasoning**                | ✓ **USDA** requires all loans to have a **minimum** of 12-payments made prior to the date of loan closing for the new loan. |
| **Subordinate Financing**    | ✓ Existing subordinate financing may not be included in the new loan amount.  
|                              | • All existing subordinate financing must be re-subordinated to the new loan. Special care must be taken to ensure the first lien position of the new loan. |
| **Term**                     | The term of the new loan must be 30-years. |

*Continued on next page*
Rural Development Underwriting Guidelines, Continued

REO Appraisals

✓ An appraisal that has been prepared for REO purposes is not acceptable for a guaranteed purchase loan transaction.
✓ A new appraisal with the intent to arrive at an opinion of value for a purchase transaction (not a servicing action/distressed sale) must be obtained.

Rental Income

Rental income requirements are summarized below, see RD AN #4411 for full details.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical Rental Income</td>
<td>If the borrower has a demonstrated history of rental income (a minimum of 24-months, documented via tax returns), the net income may be used to qualify the borrower(s).</td>
</tr>
<tr>
<td>Newly signed leases</td>
<td>✓ Not permitted to be used. MSI will permit offset of debt only if the property has been leased for a minimum 2-years and documented by tax returns.</td>
</tr>
<tr>
<td></td>
<td>✓ MSI will not permit any exceptions to this requirements.</td>
</tr>
</tbody>
</table>

Important Note: The subject property must meet state specific USDA guidelines regarding eligibility (whether or not the borrower is permitted to own property other than the subject.)
Rural Development Underwriting Guidelines, Continued

**Repairs**

It is not the intention of MSI or USDA loan to rehabilitate the property.

- See the “Repairs Matrix” for additional guidelines:

**Repairs Matrix**

<table>
<thead>
<tr>
<th>Escrow Accounts for Repairs</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ The full guideline of Escrow for Exterior and Interior Development can be found in 3555 12.9 C and D respectively</td>
</tr>
<tr>
<td>✓ The full guideline of Escrow Completion without the Assistance of a Contractor can be found in 3555 12.9 E</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>General Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>The agency has better defined their requirements for the establishment of escrow accounts for both interior and exterior work</td>
</tr>
<tr>
<td>✓ The cost of the work cannot exceed 10% of the final loan amount</td>
</tr>
<tr>
<td>✓ The intent is to accommodate minor repair/predications to meet the requirements of HUD Handbooks; it is not to rehabilitate the home.</td>
</tr>
<tr>
<td>✓ Livability of the dwelling is not affected due to the predication or the process of the repair</td>
</tr>
<tr>
<td>✓ Loan funds may be used for items such as appliances, replacement of mechanicals, flooring, exterior development on new construction only (i.e., seed, sod, landscaping, driveway), handicap accessibility, and energy saving measures (i.e., windows, insulation). The escrow account must be established in a Federally supervised institution</td>
</tr>
<tr>
<td>✓ MINIMAL repairs may be completed by the borrower at the lender's discretion (such as painting, installing a hand rail, etc.)</td>
</tr>
<tr>
<td>✓ The borrower may never receive loan funds for the cost of materials or labor. (Checks must be cut on settlement statement to the entity that supplies the necessary items. Checks cannot be cut for supplies purchased by the borrower on a credit card.)</td>
</tr>
<tr>
<td>✓ If loan funds are used for the repairs they must always appear on the Closing Disclosure</td>
</tr>
<tr>
<td>✓ Interior or Exterior repairs done AFTER close no longer require a holdback of 1.5X, however the holdback must appear on the Closing Disclosure and be the amount of the bid and never less</td>
</tr>
<tr>
<td>✓ Any remaining funds over the bid amount required on the borrower's side must be a Principal Reduction</td>
</tr>
</tbody>
</table>

**Interior Repairs Completed Prior to Close**

- The repairs may be done by the borrower or the seller depending on the type of repair (underwriter discretion)
- Repairs that are not considered to be simple or require a professional must be completed by a licensed contractor
- If loan funds will be used for the repairs the bid or cost of materials must always appear on the Closing Disclosure and may be paid out at close by the closing agent
- The repairs must be completed in a workman-like manner **and** inspected prior to close to meet HUD Handbooks

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Continued on next page
Rural Development Underwriting Guidelines,
Continued

**Repairs, Continued**

<table>
<thead>
<tr>
<th>Repair Matrix</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interior Repairs Completed After Closing</strong></td>
</tr>
<tr>
<td>✓ The repairs may be done by the borrower or the seller depending on the type of repair (underwriter discretion)</td>
</tr>
<tr>
<td>✓ Repairs that are not considered to be simple or require a professional must have a bid and be completed by a licensed contractor</td>
</tr>
<tr>
<td>✓ The bid or cost of materials must always appear on the Closing Disclosure and paid to the appropriate party regardless of the source of funds (seller, borrower or loan proceeds)</td>
</tr>
<tr>
<td>✓ The pre-approved MSI Escrow Holdback Agreement form must be completed and executed at close on all repairs done after close</td>
</tr>
<tr>
<td>✓ The repairs must be done in a workman-like manner and inspected to meet HUD Handbooks within 30 days of close</td>
</tr>
<tr>
<td>✓ Once the repairs are complete and inspected to meet HUD Handbooks the Underwriter will review the inspection and authorize the release of the escrow funds to the respective party</td>
</tr>
</tbody>
</table>

| **Exterior Repairs Completed Prior to Close** |
| ✓ The repairs may be done by the borrower depending on the type of repair (underwriter discretion) |
| ✓ Repairs that are not considered to be simple or require a professional must be completed by a licensed contractor |
| ✓ If loan funds will be used for the repairs the bid or cost of materials must always appear on the Closing Disclosure and may be paid out at close by the closing agent |
| ✓ The repairs must be done in a workman-like manner and inspected prior to close to meet HUD Handbooks |

| **Exterior Repairs Completed After Closing** |
| ✓ The repairs may be done by the borrower depending on the type of repair (underwriter discretion) |
| ✓ Repairs that are not considered to be simple or require a professional must have a bid and be completed by a licensed contractor |
| ✓ The bid or cost of materials must always appear on the Closing Disclosure and paid to the appropriate party regardless of the source of funds (seller, borrower or loan proceeds) |
| ✓ The pre-approved MSI Escrow Holdback Agreement form must be completed and executed at close on all repairs done after close |
| ✓ The repairs that are not weather related, must be done in a workman-like manner and inspected to meet HUD Handbooks within 30 days of close |
| ✓ The repairs that are weather related, must be done in a workman-like manner and inspected to meet HUD Handbooks within 180 days of close |
| ✓ Once the repairs are complete and inspected to meet HUD Handbooks the Underwriter will review the inspection and authorize the release of the escrow funds to the respective party |

**Reserves**

There is no requirement for payment reserves after closing.

*Continued on next page*
Rural Development Underwriting Guidelines, Continued

**Reservation of Funds**

Rural Development may or may not require the advance reservations of funds depending upon the Funds for Fiscal Year.

- Rural Development will advise participants whether or not funds must be reserved, contact your local Rural Development Office if uncertain of the availability of funds.
- Effective 10/17/08, the beginning of Fiscal Year 2009, USDA Rural Development is not requiring the reservation of funds process.

**Secondary Financing**

Not Permitted.

**Security Bars**

Security Bars (also known as burglar bars):

- The appraiser must specifically comment and follow state and local requirements with respect to properties using security or “burglar” bars.
- There must be an emergency release latch for at least one window in each room where the security bars are located, unless local or municipal code states otherwise.

**Important Notes/MSI Restriction**

- If there is no alternative escape route for those rooms with security bars, MSI will require a release latch for one window in the room, regardless of local/municipal code or requirements.
  - The appraiser must specifically address, in the case where there is no emergency release latch and the property meets code, that there is a safe, alternative escape route for the room in case of fire or that an emergency release latch is provided for at least one window.

**Short Sales**

To purchase a new property MSI requires that the borrower have reestablished credit for a minimum of 3-years after the completion date of a Pre-Foreclosure Sale (also identified as a Short Sale) or a Deed-In-Lieu of Foreclosure.

Continued on next page
Rural Development Underwriting Guidelines,
Continued

Social Security Number
Each borrower must have a social security number. MSI is responsible for the validity of the borrower’s social security number.

- MSI runs a Social Security number trace on each borrower, especially on loans such as FHA Streamline or VA IRRRL where a credit report is not run.

Trailing Co-Borrower Income
Not permitted

Private Water and Wastewater
(12/01/14)
- The agency has better defined nonpublic water and wastewater requirements
  - Water purification systems are acceptable provided they are durable and meet the requirements of the state health or regulatory body
  - Water quality test is good for 120 days (formerly 90 days)
  - Feasibility of hookup is required. If the property can be feasibly hooked up for $10,000 or less and can be financed, the property must be serviced by public water and wastewater
  - Cisterns are not acceptable (already an MSI guideline)
  - It is acceptable for wells or wastewater to be on an adjacent site provided there are recorded water rights, or encroachment rights for access and limit tampering
  - Shared wells are acceptable. They must meet HUD Handbook 4000.1 and all applying mortgagee letters. No more than 4 properties per well head
  - The agency has defined what they will accept as a Community water and wastewater system
  - Provided the appraiser is current on the HUD Roster, their certification to HUD Handbooks will suffice for the septic inspection.

- The full guideline of Water and Wastewater can be found in 3555 12.6
Manual Underwriting – GUS Downgrades

Important Limitations for Manual Down Grades

MSI requires a GUS Accept on USDA loans; however, in those rare occasions where the Agency requires a manual downgrade to a Refer, MSI will perform a manual underwrite only for the following:

✓ When debts are assigned to the borrower that do not report on the credit report.
✓ When a trade line is reporting a Bankruptcy as not being discharged which has caused GUS to provide a “Refer” rating.
  • MSI requires documentation that proves a minimum of 36 months has passed since the discharge date of the Bankruptcy.
  • Important Note: MSI will not permit if the Bankruptcy has a discharge date less than 36 months.

USDA Manual Underwriting Requirements

✓ In addition to MSI published guidelines, the following manual underwriting applies to Downgrades:

<table>
<thead>
<tr>
<th>Topic</th>
<th>Underwriting Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorized User Accounts</td>
<td>MSI will not accept credit with open and outstanding authorized user accounts regardless of age or balance.</td>
</tr>
</tbody>
</table>
| Collection Accounts | Collection accounts indicate an inability or an unwillingness to meet credit obligations when they come due.  
  ✓ All open collections are subject to review by the Underwriter regardless of type, age or amount.  
  ✓ Please see the guidance under “Credit Waiver” for USDA requirements for documenting collection accounts according to agency requirements.  
  • The Underwriter is required to retain supporting documentation and rationale for not requiring collections to be satisfied within the case file. |
Manual Underwriting – GUS Downgrades, Continued

USDA Manual Underwriting Requirements, Continued

<table>
<thead>
<tr>
<th>Topic</th>
<th>Underwriting Requirement</th>
</tr>
</thead>
</table>
| **Credit Counseling** | ✓ If the borrowers are currently in credit counseling, MSI requires a letter from the agency stating:  
  • That the borrowers are fulfilling the terms of the counseling agency.  
  • A minimum of 12 months of the repayment period has elapsed under the plan.  
  • The length of time remaining for current counseling.  
  • The terms of the counseling (to ensure the borrowers qualify for the new debt).  
  • Whether the agency feels the borrowers can obtain new debt, and  
  • Whether or not the agency feels counseling should continue after the new debt is obtained. |
| **Credit Review**   | ✓ Derogatory Credit must be documented as follows:  
  **FICO ≥ 680:**  
  ✓ The lender is responsible for evaluating the borrower’s explanation for derogatory credit and establishing that the borrower’s reasoning meets USDA’s requirements for manually underwritten loans.  
  ✓ The lender is required to complete an Adverse Credit Waiver using documentation provided from the borrower to submit to USDA for consideration of a manual underwrite.  
  ✓ Supporting documentation is not required to be submitted to USDA when requesting a 3555-21 Conditional Commitment, but must be retained in the lender’s case file.  
  **FICO 640-679:**  
  ✓ The lender is responsible for evaluating the borrower’s explanation for derogatory credit and establishing that the borrower’s reasoning meets USDA’s requirements for manually underwritten loans.  
  ✓ The lender is required to complete an Adverse Credit Waiver using documentation provided from the borrower to submit to USDA for consideration of a manual underwrite.  
  ✓ Supporting documentation is required to be submitted to USDA when requesting a 3555-21 Conditional Commitment. |
| **Credit Waivers**  | ✓ The borrower must exhibit the intent for establishing good credit.  
  ✓ Derogatory credit exhibited on the credit report must be documented in the following manner:  
  • The applicant must provide MSI with a written and signed explanation of all adverse credit exhibited on the credit report and how it meets USDA’s requirements.  
  • Note that the borrower bears the burden of providing explanation, support and documentation for the following requirements for all manually underwritten loans;  
    o The circumstance was temporary in nature; and  
    o It was beyond the applicant's control; and  
    o The circumstances contributing to the derogatory credit have been removed or resolved. |

Continued on next page
## Manual Underwriting – GUS Downgrades, Continued

### USDA Manual Underwriting Requirements, Continued

<table>
<thead>
<tr>
<th>Topic</th>
<th>Underwriting Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disputed Accounts</td>
<td>✓ MSI will not accept credit with open and outstanding disputed accounts or public records regardless of age or balance.</td>
</tr>
</tbody>
</table>
| Ratio Waivers                 | ✓ USDA Ratio limits are 29/41 on manually underwritten loans.  
  - MSI will allow ratios up to 32/44 for manually underwritten loans with documentation of excellent compensating factors.  
  ✓ Minimum FICO to permit a Ratio Waiver is 680.  
  ✓ At least one of the acceptable Compensating Factors listed herein must be identified and explained by the Lender with supporting documentation to be submitted to the Agency for consideration. |
| Compensating Factors:         | ✓ Zero Payment Shock.  
  - Per USDA: The proposed PITI [proposed housing expenses] is equal to or less than the applicant’s current verified housing expense for the 12 month period preceding loan application. Verification of housing expenses may be documented on a Verification of Rent (VOR) or credit report.  
  - The VOR or credit report must include the actual payment amount due and report no late payments or delinquency for the previous 12 months. Rent or mortgage payment histories from a family member will not be considered.  
  ✓ Minimum 3 months’ reserves.  
  - Per USDA: Accumulated savings of liquid assets or cash reserves available post loan closing are equal to or greater than 3 months of PITI payments.  
  - A Verification of Deposit or 2 consecutive bank statements, dated within 45 days of loan application, that document the average balance held by the applicant is required. Cash on hand is not eligible for consideration as a compensating factor.  
  ✓ Two years’ job history with the **SAME** employer, **no job gaps**. Not permitted for self-employed applicants.  
  - Per USDA: The applicant(s) (all employed applicants) has been continuously employed with their current primary employer for a minimum of 2-years.  
  - A “Request for Verification of Employment” (VOE) (Form RD 1910-5, equivalent HUD/FHA/VA or Fannie Mae form, or other equivalent), or VOEs prepared by an employment verification service (The Work Number, etc.) must be provided. |
| Rental/Housing Verification   | ✓ Borrowers with credit scores ≤ 680 that currently have housing/rental expenses must document a 12 month timely payment history through a VOR, canceled checks, or rent/mortgage history on a credit report.  
  - A written VOR (Verification of Rent) is acceptable only from an independent management company. |