USDA Matrix

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

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

Program Qualifications

Maximum Loan Amounts for 2021

CONFORMING MAXIMUM LOAN AMOUNTS	
UNITS	CONTINENTAL US
1	$548,250
2	$702,000
3	$848,500
4	$1,054,500

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

USDA Eligible Loan Types:
Purchase
Refinance

Eligibility Matrix – Loan Amount & LTV Limitations				
Minimum Credit Score	Units	Max Base LTV	Total LTV Including Guarantee Fee	Max CLTV to include Guarantee Fee
Primary Residence Purchase (GUS Approved)*				
620*	1	100%	100% Maximum LTV plus the amount of the GF	101%
Primary Residence Purchase (Manual Underwriting)*				
620*	1	100%	100% Maximum LTV plus the amount of the GF	101%
Refinance – GUS & Manual (manual on a case by case management approval)*				
620*	1	100%	100% Maximum LTV plus the amount of the GF	101%

Primary Residence Purchase or Refinance (manual underwrite ONLY) *				
620*	1	100%	100% Maximum LTV plus the amount of the GF	101%

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

Eligibility Requirements

AUS Requirements	All purchase loans will be submitted to GUS for approval. Any loans that receive a Refer through GUS will be reviewed by Underwriter and Management for approval to proceed as a Manual Underwrite. Compensating factors will be required per USDA guidelines located in CFR 3555.
Loan Terms	Fixed Rate 30 Year Term ONLY
USDA Required Fees	**Loan Guarantee Fee** A Loan Guarantee Fee will be charged on every loan. The fee for the current year of 2020 is 1% of the loan amount. **Annual Fee** USDA will charge an Annual Fee as part of the monthly payment. This fee will be for the life of the loan but will be a declining balance calculation. The factor to use for the monthly amount is .35% **USDA Tech Fee** Effective for loans closing in 2020, USDA will charge a Tech Fee of $25. This fee is to be included in all Loan Estimates under the Services Borrower Cannot Shop For section.
Minimum Loan Size	$30,000 FSB suggests that loan amounts under $75,000 use Borrower Paid Compensation if completing a brokered loan. This will assist the loan in passing QM Points & Fees Test. Any brokered loans that have a compensation plan of 2.75% must use the "Underwriting Fee Buy Out Waiver" available on the rate sheets to cover FSB's underwriting fee of $914.00. If the compensation plan is lower, the fee may be charged on the Loan Estimate. However, if the QM Points & Fees Test fails, FSB will require the fee to be covered with the rate pricing.
Geographic Locations/Restrictions	Eligible states are as follows: **All states** *except* for NY, MA, VT, CT, ME, RI, NH, VA, AK, HI – Delegated Only, Washington D.C. Additional Transactions as follows ➢ State specific regulatory requirements supersede all underwriting guidelines set forth by FSB
Max Loan Size	No max loans size. Cannot exceed conforming loan limits Determined by Debt to Income limitations per GUS

Credit Score	Purchase 620 Refinance 620 Borrowers must have a minimum of 1 score **Ineligible Credit Scores** Below 620 No Score Applicants
Credit	Applicant must have a credit history that demonstrates their ability and willingness to repay the loan. **Housing History** – Mortgage/Rental History • 0X30 in most recent 12 months • Late payments within the most recent 24 months will require an LOX to determine circumstances outside of the borrower's control. • No more than 1X30 in 24 months will be allowed **Age of Credit Reports** Credit reports are valid for 120 days. **Credit Scores & Validation** A Credit Score is a statistical number that evaluates an applicant's credit worthiness based on their credit history and other factors involved in their credit report. The credit score considers payment history, amounts owed, percentage of credit used, length of credit history, types of credit and newly acquired credit. All loans must be ran through GUS for underwriting recommendation. Unless the file is a Streamline or Streamline Assist. These loan types will not use GUS. **Validate Credit Score Requirements:** GUS Accept Files: No credit score validation required GUS Refer, Refer w/Caution and Manually Underwritten files: One applicant whose income and/or assets will be used to originate the loan must have a validated credit score. This applicant must have two (2) tradelines on the credit report that have been or are currently open for 12 months* based on the date the account is showing as opened on the credit report. A validated score confirms that one applicant has an eligible minimum credit history. *Tradelines need to have a 12-month repayment history reported on the credit report. If the credit report does not provide the confirmation that 12 months has been paid on the account, the tradeline is not a valid account to use for validation. Account may not be older than 24 months to be used for validation if a closed account. Authorized User Accounts May be used as a tradeline to validate credit if:

	• The tradeline is owned by another applicant on the mortgage loan application; • The owner of the tradeline is a spouse of the applicant; or • The applicant can provide evidence that they have made payments on the account for the most recent previous 12 months prior to loan application Public records, disputed and self-reported accounts are ineligible tradelines for credit validation. GUS Refer and Manually underwritten files are not eligible for Debt Ratio exceptions if: 1. There is not one applicant with a validated score using traditional tradelines on the credit report or; 2. The file requires non-traditional credit tradelines **Non-Traditional Credit** Applicants that do not have the required traditional credit history or a validated credit score may document their willingness to pay debt obligations through alternate sources. *Applicants with a 12-month Verification of Rent (VOR)* Two (2) tradelines are required. The VOR plus one additional tradeline. This tradeline must be an eligible traditional tradeline from the credit report with a 12-month history or an eligible non-traditional tradeline. *Applicants with No Rental History:* Three (3) tradelines are required. Tradelines may be a combination of traditional tradelines from the credit report with 12-month history or eligible non-traditional tradelines. Any eligible non-traditional tradeline must have a 12-month history and cannot have been closed more than 6 months prior to loan application. Child Support, alimony, garnishments, court ordered debts, monthly subscriptions services, gym memberships, etc are not eligible non-traditional credit tradelines. Any nontraditional accounts must be placed on the credit report as a supplement. Any verification of paid accounts or ANY update to accounts must be documented through a supplement to the credit report. If the 1003 shows the borrower or co-borrower has rental history, a VOR must be provided regardless of the credit score. The borrower(s) must receive a clear CAIVRS (Credit Alert Interactive Voice Response System) **Indicators of unacceptable credit:** ➢ Foreclosure within 3 years: • Including pre-foreclosure activity, such as a pre-foreclosure sale or short sale in the previous 3 years; ➢ CH 7 Bankruptcy must be discharged for a minimum of 3 years. If the CH 7 absolved a mortgage debt, the applicant is not considered legally liable to repay unless the debt was reaffirmed. Foreclosure action post BK is considered against the property, not the applicant. Proof of

foreclosure action completed will be needed to show the borrower has no legal interest in a property.

- CH 13 Bankruptcy
    - Plan in progress – Confirm all payments for the CH 13 are included on the Liabilities section of the application.
    - Declarations section of 1003 must be marked correctly
    - GUS may provide an Approve/Eligible. If this occurs, no downgrade will be required.
    - Plan in Progress – Manual determination by GUS Lender must document 12 months of repayment has elapsed, all payments have been made on time and written permission to proceed with mortgage transaction has been provided by court/trustee.
    - Completed Plan – GUS Accept – no further credit exception is needed
    - Complete Plan – Manual determination by GUS – Plans completed 12 months prior to loan application require not further documentation. Plans completed prior to a full 12 months seasoning of the CH 13 will require proof of payment history for the full repayment time frame.

All previous Bankruptcy within the most recent 7 years will require a full set of the BK papers to include ALL schedules and discharge.
Dates are measured by discharge or dismissal date until date of application.

Consumer Credit Counseling
Credit Counseling provides guidance and support to consumers which may include assistance to negotiate with creditors on behalf of the borrower to reduce interest rates, latte fees and agree upon a repayment plan. The credit score will reflect the degradation of credit due to participation in this plan. Credit accounts that are included in repayment plan may continue to report as delinquent or as late pays. This is typical and will not be considered as recent adverse credit. The file must contain documentation to support the accounts that are included in the debt management plan and the applicable monthly payment. The monthly payment for the counseling plan must be included as a liability. The following will apply for consumer credit counseling:

- One (1) year of the payment period for the repayment plan must have elapsed;
- All payments must show paid on time and as agreed
- Written permission from the counseling agency to recommend the applicant as a candidate for a new mortgage loan debt

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

Derogatory Accounts
FSB will review the file as a whole to determine if outstanding collection and charge off accounts will require payment or may remain open. Regardless of debt determination, the

credit history that derogatory accounts present must still be included in the analysis of the file. The underwriter has the final determination and the file must contain:

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

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

LOX (Letters of Explanation)

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

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

All open collections must be listed in the Liability section of the 1003.

Collection Accounts – Non Medical

The Underwriter must review all collection accounts and determine if the applicant(s) is an acceptable credit risk, regardless of GUS recommendations. USDA does not require medical collections to be paid.

If the cumulative total of all non-medical collections exceeds $2,000, the following options will apply:

1) Require payment in full of these accounts prior to loan closing
2) Use an existing repayment agreement or require payment arrangements be made with documentation from the creditor and include the monthly payment; or
3) Include 5% of the outstanding balance as the monthly liability amount, no further documentation will be required

GUS Data Entry for Collections

- Collections that will be paid by loan closing should select "Pay by Close" checkbox.
- If the collection is not required to be paid in full, the lender should select Omit checkbox. The "Notes" section must be completed to state why the debt will be omitted from ratio consideration
- If a repayment agreement has a specified monthly payment, include that amount. Do not enter "$1.00" in the monthly payment field unless this is a documented repayment amount.

Judgments

	Court-ordered judgments MUST be paid off before the mortgage loan is eligible for a guarantee unless the applicant provides documentation indicating that regular payments have been made on time in accordance to a documented agreement with a creditor. The presence of court-ordered judgments must be considered in the credit analysis. Unpaid judgments may represent an applicant's disregard for credit obligations. Lenders must document reasons for approving a mortgage when the applicant has judgments. Usually judgments are paid in full prior to loan eligibility. An exception to payment in full of outstanding judgments can be made when the applicant(s) have a payment arrangement with the creditor and have made regular and timely payments for the three months prior to loan application. Prepaying scheduled payments as a means of meeting minimum requirements is unacceptable. Lenders will obtain a copy of the payment agreement and validate payments have been made in accordance with the payment agreement. The payment agreement will be included in the debt-to-income ratio. ***Disputed Accounts*** Disputed accounts on an applicant's credit report are not considered in the credit score. For manually underwritten loans, all disputed accounts must have a letter of explanation and documentation supporting the basis of the dispute. The lender is responsible for analyzing the documentation presented and confirming that the explanation and supporting documentation are consistent with the credit record during the underwriting analysis. Loans underwritten with the assistance of GUS that receive an underwriting recommendation of "Accept" will be downgraded to a manual "Refer" unless the following conditions are met on the credit report: 1) The disputed trade line has a zero-dollar balance. 2) The disputed trade line is marked "paid in full" or "resolved." 3) The disputed trade line is more than 24 months old. 4) The disputed tradeline is current and paid as agreed 5) a documented payment from the creditor is included in the monthly debts; or 6) 5% of the state account balance on the credit report is included in the monthly debts Loans downgraded for failure to meet any of these conditions are subject to a manual review and require the submission of the complete underwriting case file. *Disputed accounts: Derogatory* Disputed derogatory accounts that must be considered are non-medical collections and accounts with late payments in the last 24 months. For all loan types, the lender may exclude the following: • Disputed medical accounts/collections • Charged off accounts • Disputed derogatory accounts that are the result of identity theft, credit card theft or unauthorized use when evidence (police report, attorney correspondence, creditor statement) is provided to support the applicant's explanation; or • Accounts of a non-purchasing spouse in a community property state GUS Accept Files –

	GUS Accept files with less than $2,000 in disputed derogatory accounts will require the lender to determine if the disputed account may impact the applicant's ability to repair the proposed mortgage obligation. Each account (excluding those listed above) must include a minimum monthly payment of 1) The payment state on the credit report, or 2) 5% of the balance of the account, or 3) A lesser amount documented from the creditor. A GUS Accept must be downgraded to a Refer when the applicant has $2,000 or more collectively in disputed derogatory accounts in the last 24 months. Refer/Manual Loans The lender must analyze the potential impact to the applicant's ability to repay the proposed mortgage debt with disputed derogatory accounts. Each account (excluding those listed above) must include a minimum monthly payment of 1) The payment state on the credit report, or 2) 5% of the balance of the account, or 3) A lesser amount documented from the creditor. **Recent or undisclosed debts/inquiries/information** If the lender is aware of any contradictory or derogatory information that is not submitted to GUS, or erroneous information in the data submitted to GUS, or there is a Federal Judgment, a recommendation of "Accept" must be downgraded to a manual "refer".
Authorized User Account Guidance	**See Credit Section**
Escrow Accounts for Taxes and Insurance	Escrow accounts are always required on an USDA loan. No exceptions. **Property Taxes** When calculating escrow set up for property taxes, FSB will require certain parameters to ensure accuracy. • All tax amounts are to show on the title commitment or tax certificate. • Tax amounts must show without excess exemptions applied. If an exemption will be in effect when the borrower takes possession of the home, we must have documentation that the title company will file the exemption at closing. If the title company cannot provide this confirmation, the exemption must be removed and tax calculation showing at the worst-case scenario for escrow set up and DTI calculation. • For New Construction, the title company must provide an estimate of the property taxes based on the appraised value of the home. A state/county approved calculator for property taxes will be allowed but the calculation must be based on appraised value. **Homeowners Insurance** Homeowners insurance must have the following on the declarations page: • Property address to match appraisal address exactly • Deductible to be indicated on dec page – cannot exceed 1% of dwelling or $1000 whichever is greater

	• Borrowers names to match 1003 and be spelled correctly • Mortgagee Clause to read exactly: Flanagan State Bank ISAOA 333 Chicago Road PO Box 302 Paw Paw, IL 61353 • Loan number to be on policy • Dwelling coverage to be indicated. Must cover loan amount. If a manufactured home, exceptions may apply • Effective date and expiration date to be on or before closing date • Must show policy is effective for 1 year if a purchase • If a refinance and policy will expire before first payment is made, FSB will need proof of what the new premium will be upon renewal • Must have invoice or paid receipt for premium in file prior to closing • Condo must have HO-6 insurance to cover 20% of appraised value • Condo insurance must show unit owner name and unit. Must have $1,000,000 in building coverage and liability coverage Coverage must be bound prior to closing. A quote can be used for initial underwriting but will not be accepted for final approval. **Flood Insurance** Dwelling to cover loan amount. Unless loan amount is over $250,000. $250,000 is the max FEMA allows. USDA requires total estimated cost new on cost approach section of appraisal. ➢ Flood zone to be indicated and must match flood zone on appraisal and flood cert. ➢ Unless a higher maximum amount is required by state law, the maximum allowable deductible is $1000 or 1% of the face amount of the policy ➢ All the other homeowner's insurance requirements apply to flood insurance as well, see above.
Manual Underwriting	FSB will manually underwrite a USDA loan if the min score requirement is met, credit is satisfactory, and the following apply: 1) Min score of 620 2) Minimum tradelines for a manual underwrite will be determined by USDA Minimum Credit requirements. See Credit Section. 3) Reserves are NOT required but are helpful if present for underwriting. Reserves will be calculated by PITI payment and must be the borrower's own funds. The reserves cannot be gift funds. USDA requires lender to use the average of 2 months bank statements to determine available assets. 4) **Verification of Rent always required**, if available 5) VOE's are always required on all USDA applicants and any household members 6) DTI may not exceed 29/41
Flood Hazards/Flood Insurance	Existing dwellings are eligible under the SFHBLP only if flood insurance through FEMA's National Flood Insurance (NFIP) is available for the community and flood

	insurance whether NFIP, "write your own", or private flood insurance, as approved by the lender, is purchase by the borrower. Lenders are required to accept private flood insurance policies that meet the requirements of 42 USC 4012a(b)(1)(A). Insurance must be obtained as a condition of closing and maintained for the life of the loan for existing residential structures when any portion of the structure is determined to be located in a SFHA, including decks and carports, etc. However, according to the Homeowner Flood Insurance Affordability Act (HFIAA) of 2014, flood insurance is not required for any additional structures that are located on the property but are detached from the primary residential structure and do not serve as a residence, such as sheds, garages or other ancillary structures. New or proposed construction in an SFHA is ineligible for a loan guarantee unless: • A final Letter of Map Amendment (LOMA) or final Letter of Map Revision (LOMR) removes the property for the SFHA is obtained from FEMA. • Note: FEMA NFIP flood elevation certificates are ineligible documentation At the lender's discretion, it may require flood insurance even if the residential building and related improvements to the property are not located within the SFHA. Flood insurance must cover the lesser of the outstanding principal balance of the loan or the maximum amount of coverage allowed under FEMA's National Flood Insurance Program (NFIP). Unless a higher amount is required by state or federal law, the maximum deductible clause for a flood insurance policy should not exceed the greater of $1,000 or 1 percent of the face amount of the policy. If property is in a flood zone, USDA will require an LOX from the borrower to explain: "why there are no other suitable properties that are not located in a flood zone" Possible reasons may include, but are not limited to: ➢ No similar room count on homes ➢ None in the same school district, if children are in household ➢ None with the same amenities and describe amenities
No Score and 1 Score Borrowers	Borrowers with One Credit Score is acceptable. No score borrowers are not eligible for submission to underwriting
Occupancy	Owner Occupied ONLY, all borrowers must occupy
Property Eligibility	Property must be located within an eligible rural area. Refer to http://eligibility.sc.egov.usda.gov **Eligible** 1 Unit • Single Family • PUDs • Townhouse

- HUD or FNMA approved Condo
- Modular – Note: Permanent on-frame homes do not meet the definition of modular homes. These homes are not allowed.

Ineligible

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

Site Size

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

Income-Producing Buildings

The property must not include buildings designed and to be used principally for income-producing purposes. (e.g., barns, silos, greenhouses or livestock facilities used primarily for income producing agricultural, farming or commercial enterprise are ineligible). However, barns used for storage and outbuildings such as storage sheds are permitted if they are not used primarily for income producing agricultural, farming or commercial enterprise. A minimal income-producing activity, such as maintaining a garden that generates a small amount of additional income, does not violate this requirement. Home-based operations such as childcare, product sales, or craft production that do not require specific features are not restricted. A qualified property must be predominantly residential in use, character and appearance.

Income-Producing Land

The site must not have income-producing land that will be used principally for income producing purposes. Vacant land or properties used primarily for agriculture, farming or commercial enterprise are ineligible. Sites that have income-producing characteristics (e.g., large tracts of arable land ready for planting) are considered income-producing property. However, maintaining a garden for personal use is not in violation of this requirement. A minimal income-producing activity, such as a garden that could generate a small amount of additional income does not violate this requirement. A qualified property must be predominantly residential in use, character and appearance.

Site Specifications

The site must be contiguous to and have direct access from a street, road, or driveway. Streets and roads must be hard surfaced or all weather surfaced and legally enforceable. Arrangements must be in place to ensure that needed maintenance will be provided. If a private road, all parties on the road must have a Road Maintenance Agreement on file in the courthouse.

Utilities

	The site must be supported by adequate utilities, water and wastewater disposal systems. If the property is serviced by a private water source, a well inspection with water test is required. If the appraisal does not provide commentary on a private septic system, then a septic inspection will be required. **Condominiums** Units in a condominium project are eligible for a guarantee if the condominium can meet Freddie Mac guidelines. To obtain condo approval, the following documents must be submitted with the underwriting package: ☐ Long form condo questionnaire (available at www.fsbtpo.com) ☐ Legal & recorded documents of the covenants, conditions and restrictions, declaration of condominium and by-laws of condo association. ☐ Homeowners Association certification ☐ Homeowners Association Master Insurance Policies ☐ Project budget, financial statements or reserve study ☐ If new construction – project construction plans and phase information ☐ Completion reports – as applicable The list of documents required for review are considered a starting point. The Condo Questionnaire will identify if further information will be required for any of the following: ☐ Environmental hazard reports ☐ Architect or engineers report ☐ Project marketing plans ☐ Attorney opinions ☐ Litigation Letter ☐ Litigation information The above process is not required if the condo has a current Condo Approval by FHA, VA or FNMA. Lenders must retain evidence they have reviewed condominium documentation that supports the project's approval or acceptance and must provide such documentation to Agency staff when requested. Applicants remain responsible to obtain individual homeowners' insurance (HO6 policy) or flood insurance, as applicable. The lender is responsible for ensuring the HOA obtains and maintains adequate flood and hazard insurance for buildings in a condo project located within a SFHA. **Ineligible Condominiums** Certain types of condo projects are not eligible under HUD, Fannie Mae, Freddie Mac, or VA guidelines. They are: • Condominium hotels • Timeshares • Houseboat projects

	• Multi-dwelling unit condominiums that permit an owner to hold title to more than one dwelling by a single deed and mortgage • Any project for which the owner's association is named a party to current litigation or for a project sponsor or developer is named a party to current litigation • Condominiums that represent a legal, but non-conforming use of the land, if zoning regulations prohibit rebuilding the improvements to current density in the event of their full or partial destruction • Investment Securities – a project in which ownership is characterized or promoted as an investment opportunity; and/or projects that have documents in file with the Securities and Exchange Commission. • Common interest apartments or community apartment projects – Any project or building that is owned by several owners as tenants-in-common or by a HOA in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific apartment in the building. • A project with non-incidental business operations owned or operated by the owner's association such as, but no limited to: a restaurant, spa, health club, etc. **Site Condominium Eligibility** Project approval may not be required for site condominiums if they meet the following criteria: • Single Family totally detached dwelling encumbered by a declaration of condominium covenant or condominium form of ownership • The unit has no shared garage or any other attached buildings (i.e., archways, breezeways, common walls, etc) • The condominium unit consists of the entire structure, site and air space and is not considered to be common areas or limited common areas Appraisal data is collected on URAR FNMA Form 1004/FHLMC Form 70. A Condominium Rider must supplement the Mortgage or Deed of Trust. Insurance and maintenance costs will be the responsibility of the unit owner. Site condominiums that do not meet the criteria for site condominium eligibility must follow the criteria in *Condominiums* above. **Planned Unit Development** A planned unit development (PUD) is a project or subdivision that includes common property that is owned and maintained by a homeowner's association (HOA) for the benefit of use by the individual PUD unit owners. Loans may be guaranteed for PUD single family dwellings the same as for single family dwellings not in a PUD. HOA dues must be included in the total debt-to-income calculations. New Construction Defined as: Existing (completed) for less than one year – Refers to properties which are 100% complete and legally occupiable (CO issued), but never occupied. The one-year new construction period runs from the date the CO is issued for up to 12 months. To satisfy USDA requirements for new homes (stick built and manufactured) the following requirements must be met:

	➢ Certification from a qualified individual or organization that the reviewed plans and specs comply with applicable development standards (meets local building codes). Qualified individuals or organizations able to provide this certification: o Licensed architects o Professional engineers o Plan reviewers certified by a national model code organization listed in 7 CFR 1924, Part A, in Exhibit E o Local building officials authorized to review and approve building plans and specifications, and o National codes organizations ➢ Building Permit ➢ Certificate of Occupancy ➢ Final Inspection ➢ 10-year insured builder warranty plan acceptable to Rural Development o Or, when three construction inspections are performed, a final inspection plus a 1-year insured builder warranty plan acceptable to RD is allowed in lieu of the 10-year builder warranty plan. ➢ Evidence of thermal standards meet or exceed International Energy Conservation Code (IECC) in effect at the time of construction. o The builder may certify confirmation with IECC standards o Or, a qualified, registered architect or a qualified, registered engineer may certify confirmation with IECC standards
Qualifying Ratios	Ratios are calculated using repayment income from applicants that will be a party to the Promissory Note. (Ch. 9) Qualify at note rate **Ratios** • GUS Accept/Eligible – GUS determines acceptable ratios, a waiver is not required • Manual Underwrite – 29/41 – A debt ratio waiver request with suitable compensating factors must be submitted to USDA when ratios exceed 29/41. USDA will not grant waivers in excess of 32/44 ratios **Manually underwritten loans – purchase transactions (Ch. 11)** Debt ratio waiver may be granted if all of the following conditions are met: 1. Either: a. The PITI ratio is greater than 20 percent, but less than or equal to 32 percent, accompanied by a TD ratio not exceeding 44 percent; or b. The TD ratio is greater than 41 percent but less than or equal to 44 percent, accompanied by a PITI ratio not exceeding 32 percent; AND: 2. The credit score of all applicants is 680 or greater; and 3. At least one of the acceptable compensating factors listed below is identified and supporting documentation is provided.

	a. The proposed PITI is equal to or less than the applicant's current verified housing expense for the 12-month period preceding loan application; i. Verification of housing expenses may be documented on a verification of rent (VOR) or credit report. The VOR or credit report must include the actual payment amount due and report no late payments or delinquency for the previous 12 months. Rent or mortgage payment histories from a family member will not be considered unless 12 months of canceled checks, money order receipts, or electronic payment confirmations are provided. A history of less than 12 months will not be considered an acceptable compensating factor. b. Accumulated savings or cash reserves available post loan closing are equal to or greater than 3 months of PITI payments; i. A verification of deposit (VOD) or two most recent consecutive bank statements document the average balance held by the applicant are required. Cash on hand is not eligible for consideration as a compensating factor. c. The applicant(s) (all employed applicants) has been continuously employed with their current primary employer for a minimum of 2 years. i. A "Request for Verification of Employment" (VOE) (Form RD 1910-5, comparable HUD/FHA/VA or Fannie Mae form, or other equivalent), or VOEs prepared by an employment verification service (e.g., The Work Number) must be provided. This compensating factor is not applicable for self-employed applicants. Debt ratio waivers must be requested and documented by the approved lender. **HELOC** When a loan has a HELOC that will be subordinated or a HELOC that the borrower holds on another property and won't be closed, this is what may be required by underwriting: *HELOC Reporting on Credit:* • If the credit report and soft pull show no balance - then nothing more is needed • If the credit report and soft pull show a balance – then we need documentation that shows recorded payment covers the interest amount due monthly (at a minimum) and is not a negative amortization payment. *If funds from a HELOC are being used for closing* – FSB will need proof of funds being withdrawn and deposited to borrower's asset account being used for closing funds or a copy of the check or wire given directly to title. Payment will be calculated by using 1.5% of the current balance of the HELOC after the withdrawal for ratios
Lender Fees	Lender Fees combined with closing costs applicable to the APR may not exceed three (3) percent of the total loan amount, unless further flexibility is provided through guidance published by the Consumer Financial Protection Bureau (CFPB)'s Ability to Repay and Qualified Mortgage (ATR/QM) rule. The SFHGLP up-front guarantee and annual fee is not included in the three percent ATR/QM calculation.
Discount Points	Loan Discount points cannot be financed as part of the loan, except: • Low-income applicants may finance discount points if they are reasonable and customary for the area and cannot be more than those charged other applicants for comparable transactions • Discount points cannot exceed two points of loan amount

	• Discount points and origination fees must be itemized separately on the settlement statement/Closing Disclosure
Debt	Total Debt includes monthly housing expense PITI plus any other monthly credit obligations incurred by the applicant. Obligations for childcare, voluntary contributions to retirement such as a 401K, and open accounts with zero balance, are not considered a debt. Monthly debt obligations include but are not limited to: **Installment accounts** • Accounts that will be paid in full through a specified number of fixed payments such as auto, personal, secured/unsecured, etc. must have the monthly payment included. • Installment debt may be paid down to ten months or less of remaining debt. • If ten or less months of repayment remains per the credit report, creditor verification, etc., the monthly debt may be excluded if the payment does not exceed five percent of the monthly repayment income. **Revolving accounts** – The minimum monthly payment is required for all revolving credit card debts, even if the account appears likely to be paid off within 10 months or less. • If the credit report shows an outstanding balance, but no specific minimum monthly payment, the payment will be calculated as the greater of 5%(percent) of the balance as reported on the credit report. If the lender obtains a copy of the current statement reflecting the actual monthly payment, that amount can be used for qualifying purposes. • Revolving accounts with no outstanding balance do not require an estimated payment to be included in DTI **30-Day Accounts** • A 30-day account is a credit arrangement requiring the applicant to pay off the full outstanding balance on the account every month. • The lender may utilize the credit report to document the applicant has paid the outstanding balance for the previous 12 months. • 30-day accounts that are paid monthly in full are not included in the total debt ratio. • If the credit report reflects late payments in the last 12 months, the lender must include five percent of the outstanding balance in the monthly debts. **Child support, alimony, garnishments** • Court ordered debts must have the payment included in the total debt ratio unless the applicant has a release of liability from the court/creditor and acceptable evidence is documented. • Lenders will utilize select pages from the applicable agreement/court order to document the required monthly payment due and the duration of the debt. • Court ordered debts with ten or less payments remaining may be excluded if the payment does not exceed five percent of the monthly repayment income. • For GUS transactions, the lender will manually enter the obligation(s) as a monthly liability. A manual entry of this monthly obligation does not require an underwriting recommendation of "Accept" to be downgraded to a "Refer."

	• Lenders must confirm repayment agreements are current. Refer to Chapter 10 for court ordered debt guidance and program eligibility. Applicants delinquent on court ordered child support are ineligible for USDA financing unless the applicant has an approved repayment agreement in place with three timely payments made prior to loan closing, the arrearage is paid in full prior to loan closing or a release of liability is documented. **Childcare expense** – Childcare expenses are not required to be considered as a recurring liability when calculating the DTI **Student Loans** – please see Student Loan section **Co-signed non-mortgage debt/obligations** • Co-signed debts refer to a debt where the applicant may be a co-borrower, joint obligor, co-signer, guarantor, etc. • Co-signed debts must be included in the monthly debts unless the applicant provides evidence another obligor (party to the debt) has successfully made the payment for the previous 12 months prior to loan application. • Acceptable evidence includes but not is limited to: canceled checks, money order receipts and/or bank statements of the co-obligor. • Late payments reported in the previous 12 months prior to application will require the monthly liability to be included in the monthly debts. • If the applicant can provide conclusive evidence from the creditor that they will not pursue debt collection against the applicant should the other party default, the 12-month payment history of the additional party is not required. • Debts identified as "individual" on a credit report must be included in the debt ratio regardless of who is making the monthly payment (e.g. parents paying car payments on behalf of applicant and the loan is solely in the applicant's name). **Business Debts** • Business debts (e.g. car loan) reported on the applicant's personal credit report may be excluded from the monthly debt if there is evidence the debt is paid through a business account. • Acceptable evidence includes canceled checks or bank statements from a business account for the previous 12 months. **401K Loans/personal asset loans** Loans pledging personal assets, such as a 401K account, retirement funds, savings account or other liquid assets are not considered in the total debt ratio. **Debts of a non-purchasing spouse (NPS)** For applicants that reside or are purchasing in a community property state, the debts of the NPS must be included in the applicant's total debt ratio unless specifically excluded by state law. **<u>Rental Property</u>** • A retained dwelling that has been rented for 24 months or longer prior to loan application may have the mortgage obligation omitted when the applicant provides documentation to support the lease history.

	• If the rent received does not cover all expenses (principal, interest, real estate taxes, hazard insurance, HOA fees, assessments, etc.), the remaining balance must be included in the monthly debts • The manual entry of a rental income loss to the monthly debts in GUS will not require an Accept loan file to be downgraded to a Refer. HB-1-3555 (03-09-16) SPECIAL PN 11-5 Revised (04-30-20) PN 536 • If the credit report reflects late mortgage payments on the rental dwelling in the 12 months prior to loan application, the full mortgage liability and all associated costs must be included in the monthly debts. • Refer to Chapter 9 of the handbook for rental income guidance. **Mortgages: No Release of Liability (includes contract for deed situations)** • Mortgage liabilities disposed of through a sale, trade or transfer without a release of liability (i.e., borrower remains on the promissory note) must be included in the total debt ratio unless evidence can be obtained to confirm the remaining party/new owner has successfully made the payment for the previous 12 months prior to loan application. • Evidence may be reported through the credit report or verification from the creditor/servicer to document the payment history has been current for the 12 months prior to loan application. • If there are late payments in the previous 12 months prior to loan application, the full mortgage obligation must be included in the monthly debt. **Mortgages: Divorce** • In the case of a divorce, the lender must obtain a copy of the legal separation agreement or divorce decree to document the remaining party/new owner responsible to pay all mortgage debts from the effective date of the decree forward. • To exclude the mortgage debt, the lender must document the previous 12 months have been paid as agreed prior to loan application through the credit report or verification from the creditor/servicer. • If there are late payments in the previous 12 months prior to loan application, the full mortgage obligation must be included in the monthly debts. **Collection Accounts** ***All open collections must be listed in the Liability section of the 1003.*** **Collection Accounts – Non Medical** The Underwriter must review all collection accounts and determine if the applicant(s) is an acceptable credit risk, regardless of GUS recommendations. USDA does not require medical collections to be paid. If the cumulative total of all non-medical collections exceeds $2,000, the following options will apply: 4) Require payment in full of these accounts prior to loan closing 5) Use an existing repayment agreement or require payment arrangements be made with documentation from the creditor and include the monthly payment; or 6) Include 5% of the outstanding balance as the monthly liability amount, no further documentation will be required *GUS Data Entry for Collections*

- Collections that will be paid by loan closing should select "Pay by Close" checkbox.
- If the collection is not required to be paid in full, the lender should select Omit checkbox. The "Notes" section must be completed to state why the debt will be omitted from ratio consideration
- If a repayment agreement has a specified monthly payment, include that amount. Do not enter "$1.00" in the monthly payment field unless this is a documented repayment amount.

Judgments

Court-ordered judgments MUST be paid off before the mortgage loan is eligible for a guarantee unless the applicant provides documentation indicating that regular payments have been made on time in accordance to a documented agreement with a creditor.

The presence of court-ordered judgments must be considered in the credit analysis. Unpaid judgments may represent an applicant's disregard for credit obligations. Lenders must document reasons for approving a mortgage when the applicant has judgments. Usually judgments are paid in full prior to loan eligibility. An exception to payment in full of outstanding judgments can be made when the applicant(s) have a payment arrangement with the creditor and have made regular and timely payments for the three months prior to loan application. Prepaying scheduled payments as a means of meeting minimum requirements is unacceptable. Lenders will obtain a copy of the payment agreement and validate payments have been made in accordance with the payment agreement. The payment agreement will be included in the debt-to-income ratio.

Federal Taxes

Federal taxes are due each year on the date determined by the IRS. Tax payers who owe taxes and do not pay in full by the filing date are determined delinquent by the IRS.

Repayment Plans:

An applicant with delinquent Federal tax debt is ineligible unless they have a repayment plan approved by the IRS. A minimum of three timely payments must have been made. Timely is defined as payments that coincide with the approved IRS repayment agreement. The applicant may not prepay a lump sum at one time to equal three monthly payments to meet this requirement. The lender must retain evidence of the repayment agreement and payment history in their permanent file. No credit exception is required.

Approved Extension:

An IRS approved extension to file a tax return does not grant the applicant additional time to pay their taxes due. Applicants must pay their estimated income tax due by the IRS filing date or they are determined delinquent by the IRS. An applicant that has owed taxes on previous filed return(s) exhibits a pattern of taxes due, therefore an estimated tax payment must be made to the IRS by the specified deadline. The applicant may file their return at a later date and remain eligible for a guaranteed loan. An applicant that has received tax refunds for previous filed return(s) may remain eligible with no estimated tax payment due to the IRS because they would not be determined delinquent. The applicant will remain eligible for a guaranteed loan.

Failure to File:

	Applicant's that are required to file taxes but have failed to do so for the current or previous years by required IRS due dates without approved extensions and/or required tax payments as determined by the IRS are ineligible. **Self-Employed** Negative income (loss) for a business will be deducted from repayment income prior to calculating the total debt ratio. **Rental Loss** Negative net rental income will be treated as a recurring liability and included in the total debt ratio. **Short-term Obligations** That are considered to have a significant impact on repayment, such as large medical bills, car payments or other credit payments must be included in total debt ratios. This is regardless of how many payments are left on the debt. This will be considered underwriter discretion. **Balloon/deferred payments** • Deferred debts and balloon debts that will require payment in full upon their due date must have a payment included in the monthly debts. • If the actual payment on a deferred/balloon loan is unknown, the lender may obtain documentation from the creditor to establish a monthly payment that will be due on a documented payment date or they must use five percent of the outstanding balance on the credit report or creditor verification. **Debt Ratio Waivers** GUS underwritten loans receiving an "Accept" will not be required to document the need
Child Support	Must be documented per USDA guidelines for receipt or payment of child support. *Receiving Child Support* 6 months' proof of receipt required to consider in income totals. Support must be received on a regular basis and amount received be consistent to be considered as qualifying income. Divorcee decree or child support order required. Please insure underwriting has the most recent order and original divorce decree, as the situation calls for. If most recent court ordered amount differs from the amount being received, additional documentation may be required. Birth certificates of children may be required to establish continuance of 3 years *Paying Child Support* May not be delinquent – verified through credit report or other verification process Must be included in Ratios – include on 1003 Divorce Decree required. Please insure underwriting has the most recent order and original divorce decree, as the situation calls for. If most recent court ordered amount differs from the amount being paid, additional documentation may be required. Applicants delinquent on court ordered child support are ineligible for USDA financing unless the applicant has an approved repayment agreement in place with three timely payments made prior to loan closing, the arrearage is paid in full prior to loan closing or a release of liability is documented.

Guarantee Fee	Effective 10/1/2016 and after – Upfront Guarantee Fee: 1.0%; annual fee .35%
Qualification Definition	RD 3555-21, "Request for Single Family Housing Loan Guarantee" requires both the lender and the applicant to certify that the applicant is unable to secure credit from other sources upon terms and conditions which the applicant can reasonably fulfill. The certification can be made if the applicant does not meet the requirements to obtain a traditional conventional credit loan. Traditional conventional credit is defined for Agency purposes as: ➢ The applicant has available personal non-retirement liquid asset funds of at least 20% of the purchase price that can be used as a down payment; ➢ The applicant can, in addition to the 20% down payment, pay all closing costs associated with the loan; ➢ The applicant can meet qualifying ratios of no more than 28% PITI and 36% TD when applying the 20% down payment; ➢ The applicant demonstrates qualifying credit for such a loan. Qualifying credit consists of at least two credit bureau trade lines open and paid as agreed for at least a 24- month period to include that: • The applicant was not currently 30 days or more past due on any trade line; and • The applicant had not been 60 days or more past due on any trade line over the past 24-month period; and • The applicant did not have a foreclosure or bankruptcy in their credit history over the past 36- month period. • The conventional mortgage loan term is for a 30 – year fixed rate loan term without a condition to obtain private mortgage insurance (PMI) If the applicant meets the cumulative criteria of traditional conventional credit, as defined by USDA above, the applicant is ineligible for USDA financing.
Income	See Handbook Ch 9 – Income Analysis for complete requirements. **Repayment/Qualifying Income** – represents the stable and dependable income of parties to the note used to repay the loan. **Household Income/Annual Income** • Income from all working adult members (age 18 or older) residing in the home must be included in the household income. The total of that income cannot exceed the moderate-income limits established for the area in which they are purchasing the home. Household income used to determine program eligibility is defined as Annual Income and Adjusted Annual Income. **Annual Income** – represents the entire household's combined income, regardless of whether the household members are on the loan application or not. The income of all adult household members.

	Annual income will include all eligible income sources from all adult household members, not just parties to the loan note. **Adjusted Annual Income** – represents the combined household income minus qualified household deductions. Adjusted Annual Income may not exceed the program's income limits. Limits may be checked online at http:www.eligibility.sc.egov.usda.gov/eligibility/ (Income Limits/Guaranteed) or by using GUS, the agency's automated underwriting system) Stable and dependable income shall be verified and documented in accordance with Chapter 9 of the Handbook. **USDA does require verification of the CURRENT income of all adult household members.** To accommodate the USDA Guidelines, FSB will require the following on all working, adult household members: • 2 years W-2's or 1099's • Most recent 30 day paystubs • Written VOE • Tax Returns for the most recent 2 years • Tax transcripts for most recent 2 years. By providing this information, FSB will have it available for validation of the income as required and needed by USDA. For non-working members of the household (adult): • LOX signed by borrower and household member stating the person in question is not currently working and confirm the circumstances surrounding this • Further information may be needed by underwriting, depending on the documentation supplied • Tax returns for non-working member must be provided **Ability to Repay Income or Qualifying Income:** Repayment Income • Only the income from the borrower(s) on the loan application may be used in calculating the ratios • For all income situations, reference USDA's Income and Documentation Matrix found in CH 9 of the handbook or email our Mortgage Support Team for details. mtgsupportcenter@flanaganstatebank.com • Overtime, Bonus & Commission income require a 1-year history of receipt to be used in qualifying income calculations. Further details are available in the USDA handbook CH 9. Documentation must be provided to show continuation of the income. Significant variances of 20% or greater must be analyzed and documented before considering the income stable and dependable. **Employment Gaps – Income Continuity** The applicant should not have any gaps in employment of more than a month within the two-year period prior to making the loan application. All gaps in employment of greater than one month over the last two years must be documented and analyzed. • LOX from borrower will be required

	• VOE should note any pertinent information from employer when available • Documentation to support large gaps should be provided **<u>Form 4506-T</u>** • Are required for all borrowers • Tax Transcripts will be required on all adult members of the household IRS Form 4506T must be completed for each adjust member of the household for the previous two years at the time of loan application regardless if the adult household member is a party to the loan transaction. The information received from the IRS is not intended to document income, but to validate the income documentation and disclosures provided by the applicant(s) and adult members of the household. **Mortgage Credit Certificates (MCC) are not allowed.** **<u>Standard Documentation Required:</u>** Employment Must be verified with the following: *<u>Wage Earner</u>* Paystubs for most recent 30 days 2 Years most recent W-2's Written VOE for 2-year history – most USDA offices are requesting this information *<u>Self Employed</u>* 2 years' tax returns for personal and business as applicable (signed) Cash Flow Analysis worksheet Tax transcripts for the most recent 2 years Further information may be requested from the underwriter for clarification purposes *If borrower does not have a 2-year history of being self-employed, the borrower is not eligible for financing*
Assets/Reserves	All assets disclosed by borrower on the 1003 must be documented with 2 months most recent consecutive bank statements. NSF or similar fees are not allowed. If borrower has NSF or overdrafts on their bank statements, FSB will need an LOX to explain why these exist. The LOX should not indicate Financial Mismanagement. The underwriter will take into consideration any information provided on the NSF's and determine if the file has merit to proceed with an approval. ***<u>Cash Reserves</u>*** Although cash reserves after closing are not required, cash reserves are considered in the risk assessment provided by GUS. Lenders must determine if the asset is liquid or readily converted to cash and can be done so absent retirement or job termination.

	Assets such as 401K, IRA's, etc, may be included in the underwriting analysis up to only 60% of the vested value. Funds borrowed against these accounts may be used for loan closing but are not to be considered as cash reserves.
	
	Note: These funds cannot be used within GUS for cash reserves but will be used in the analysis for a manual underwrite for reserves by FSB.
	
	Funds from gifts from ANY source will NOT be included in the cash reserves calculation in GUS.
	
	Borrower Investment
	• No minimum borrower investment is required toward down payment.
	• ***Cash on hand is ineligible.*** Funds must be validated in an account
	• All funds used for GUS approval must be fully documented
	• If the borrower(s) received any cash back at loan closing, the amount must not exceed the documented contributions made from their own funds for eligible loan purposes (e.g., earnest money deposit, appraisal fee, lender home inspections, etc.)
	    o Loan funds or seller paid concessions my not be distributed to the borrower.
	    o Loan fees paid by the borrower with credit cards or other short term loans may not be reimbursed at loan closing.
	
	Seller Contribution or other Interested Party Contribution
	• Maximum 6% (based upon the lesser of the sale price or appraised value)
	• Must represent an eligible loan purpose
	• Closing costs and/or prepaid items paid by the lender through premium pricing are not included in the seller contribution limitation
	
	Gifts
	• Eligible
	• Must fully document the source, transfer and receipt of gift funds. Comply with FHA gift documentation requirements
	• Donor must be disinterested third party (may not have an interest in the sale of the property)
	• Gifts will never be counted as Reserves
	• Gifts cannot be used that the donor sources as a cash deposit in their bank statements.
	
	The most recent 2-month average of liquid accounts such as checking, or savings accounts may be considered as cash reserves. Assets should never be overvalued as it affects the risk assessment provided by GUS and misrepresents the file. A 2-month average of liquid assets most accurately represents the true value of the account since accounts, such as checking accounts, often fluctuate significantly during the month from deposit to average balance. The true calculated value will be input on the "Assets and Liabilities" page of GUS.
	
	Income calculation from Assets
	Household members with cumulative net family assets of $50,000 or greater, must have those assets reviewed for annual income purposes as indicated in 3555.152(d). Lenders

	must review asset information provided by applicant(s) and household members at the time of loan application. Net family assets with actual earnings will use the stated rate of interest to calculate annual income. Net family assets that do not earn interest will use a current passbook savings rate (verified through the lender's personal banking rates, online website, etc.) to calculate annual income. Refer to the Asset section in Attachment 9-A for individual asset types and options for documentation/verification
Appraisal	Must meet USDA/RD requirements per CFR 3555 – See Chapter 12 **Must state home meets HUD Handbook 4000.1 on page three of the appraisal form in the "comment" section. Alternatively, the appraiser may make their certification in an addendum to the appraisal.** *Swimming Pools* Per CFR 3555 – USDA may approve dwellings with in-ground swimming pools *Use of Property* The use of the property must comply with zoning and use restrictions. If the existing property does not comply with current zoning regulations, but is accepted by the zoning authority, it is considered a legal nonconforming property. The property is not eligible for a USDA guarantee when the use is not legal. The appraisal must reflect any adverse effect of the legal nonconforming use on the value and marketability of the property. (Chapter 12) *Age of Appraisal* The appraisal must have been completed within 120 days of loan closing. The lender may pass the cost of the appraisal on to the borrower. All appraisal reports must include a Market Condition Addendum (Form FNMA 1004MC) and meet the Uniform Appraisal Dataset (UAD) requirements set forth by Fannie Mae and Freddie Mac. Residential appraisals will be completed using the sales comparison approach. The cost approach is not required for the Guaranteed Loan Program. (USDA Message 5-14-15) An appraisal prepared for REO purposes, or for any other purpose other than for a purchase transaction, is not acceptable for a loan guarantee. A new appraisal with the intent to arrive at an opinion of value for a purchase transaction must be obtained. (e.g., FHA REO appraisals are not allowed) Lenders may extend the validity period of an appraisal with an appraisal update report that will be no greater than 240 days from the effective date of the initial appraisal report at loan closing (120 days for the original appraisal plus 120 days for the Appraisal Update Report). Appraisals with no update will be no greater than 150 days from the effective date of the appraisal report at loan closing (120 days validity period plus a 30-day extension period). The 30-day extension period cannot be used when the original appraisal report is updated. An original report can be updated on time with an Appraisal Update Report. Note: When a client seeks a more current value or analysis of a property that was the subject of a prior assignment, this is not an extension of that prior assignment that was already completed. It is simply a new assignment.

	Note: The ECOA Valuations Rule requires copies of appraisals and other written valuations be delivered to borrower promptly upon completion, or three (3) business days before consummation, whichever is earlier. *Use of Property* The use of the property must comply with zoning and use restrictions. If the existing property does not comply with current zoning regulations, but is accepted by the zoning authority, it is considered a legal nonconforming property. The property is not eligible for a USDA guarantee when the use is not legal. The appraisal must reflect any adverse effect of the legal nonconforming use on the value and marketability of the property. *Economic Life* The economic life of a property must meet or exceed the term of the proposed loan. The appraiser may reject the property if the future economic life of the property is shortened by obvious and compelling pressure to a higher use, making a long-term mortgage impractical. *Appraisal transfer* An appraisal ordered by another lender for the applicant can be transferred to the lender who will complete the purchase transaction. The initial lender must agree to the transfer of the report. A letter from the initial lender who ordered the appraisal report must be retained in the permanent loan file as evidence the lender transferred the report to the lender completing the purchase transaction. The receiving lender must assume full responsibility for the integrity, accuracy and thoroughness of the appraisal report including the methods that the original lender used to acquire the appraisal. The appraisal report must be no older than 120 days at loan closing to be valid *Existing Dwelling vs New Construction* An existing dwelling, per USDA, has been completed for more than 12 months or has been completed less than 12 months but has been previously occupied. A new construction dwelling is defined as a property that has been completed in the last 12 months and/or not previously occupied. If the property is considered new construction, further conditions will be required. Please see "New Construction" section in this matrix. Required repairs under the noted handbooks are limited to those repairs necessary to preserve the continued marketability of the property and to protect the health and safety of the occupants. Applicants are encouraged to obtain a detailed home inspection of the property independent of any other inspections. Termite inspections are not required unless the lender, appraiser, inspector or State law requires the inspection to confirm the property is free of active infestation. *See Special Requirements Section for further information on Termite Inspections.* An inspection to confirm thermal standards is not required for existing dwellings.

Appraiser Requirements	Appraisers must be on FHA's approved list on the FHA Connection with State Certification designation of Certified General or Certified Residential. The assigned appraiser must perform the physical inspection of the property and may not sign the appraisal performed by another appraiser. Only appraisers who are properly licensed or certified, as appropriate, to make residential real estate appraisals in accordance with the criteria set forth by the Appraiser Qualification Board of the Appraisal Foundation regardless of the amount of the loan.
Escrow Repair	Allowed per HB-1-3555 *Escrow for Interior Development (7 CFR 3555.202(c)])* When the dwelling is complete with the exception of minor interior development work, the Agency may issue the loan note guarantee on the loan if the following conditions are met: ➢ The cost of any remaining interior work is not greater than 10 percent of the final loan amount; ➢ The livability of the dwelling is not affected; ➢ A signed contract between the borrower and the contractor is in effect for the proposed work and the funds to be escrowed are not less than the contractor's contract; ➢ The CD reflects the holdback; ➢ FSB will require the amount to be held for escrow of the repairs to include 150% of the bid(s). Funds can come from the buyer, seller or financed in the loan. ➢ The repairs will be completed within 30 days of closing; and ➢ The escrow account is established in a federally supervised financial institution. ➢ FSB requires an Escrow Repair Agreement to be executed outlining all repairs and amounts to be signed by the Borrower and Seller as applicable. Form is available at www.fsbtpo.com ➢ The only repairs that can be included are repairs noted by the appraisal to meet HUD requirements. o Essential household equipment such as wall to wall carpet, ovens, ranges, refrigerators, washers, dryers, and HVAC equipment may be included in escrow repair holdback o The household equipment and carpet must be noted to be needed and may not replace new items that do not require replacing. Replacement of these items should be needed due to age or disrepair. Appraiser to mention or note the current condition of the items that are being requested for replacement. o The household equipment must be considered as normally sold with a home in the area o Bids for the appliances must be provided and the checks at closing will be made payable to the company on the bid. Once the file is CTC, no new bids will be accepted. Certification of completion/Final Inspection is required to verify the work was completed and must: ➢ Be completed by the appraiser, ➢ State that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and

	➢ Be accompanied by photographs of the completed improvements. ➢ The individual performing the final inspection of the property must sign the completion report. *Escrow for Exterior Development (7 CFR 3555.202(c))* When exterior development work is planned and cannot be completed because of inclement weather, material shortages, or other acceptable reasons, an escrow account may be established. The Agency may issue a Loan Note Guarantee prior to the completion of repairs provided the following conditions are met: ➢ The cost of any remaining work, exterior or interior, is not greater than 25 percent of the final loan amount; ➢ The livability of the dwelling is not affected; ➢ A signed contract between the borrower and the contractor is in effect for the proposed work and the funds to be escrowed are not less than the contract; ➢ The CD reflects the holdback; ➢ The work will be completed within 30 days of closing; and ➢ The escrow account is established in a federally supervised financial institution. Certification of completion/Final Inspection is required to verify the work was completed and must: ➢ Be completed by the appraiser; ➢ State that the improvements were completed in accordance with the requirements and conditions in the original appraisal report; ➢ Be accompanied by photographs of the completed improvements; and ➢ The individual performing the final inspection of the property must sign the completion report. **Weather related repairs will be acceptable but must be completed at the first available opportunity or a penalty may be incurred.** ➢ Weather related repairs will require 2 bids from licensed contractors. If licensing is not required in a state, the bids must be from a professional contractor. Valid insurance may be requested from the contractor. ➢ The higher bid will be used for the holdback. ➢ 150% of the higher bid will be used, regardless of who is providing the funds at closing. ➢ A Final Inspection for the repairs will be required to release funds ➢ Final Inspection with Final Invoices to be sent to rebeccamoorehead@flanaganstatebank.com for approval to release funds ➢ Escrow Repair Holdback Agreement must be fully executed by all parties providing funds toward repairs to be completed after closing. Form is available at www.fsbtpo.com.
Documentation	FSB will prepare all USDA files for the possibility of a GUS Refer. Our protocol is to keep the file moving with the intent to send the file to USDA at the first available opportunity. Many times, our Underwriting Team will be ready to send the file to USDA for the Conditional Commitment and the findings change on them from an Approve to a Refer. This then requires additional information and the file is delayed by several more days from being sent to USDA. If we prepare all USDA files to manual underwriting, then we do not have any setbacks when it is time to send the file to USDA. In addition,

	if the reviewer determines they want any further documents for their approval, we will have them on hand. FSB will ALWAYS require the following documentation, regardless of the findings: • VOE on all working household members – regardless of who is on the loan or not • If a household member does not work, we will need an LOX signed by that person stating they do not work and the circumstances for this situation • On a non-borrowing household member (Adult), we will require paystubs, W-2's and tax transcripts in the same manner as provided for the applicant on the loan. • VOR is always needed *on borrowers with credit scores below 680*, if the 1003 shows a rental history • If rental history is not available, we will require a rent-free letter from the person(s) they are living with for borrowers with credit scores below 680 • Each USDA office and each individual reviewer for the USDA loans reserves the right to requests additional information and documentation. By having this information on hand, we are not only ensuring the program guidelines are met, but we can provide USDA this same information to insure there are no delays. **CAIVRS – Credit Alert Verification Reporting system** Lenders must verify the applicant has no delinquent Federal debt through CAIVRS. CAIVRS is a Federal government wide repository of information on those individuals with delinquent or defaulted Federal debt, and those for whom a payment of an insurance claim or guarantee loss claim has occurred. An applicant with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court, is not eligible for a guarantee unless otherwise stated in Chapter 10 of the USDA handbook. When a lender uses the USDA automated underwriting system (GUS), the CAIVRS confirmation is automatically retrieved once the application is entered. **Government Services Administration's (GSA) & System for Award Management(SAM)** Lender must screen the applicant and parties to the transaction on the U.S. GSA's SAM.gov website as part of the eligibility determination for the applicant. Lender must document their permanent file with the date and screen print of the results of that check. Form RD 3555-21 will document the lender performed the check. The check should occur prior to the request for commitment and be no greater than 30 days prior to loan closing, otherwise updated documentation of a more current check of SAM will be required. **Electronic Signatures** Allow per USDA Handbook except for closing documents. FSB does not allow electronic signatures on any closing documents. All documents at closing for signature must have original signatures. **Power of Attorney (Borrower Only)** POA's must be reviewed by management on all loans using this feature. Please email POA for review to mtgsupportcenter@flanaganstatebank.com prior to CTC.

	<u>Undisclosed Debt Acknowledgement Form</u> This form must be signed by all borrowers that experience an inquiry on their credit report. Only having one borrower sign for all applicable borrowers is not acceptable.
Student Loans	May ***<u>not</u>*** be excluded from the DTI at any time. Lenders must include the required payment as applicable: • Fixed payment loans: A permanent amortized, fixed payment may be used in the debt ratio when the lender retains documentation to verify the payment is fixed, the interest rate is fixed, and the repayment term is fixed. The fixed payment will fully amortize/pay in full the debt at the end of the term. • Non-Fixed payment loans: Payments for deferred loans, Income Based Repayment (IBR), Income Contingent (IC), Graduated, Adjustable, and other types of repayment agreements which are not fixed must use the greater of the following: 1. One half (.50) percent of the outstanding loan balance documented on the credit report or creditor verification, or 2. The current documented payment under the approved repayment plan with the creditor. • Student loans in the applicant's name alone but paid by another party remain the legal responsibility of the applicant. The applicable payment must be included in the monthly debts. • Student loans in a "forgiveness" plan/program remain the legal responsibility of the applicant until they are released of liability from the creditor. The applicable payment must be included in the monthly debts.
Non-Purchasing Spouse/Community State	Non-Purchasing Spouse in a Community Property State Community Property States are as follows. • Arizona • California • Idaho • Louisiana • Nevada • New Mexico • Texas • Washington • Wisconsin Note: Alaska is an opt-in community property state. Property is separate unless both parties agree to make it community property through a community property agreement or a community property trust. **If property is located in a community property state, or the borrower resides in a community property state, the following requirements apply**

	A credit report for the non-purchasing spouse is required to determine any joint or individual debts. The spouse's authorization to pull a credit report must be obtained. If the spouse refuses to provide authorization for the credit report, the loan must be rejected • Even if the non-purchasing spouse does not have a social security number, the credit reporting company should verify that the non-purchasing spouse has no credit history and no public records recorded against him/her. • Credit Company should be given non-purchasing spouse information: Name(s), address, birth date and any other significant information requested in order to do the records check. All defaulted federal debt, open judgments and liens, including those of the non-purchasing spouse, must be satisfied prior to or at closing. Disputed debts of the non-purchasing spouse need not be counted provided the file contains documentation to support the dispute. Credit history of the non-purchasing spouse should not be the basis for declining the loan. **Non-Purchasing Spouse** Income of a non-purchasing spouse must be verified and included in the household income calculation to determine if household is "income eligible." However, the non-purchasing spouse's income will not be counted toward repayment/qualifying income. • Social Security income is included, but it is not "grossed up" for purposes of the income limits • Full income verification/documentation is required for all adult household members regardless of refinance program (includes non-streamlined refinance, and streamlined refinance) **Streamlined-Assist refinance program** • FSB requires all borrowers on the loan to be employed at the time of closing on the refinance transaction or have alternate sources of income such as: retirement income, social security income, disability income, alimony or child support. (Exception: When husband and wife are on the loan, income from only one spouse is acceptable) • The applicants must meet the income eligibility requirements of Handbook 3555.151(a) and must not have had any defaults during the 12-month period prior to the refinance loan application. • While there are no required DTI ratios, if borrower's employment/income situation has materially changed within the last 6 months, FSB reserves the right to disallow the loan
4056T & Tax Transcripts	Transcripts are required on all borrowers and all household members. It is the submitting lender/broker that is responsible to provide FSB with tax transcripts on all members accordingly. The 4506T must be properly completed to insure acceptance by the IRS. FSB provides access to Partners Credit for the completion of tax transcripts. If a log in is needed by an approved customer of Flanagan State Bank, please email mtgsupportcenter@flanaganstatebank.com.

	If transcripts are not delivered to FSB for underwriting, this WILL NOT delay the submission to USDA but will delay the CTC of the file.
Limitations on Other Real Estate Owned	An applicant who owns a dwelling to which they will retain ownership is eligible for a guaranteed loan to purchase another home if: ➢ The homeowner's current dwelling is not financed by a Rural Development guaranteed or direct Section 502 or 504 loan or active grant; ➢ The homeowner is financially qualified to own more than one house (the loan applicant is limited to owning one single family housing unit other than the one associated with the loan request); ➢ The homeowner will occupy the home financed with the guaranteed loan as their primary residence on a permanent basis. ➢ The current home owned no longer adequately meets the applicants' need. As an example – the applicant is disabled and requires handicap accessibility. The applicants' present home is not handicap accessible and no longer meets the applicants' needs.
Refinance	*Three options for refinancing are available: refinance loans are only available for current USDA Mortgage holders.* Non-Streamlined Refinance Streamlined Refinance Streamlined Assist Refinance **Net Tangible Benefit** The borrower must receive a tangible benefit to refinance under the streamline options. A tangible benefit is defined as a $50 or greater reduction in their principal, interest and annual fee monthly payment compared to the existing principal, interest and annual fee monthly payment. **Appraisal Requirements for refinance loans:** Non-Streamlined refinance – a new appraisal is required Streamlined refinance – a new appraisal is not required Streamlined-Assis refinance – a new appraisal is not required Inspections – all refinance loans No additional inspections or repairs are required by USDA. However, the lender may require inspections or repairs based on information in appraisal. Expenses related to inspections or repairs may NOT be financed. **Borrower Eligibility** All USDA guidelines that are required for purchase loans, must be met for a refinance loan. Adding or deleting borrowers for any reason is permissible on a Non-streamlined transaction. At least ONE of the original borrowers must be retained in order to qualify as a refinance loan. *Streamlined-Assist refinances* – borrowers may be added BUT NOT REMOVED (unless deceased) from the current loan. **Co-Borrowers/Co-Signers**

	• Co-borrower must occupy the property • Co-borrower must take title to the property AND sign the Note and the Security Instrument • Co-Signors are ineligible • The co-borrower cannot be an interested party to the transaction • Non-occupant co-borrowers are ineligible **Credit Eligibility** Must meet all credit eligibility requirements as noted in the Credit Section. **Non-streamlined refinance** Loan amount may include: • Principal and interest of the existing loan • Closing costs, lender fees, including funds to establish a new tax and insurance escrow account • Guarantee fee amount to the extent sufficient equity in the property exists, as determined by an appraisal. The appraised value may be exceeded only to the amount financing represents the guarantee fee. Additional borrowers may be added to the new loan. Existing borrowers on the current mortgage note may be removed, however at least **ONE** of the original borrowers must be an applicant for the new refinance loan. The existing loan must have closed 12 months prior to request for a refinance and must be current. All regular USDA guidelines for credit, income and assets must be met. **Streamlined refinance** • Refinance loan amount may not exceed the original purchase loan amount (i.e., the original purchase loan amount will establish the maximum loan amount of the refinance transaction). The loan amount may include: o Outstanding principal balance of existing loan o Current interest charges due o Reconveyance fee for the existing USDA loan o Guarantee fee to be financed into the loan • Streamlined and Streamline Assist loan may include closing costs in the loan amount. • Closing costs must be reasonable and customary for the area/transaction **The following requirements apply to BOTH Non-streamlined and Streamlined refinances:** • Guaranteed Underwriting System (GUS) – loans may be originated with assistance from GUS for the Non-Streamlined and Streamline loan options. Streamline Assist may not be sent through GUS. • Term must be 30 years

	• Interest rate must be a fixed rate. Interest rate must not exceed the original rate of the loan being refinanced • Funded buy-down accounts are not permitted • Property must be the same as the original loan. It must be owned and occupied by the applicants as their principal residence. • All credit requirements must be met for the Non-Streamline and Streamline products. See Streamline Assist for additional options. • Total adjusted income for the household cannot exceed the moderate level for the area • An approved SFHGLP lender must make the loan • Subordinate financing such as home equity seconds and down payment assistance "silent" seconds cannot be included in the new loan amount. A subordination agreement will be needed. CLTV cannot exceed 100%. • Applicants may not receive "cash out" from the refinance transaction. However, applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part ot the refinance transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of "cash out" to the applicants may occasionally result due to final escrow and interest calculations. • Unpaid fees, such as late fees due the servicer, are not eligible to be included in the new loan amount • SFHGLP refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made • Additional borrowers may be added to the new SFHGLP loan. Existing borrowers may be deleted from the current loan. All applicants that will be a party to the promissory note must meet all eligibility requirements. At least one of the original borrowers must be retained to qualify as a refinance transaction • To be eligible for refinance, the original loan must have closed at least 12 months prior to the USDA's receipt of a conditional commitment rque4st for the new refinance • To be eligible for refinance, the existing loan must have been current for the 180-day period prior to the USDA's receipt of a conditional commitment request to refinance • Any late mortgage payments within the past 36 months on the existing USDA loan must be analyzed and addressed by the lender to determine if any late payments were a disregard for financial obligations, an inability to manage debt, or factors beyond the control of the borrower when considering the underwriting decision. • There is no limit placed on the number of refinance loans made to an existing SFHGLP borrower, however the loan to be refinanced must have closed at least twelve months prior to the USDA's receipt of a conditional commitment request for refinance. **Property inspections are not necessary**. Although Rural Development does not require repairs to be completed for refinance transactions, the lender may require completion of repairs as a condition of loan approval. Expenses related to property inspections and repairs may not be financed into the new loan amount. **Discount Points**

	Discount points are not eligible to be financed, except for low-income applicants. In such cases, discount points financed will not exceed two percentage points of the loan amount and must represent a reduction to the interest rate. **The following information pertains to the Streamlined-Assist refinance program:** • Streamlined-Assist refinance loans must be manually underwritten. They cannot be processed through the Guaranteed Underwriting System (GUS). • A credit report with scores for each borrower must be submitted with the file. • Mortgage History Borrower must have made timely mortgage payments for the 12-month period prior to the refinance. • Lender must secure evidence to document the borrower(s) has paid the loan on time for the previous 12 months. If the mortgage account is currently delinquent or has been reported delinquent in the previous 12 months, the borrower is not eligible. • The lender may utilize a Verification of Mortgage obtained from or provided directly by the loan servicer that lists the payment history for each of the previous 12 months. As an alternative, the lender may submit a credit report which reflects a satisfactory mortgage payment history over the past 12 months. If the lender submits a credit report to Rural Development as proof of payment history, only the payment history of the current mortgage will be considered. Credit waivers or explanations for adverse credit that may be present on the report are not required. • Existing USDA Guaranteed Loans that have less than a 12-months payment history at time of application are ineligible for the Streamlined-Assist refinance program. • The new interest rate must be a fixed rate and must not exceed the interest rate of the original loan being refinanced. • The loan amount may include the principal balance of the existing loan, plus the applicable upfront guarantee fee, accrued interest and eligible loan closing costs. No cash out is permitted to the borrower. • Customary and reasonable closing costs and other fees may be collected from the borrower by the lender. Such charges may not exceed the cost paid by the lender or charged to the lender by the service provider. • Unpaid fees, home equity lines of credit, down payment assistance funds used for the original purchase of the property or other second liens on the property are not eligible to be included in the new loan amount. • Bona Fide discount points may be financed into the loan amount for low income borrowers only, as defined by USDA. • The origination fee does not include charges for credit reports, title examination, verification requests, appraisals, settlement costs or other eligible costs associated with processing and closing the loan. • The borrower must receive a tangible benefit to refinance under this option. A tangible benefit is defined as a $50 or greater reduction in their principal, interest, and the annual fee payment on the new guaranteed loan when compared to the existing principal, interest and annual fee payment. ***Additional guidelines for Streamlined Assist Refinance*** Borrower(s) must have made timely mortgage payments for the 12-month period prior to the refinance.

	Borrowers may not be removed when using the Streamlined Assist Refinance Lender must secure evidence to document the borrower(s) has paid the loan on time for the previous 12 months. If the mortgage account is currently delinquent or has been reported delinquent in the previous 12 months, the borrower is not eligible. FSB requires all borrowers on the loan to be employed at the time of closing on the refinance transaction or have alternate sources of income such as: retirement income, social security income, disability income, alimony or child support. (Exception: When husband and wife are on the loan, income from only one spouse is acceptable) The applicants must meet the income eligibility requirements of Handbook 3555.151(a) and must not have had any defaults during the 12-month period prior to the refinance loan application. While there are no required DTI ratios, if borrower's employment/income situation has materially changed within the last 6 months, FSB reserves the right to disallow the loan
Special Requirements/Restrictions	**Documenting Eligibility of the Applicants/Parties Participating in Rural Development Loan Guarantees** Lenders must document that the applicant(s) are not on the: • U.S. General Services Administration (GSA) System for Award Management (SAM) and • HUD's Credit Alert Verification Reporting System (CAIVRS) An applicant is ineligible if he/she is presently delinquent on any Federal debt or is suspended or debarred, or otherwise excluded from participating in Rural Development programs. The GSA list may be found at: https://www.sam.gov/portal/public/SAM/ Lenders must certify on Form RD3555-21 the applicant(s) and all parties to the mortgage transaction are not on the GSA list. Appendix 7 of the Handbook contains additional information concerning CAIVRS. **Wood Destroying Insects/Organism (Termite) Requirements** All geographic areas as required by USDA, and/or: • There is evidence of active infestation • It is mandated by the state or local jurisdiction • It is customary to the area • At lender's discretion • The purchase contract requires a termite inspection **Well/Water Supply** Water systems, for existing or new construction, that require continuous or repetitive treatment to be safe bacterially or chemically are not acceptable. Individual dwelling water purification units are not an acceptable alternative; however, they may be used if the individual water system, with purification, meets the requirements of the state department of health or other comparable reviewing and regulatory authority. **Well/Water Supply – Individual Privately Owned**

	Individual water supply systems may be acceptable when the cost to connect to a public or community water system is not reasonable as defined by the lender. Lender is responsible for determining if connection is feasible. Water quality tests are required as follows: • The water quality of the well must meet the requirements of the state or local authority. If the state or local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply. • The local health authority or a state certified laboratory must perform a water quality analysis. The Safe Water Drinking Act does not apply to private wells. Contact the Environmental Protection Agency (EPA) at (800) 426-4791 for referral to certified labs and other inquiries. • The water analysis report must be no greater than 120 days old at loan closing. • The well location for individual water supply systems must be measured to establish the distance from the septic system. Distances must meet the most aggressive approach of the local and/or State Health Authority codes or HUD Handbook 4000.1. • Individual water systems/wells should be located on the subject property site. If located on an adjacent property, evidence of water rights and recorded maintenance agreement must be retained in the lender's permanent loan file as acceptance of the well as the primary source of water. • Properties served by cisterns are not acceptable. **Well/Water Supply – Individual – Privately Owned - Shared** If the property is served by a shared well or off-site facility, the lender must ensure the private system will provide a continuous and adequate supply of safe and potable water. The following requirements must also be meet. • The well serves properties that cannot feasibly be connected to an acceptable public or community water supply system. It is the lender's responsibility to make this determination. • A shared well must have a valve on each dwelling. • The water supply is adequate for all families served. A shared well must service no more than four living units or properties. • The water quality of the well must meet the requirements of the state or local authority. If the state or local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply. • The well must have an agreement that meets the following requirements: o Is binding upon all signatory parties and their successors in title. o Is recorded or will be recorded no later than the closing date. o Makes provisions for maintenance and repair of the system and the sharing of costs to do so. These provisions must include a permanent easement that allows access for maintenance and repair. **Well/Water Supply – Community Owned** If the property is served by a community water system operated by a private corporation or nonprofit property owner's association, the lender must ensure the following conditions are met: • The system and the water supply meet all applicable Federal, State and local requirements.

	• The system has the capacity to provide a sufficient water supply during periods of peak demand. • The system is operated under a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service. **Required Inspections and Documentation** The lender must obtain documentation that the water quality meets state and local standards as discussed in this section. All documentation must remain in permanent loan file **Wastewater/Septic – Individual Privately Owned** Individual sewage systems may be acceptable when the cost to connect to a public or community sewage system is not reasonable as defined by the lender. The lender is required to obtain a septic evaluation. An FHA roster appraiser who certifies the property meets required HUD Handbooks, a government health authority, a licensed septic system professional, or a qualified home inspector may perform the septic evaluation. The inspector may require additional inspections as a result of the inspection. The separation distances between a well and septic tank, and the property line should comply with HUD guidelines or state well codes. The septic system must be free of observable evidence of failure. Existing dwellings appraised by a HUD roster appraiser, who has indicated the dwelling meets the required HUD handbooks does not require further septic certification. If the property is served by an individual sewage disposal system, the lender must ensure the system: • Meets any applicable requirements of the estate or local health authority with jurisdiction. • Is located entirely on the subject property. If any part of the system is located on an adjacent property (e.g., leach lines), evidence such as a perpetual encroachment easement must be recorded to establish the rights of the property owner's permitted use. • Is operating properly and has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health. **Wastewater/Septic – Community Owned** If the property is served by a community wastewater system operated by a private corporation or nonprofit property owner's association, the lender must ensure that the system: • Meets any applicable requirements of the state or local health authority with jurisdiction. • Is licensed, operating properly and has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health. • Is subject to a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service. **Required Inspections and Documentation** The lender must obtain documentation that the wastewater system meets state and local standards as discussed in this section. All documentation must remain in permanent loan file. **Street Access** The site must be contiguous to, and have direct access from, a public or private street, road, or driveway. If the driveway is shared, there must be a permanently recorded

	easement for ingress and egress. This agreement must be binding to successors and title. A copy of a title report may be used to evidence the easement. Private streets must have a permanently recorded easement or be owned and maintained by a home owners association (HOA). All recorded easements must be reviewed and approved by the approved lender's underwriter and documented in the lender's permanent loan file. **Street Maintenance** Streets and roads must be hard surfaced or all-weather surfaced. An all-weather surface is a road surface over which emergency and the area's typical passenger vehicles can pass at all times. A publicly maintained road is automatically assumed to meet this requirement. If an HOA is responsible for maintaining streets and roads, it must meet the criteria set forth by Fannie Mae, Freddie Mac, the U.S. Department of Housing and Urban Development (HUD), or U.S. Department of Veterans Affairs (VA). **Private Road Maintenance Agreements** Properties located on private roads require evidence in the loan file of a permanent recorded easement (nonexclusive, non-revocable roadway/driveway easement without trespass from the property to a public street/road). Private road maintenance agreements are not required.
Underwriting	The Guaranteed Underwriting System (GUS) was developed to automate the process of credit risk evaluation for the SFHGLP. GUS is a tool that helps evaluate the credit risk of the loan request. It compliments but DOES NOT replace the considered judgment of experienced underwriters. No borrower should be denied a SFHGLP guarantee solely on the basis of a risk assessment generated by GUS. Mitigating circumstances according to Agency standard guidelines may be considered. **GUS Resubmission Policy (Ch. 5)** If data changes during the loan application stage, after Conditional Commitment or prior to loan closing, the GUS underwriting recommendation could be compromised. *Under the following conditions, lenders must resubmit the loan through GUS for an updated evaluation:* • Borrowers were either added or deleted from the loan application or critical information has changed. • A decrease in the borrower's income and/or cash assets/reserves. • An increase in loan amount or interest rate on the mortgage loan request. • Any changes that would negatively affect the borrower's ability to repay the mortgage. • Information regarding the property changes—such as a change in sales price or value. Some data changes do not affect the outcome of an underwriting recommendation. Once a mortgage loan has been sent to the Agency as a "Final Submit," the *following data changes do not require* that the GUS loan application be updated: • A decrease in loan interest rate • A decrease in loan amount • A decrease of mortgage or personal liabilities • An increase of assets

	All loans must be submitted to GUS (Guarantee Underwriting System) Loans which receive an underwriting recommendation of "Refer" or "Refer with Caution" require a manual underwrite per USDA guidelines. **A GUS underwriting recommendation of "Accept" may require a manual downgrade to "Refer" if:** • Open authorized user tradelines are reported on the credit report • Credit report indicates a tradeline or public record is in dispute • Installment and/or revolving debts not listed on the credit report were manually entered into GUS o Exception: The manual entry of Non-Purchasing Spouse (NPS) debts (community property states only) will not require an "Accept" to be downgraded to a "Refer" The manual entry of child support, alimony, garnishments, or other court ordered debts, or business debts into GUS will not require an "Accept" to be downgraded to a "Refer". If GUS renders an underwriting recommendation of ACCEPT and ELIGIBLE, the loan is eligible for Rural Development's guarantee. All files must be submitted to the RD office in the state in which the property is located to obtain a Conditional Commitment prior to closing. The Conditional Commitment must be retained in the file. Refer to the Underwriting and Loan Closing Documentation Matrix Administrative Notice (AN) 4699 for required documentation for all loans at the following link: https://usdalinc.sc.egov.usda.gov/docs/rd/sfh/loanorigination/UW_Loan_Closing_Matrix_Document.pdf **Property Flipping** When the Seller of the property has been on title less than 90 days extra diligence must be taken with the transaction. Underwriter in its sole discretion reserves the right to condition for additional information and collateral support to include desk review, field review, or additional appraisal in order to support value. There is not a specific USDA requirement. A copy of the divorce decree is required when the loan file indicates income or liability due to divorce.

For any other USDA guidelines, please reference the 7 CFR 3555