

# Rural Housing

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## **8.1-A General Requirements**

- The USDA Rural Housing program provides low- and moderate-income rural residents with better access to affordable housing finance options with little or no down payment or out-of-pocket costs.
- Borrowers may obtain a loan to purchase a new or existing home that is located in a designated rural area. A rural community generally has a population of 10,000 or less; however, a community with a population of 20,000 or less can be considered “rural” if it is located outside a metropolitan statistical area (MSA)
- To be eligible for this loan, borrowers must lack sufficient resources (for example, borrower is unable to secure the necessary down payment which is generally 20%, to obtain conventional financing).
- SecurityNational Mortgage offers the Guaranteed Rural Housing program. The Direct Rural Housing program is not offered.
- SecurityNational Mortgage may have stricter guidelines than Rural Housing. This may be because our investors require something different or because of our internal Credit Policy. SecurityNational Mortgage guidelines should be followed regardless of Rural Housing acceptance.

## **8.1-B Loan File Process**

1. Branch received the file in the office
2. The branch underwriter will underwrite the full file and make their recommendation. The underwriter must run the file thru the GUS automated underwriting system and obtain an “Approve/Eligible”.
3. If approved, the branch sends the file to the assigned local rural housing office (please see list of required submission items)
4. Rural housing will review and make a determination of the file within 48 hours. Rural housing may ask for additional conditions to be cleared before closing. The underwriter should review the rural housing determination and add any applicable conditions to their eApprove
5. If rural housing approved the file, they will issue a Commitment for Loan Guarantee. This commitment is required before SecurityNational can close the loan

### **8.1-B1 Working with the Local Rural Housing Office**

- All loans must be sent to the local Rural Housing office for loan commitment.
- Many states have several local rural housing offices. You must send the complete file to the local office that covers the county where the property is located.
- We encourage our branches to develop a relationship with the Rural Housing offices that serve their coverage area
- A copy of our national approval can be provided upon request. Our USDA approval number is 87-0512002

## 8.1-B2 Locking

Product code is RH-30 and pricing is located on your rate sheet.

## 8.1-B3 Closing

- The broker may charge a maximum 1% origination fee
- Rural housing closes with standard fixed rate documents, but with four additional documents:
  - Form AD-1048
  - US.GPO: 1995-658-443
  - RD400-3
  - RD410-9
- In the property screen, enter “rural housing” under the Special Property Type
- Enter the Guarantee Fee in the Loan Fee Screen so it does not get analyzed in the high cost test

## 8.1-C General Underwriting Guidelines and Eligibility

### 8.1-C1 Assumability

Not allowed

### 8.1-C2 Assets

- Cash reserves are not required
- The borrower must not have sufficient assets to obtain other traditional conventional financing. The borrower may, however, qualify for an FHA or VA loan. In other words, applicants may have liquid assets and be eligible to participate in the Rural Housing program. Those assets, however, should not be sufficient to meet the down payment and closing cost requirements associated with a conventional uninsured mortgage product (LTV < 80%)
- Verification of funds is not required unless the borrower’s contribution is greater than \$1000 or 2% of the purchase price (whichever is greater)
- If verification of funds is required:
  - Checking or Savings Verification of Deposit (FNMA Form 1006)
  - Bank Statements – To substantiate that a borrower has sufficient funds available for closing, the underwriter may accept the borrower’s original bank statement(s) for the most recent two (2) months to verify funds that the borrower has in a deposit institution. The borrower’s bank statements must identify clearly the depository institution, the account holder(s), the account number, the time period covered by the statement, all deposit and withdrawal transaction, and the ending account balance. If the date of the borrower’s most recent bank statement is more than 45 days earlier than the date of the borrower’s application, the borrower must supply a supplemental statement. The underwriter may accept any bank-generated forms that show a machine-printed account number, balance, and date.
  - Cash-On-Hand – Typically not an acceptable source of funds for closing. However, it may be acceptable if the following can be documented:
    - Analysis of discretionary income through a household budget supports the ability to accumulate funds

- Cash is a way of life for the borrower and can be documented with receipts where cash is used consistently to make household payments, such as rent/mortgage, utilities, etc.
- Gifts or Grants – A borrower can use funds obtained as a gift (or grant) to satisfy part of the cash requirement for closing only if the donor is a relative or a close friend with a clearly defined interest in the borrower, or charitable organization, municipality, or nonprofit organization. Seller-funded programs are not allowed.

A gift must be evidenced by a letter that is signed by the donor. The letter must:

- Specify the dollar amount of the gift and the date the funds were transferred;
- Indicate the donor's name, address, telephone number, and relationship to the borrower; and
- Include the donor's statement that no repayment is expected

The underwriter must verify that funds have been transferred to the borrower's account and show documentation of the transfer of the gift funds from the donor's account; for example, by obtaining a copy of the donor's withdrawal slip or cancelled check and the borrower's deposit slip, etc. When the funds are not transferred prior to settlement, the donor may give the closing agent a certified check for the amount of the gift. A copy of that check or a settlement showing receipt of that check will be sufficient documentation for our records, provided the donor is listed as the remitter

A gift or grant from a charitable organization, municipality, or nonprofit organization must be evidenced by either a copy of the letter awarding the gift or grant to the borrower or a copy of the legal agreement that specifies the terms and conditions of the gift or grant is expected and an indication of how the funds will be transferred (to the borrower, the lender, or the closing agent). The underwriter must include in the individual mortgage file evidence of the transfer of the funds – such as a copy of the donor's cancelled check or a settlement statement showing receipt of the check.

**Note:** All supporting documentation (other than the gift letter) is no longer required if the entire gift is going toward closing costs/prepays (any amount), or being used to pay off debt of \$1000 or less.

- Disposition of Personal Assets – Proceeds from the sale of personal property may be used towards closing costs. Documentation for funds obtained should include a bill of sale, bank statement verifying deposit of funds, and when applicable, a transfer of title.
- Reserve funds – There is no requirement for payment reserves after closing

### 8.1-C3 Borrower Eligibility

- Borrower must be a U.S. citizen or be legally admitted to the U.S. for permanent residence
- Rural housing loans are limited to one loan per borrower and co-borrower
- CAIVRS must be checked on all borrowers
- Non-occupant co-borrowers are not allowed

### 8.1-C4 Credit

- A minimum FICO 660 is required. No FICO borrowers are no longer allowed. SNMC will require loans to be submitted to GUS for underwriting and must receive an "Approve/Eligible".
- No foreclosure or bankruptcy in the past 36 months.
- No outstanding tax liens, no matter what their age, that are currently delinquent.
- The total debt ratio should include revolving debt regardless of when the debt will be retired

- Installment loans will only be considered if the debt will be retired in more than six months. However, if the monthly payment on the debt is substantial, the payment will also be included in the long term debt ratio calculation
- If the borrower has co-signed a loan for another party, an acceptable 12-month history validating that the borrower is not making the payment must be provided in order to exclude the payment from the total debt
- Student loan debt must be included in the ratios, regardless of the deferment period. If the credit report does not state a monthly payment, the underwriter may request a copy of the applicant's payment letter, or utilize the industry standard of estimating student loan payments as 1% of the loan balance
- When a borrower has a delinquent student loan obligation, a satisfactory six-month repayment history must be provided
- A 24-month history of residence is required on all files. Additionally, a 12-month verification of rent or mortgage with a payment rating is also required. This may be done using a Request for Verification of Rent or Mortgage Account, or information contained on the credit report, or cancelled checks. No late payments allowed in the last 12 months. Exceptions will be granted on a case by case basis by Credit Policy.
- Standard eligibility ratios are 29-41%, but can exceed with a GUS Approval
- Effective with all loans underwritten on or after Monday December 7<sup>th</sup>, the following underwriting guidelines will be in effect.
  - Maximum DTI 45% with AUS approval—no additional restrictions.
  - DTI > 45% up to 50% allowed with AUS approval, 2<sup>nd</sup> signature from Regional Operations Manager or Credit Policy, and 660 minimum FICO.
  - DTI > 50% with AUS approval will be considered on a case by case basis as an exception to policy. Exception must be obtained from Credit Policy. UW Memo 40.2009
- SecurityNational Mortgage prefers that all outstanding collection accounts are paid off and there have been no new collections in the last 12 months. Outstanding collections no matter what their age, that are currently delinquent are indications of unacceptable credit history and must be carefully investigated. However if the underwriter feels that the loan is an acceptable credit risk and the local rural housing office agrees with the underwriter recommendation, the collection accounts are not required to be paid. GUS provides a Notes section with each liability tradeline designed to capture the underwriter's basis for allowing the borrower's collection accounts to remain
- Judgments must be paid at or before closing

### 8.1-C5 Community Property

Guidelines vary by local office. Some local offices require a credit report and debt be included from a non-borrowing spouse and some local offices do not. Please contact the underwriting rural housing office for guidelines.

### 8.1-C6 Compensating Factors

- Present housing expense over the last 12 months is similar to the proposed housing expense
- Accumulated savings
- Post high school education or technical training that places the applicant in a field where future increases can be expected
- Homeownership counseling

## 8.1-C7 Income

### Eligibility Income

- The borrower's adjustable household income cannot exceed the maximum allowable income limit set by Rural Development
- The eligibility income includes the gross income for the applicant, co-applicant, and all other adults in the household
- Applicants may be eligible to make certain adjustments to gross income, such as annual childcare expenses (verified) and \$480 for each minor child
- The income eligibility worksheet must be included in the loan file
  - Income eligibility can be verified online: <http://eligibility.sc.egov.usda.gov>

### Qualifying Income

- All sources of income must be verified using FNMA Form 1005 "Verification of Employment". Underwriters should review the past 24 months to determine qualifying income.
- Income Documentation-Verbal VOE, full months of paystubs, two years W-2's;
- or
- Written VOE, paystub, two years W-2's
- An executed 4506-T is required for the most recent two years. File must contain a completed and signed 4506-T Form from all borrowers at application and closing for the most recent two years tax returns. The two year IRS transcripts should be reconciled with the income documentation, i.e. paystubs, W-2, tax returns, etc.
- Depreciation can be added back in as income for self-employed borrowers
- The following should serve as a guidelines for handling income-related issues:
  - Full Time – For borrowers whose income is derived from full-time employment, two (2) years of full employment history must be verified on FNMA Form 1005 (Verification of Employment)
  - Part Time – Part time or second job income with a duration of 24 months may be used
  - Overtime and Bonus Income – Overtime and bonus income can be used to qualify the applicant if the employer verifies that the applicant has received it during the last 24 months and indicated that the overtime or bonus income will continue. The underwriter must develop an average of the last 24 months overtime and bonus income to determine the amount of income that can be considered in evaluating the borrower's qualifications
  - Self-Employed Income – Two (2) previous years 1040's are required. They must be signed and certified by the applicant. Additionally, a year-to-date Profit & Loss Statement with Balance Sheet, prepared and signed, must be submitted. If the applicant has 25% or more ownership interest in any business entity, the applicant must also provide the most recent two (2) years' business tax returns (Corporate, Sub-S, or Partnership) along with a current Profit and Loss Statement with a Balance Sheet prepared and signed by an accountant
  - Alimony, Child Support, and Separate Maintenance – we require documentation that child support, alimony, or separate maintenance will continue for three (3) years after the date of the mortgage application or it will not be considered as income. The borrower must also provide evidence includes deposit slips, cancelled checks, court records, or tax returns

- Retirement Income – Retirement income, i.e. pensions, annuities, 401k distribution, etc., may be verified by letters from the organizations providing the income, copies of the retirement award letters (with photocopies of cancelled checks attached), tax returns, or IRS W-2 forms. This evidence must confirm the continuation of this income for a minimum of three (3) years.
- Social Security Income – Acceptable verification includes a photocopy of the Social Security Administration’s award letter or copies of the borrower’s last 2 bank statements to confirm the regular deposit of the payments. Benefits that have defined expiration dates must have a remaining term of at least three (3) years to be considered as income
- Disability Income – Disability income will be considered acceptable income provided it can be documented by furnishing a recent copy of respective letter of benefits or allotment setting forth the terms of the income. The benefits must be on-going for a minimum of three (3) years.
- Unemployment and Public Assistance Benefits – Unemployment and Public Assistance benefits will be considered as income if they are properly documented by letter or exhibits by the paying agency. The amount, frequency and duration of payments must be stated in the verifying documents. If an individual received unemployment benefits as a regular part of his/her income, we will require copies of tax returns for the past two (2) years to establish a history of receipt. This income must be documented as on-going for a minimum of three (3) years.
- Dividends/Interest Income – Dividends and interest may be used as income provided that assets that are generating that dividend/interest income will not be used for the down payment or closing costs on the proposed loan. The applicant must provide tax returns for the previous two (2) years along with verification of current assets via bank statements, verification of deposits, etc. This income will be averaged over two (2) years or calculated at current market interest rates, whichever is less.

### 8.1-C8 Flipping

USDA will follow FHA property flipping guidelines

### 8.1-C9 Gifts and Seller Contributions

- Maximum seller contributions – 6% NO EXCEPTIONS
- Seller-funded down payment assistance programs not allowed
- 100% of the borrowers cash to close may come from a gift
- Discount points may be paid with seller concessions or gift funds.
- Gifts from a relative, close personal friend with a clearly defined interest in the borrower, charitable organization, or grants from a municipality or non-profit agency are permitted, provided they are unrelated to the transaction
- A gift letter must be completed and signed by both the donor and the borrower
- If the gift funds are deposited:
  - The transfer of funds must be verified by either a copy of the cancelled check and evidence of deposit into the borrower’s account or a copy of the withdrawal from the donor’s account and a deposit into the borrower’s account
- If the gift funds have not been deposited:

- Verify that the borrowers received the specified funds prior to or at closing by either evidence of the transfer (withdrawal/deposit) or a cashiers check with the donor as remitter at closing

### 8.1-C10 GUS Automated System

Branch underwriters must be trained on GUS in order to be approved and receive a password. Please contact Cheryl Gray at the corporate office for details

#### How to import 1003 from E3 into the GUS System:

- After your loan is set up in E3, click on the E3 Connect button
- New button
- 1003 export
- Export Complete
- Save File
- Save Finding
- Save upload to your desktop
- Log into GUS
- Where it says new application or existing, it states upload application
- Browse button and choose your 1003 from where you saved to your desktop
- Upload and you are good to go!

### 8.1-C11 Homeownership Counseling

Applicants utilizing the Guaranteed Rural Housing Program represent a wide spectrum of credit profiles. Most applicants have never owned a home, many applicants have never rented, and many applicants have little or no established credit. Nonetheless, despite these varied profiles, they all may be excellent candidates to achieve successful homeownership through this affordable housing program

As we work to support this objective, the underwriter may request evidence of the borrower's successful completion of homeownership counseling. This is not a requirement on every Rural Development loan file. It will be used selectively on files which have no previous housing expense and/or no established positive credit trades to demonstrate an ability to handle the proposed housing payment on a timely basis.

If the condition is part of the Rural Housing underwriting decision, the condition may be cleared by utilizing Fannie Mae's "Guide to Homeownership", or a comparable program offered by local non-profit organizations, or a standard mortgage insurance class given by the lender. This condition should be cleared before closing by proving a signed certificate of completion and the household budget worksheet information.

Please note, while homeownership counseling is not required on all files by SecurityNational Mortgage, many Rural Development state offices require all first-time home buyers to complete home buyer education. Please contact your local office if you have any questions.

### 8.1-C12 Loan Amount

- The applicant may borrow up to 102% of the appraised value for purchases and 100.5% for refinances
- Maximum loan amount is 100% of the conforming loan limit, or 102% when the Guarantee Fee is financed

- Loan amount, escrow fees, prepaids, and closing costs can be financed up to 100% of the appraised value, and then you can roll in the 2% Guarantee Fee on top of that. The Guarantee Fee is the only reason you can go above 100% LTV.
- No cash back to the borrower is allowed on purchases. Exception: the borrower may be reimbursed earnest money they have put into the transaction. Receipt of earnest money payment must be documented.
- Conforming loan limits apply

### 8.1-C13 Loan Term

- 30 year amortization only. Shorter or longer terms are not permitted
- There are no pre-payment penalties. Additional principal payments made by the borrower will shorten the loan’s amortization period
- Rural development does not offer ARMs because the payment the borrowers qualifies for today is the payment that RD wants them to be able to afford 3, 5, or 7 years from now
- Discount points cannot be financed into the loan amount

### 8.1-C14 LTV/CLTV

With the Rural Housing program, the appraisal determines the maximum loan amount. The applicant may borrow up to 102% of the appraised value for purchase transactions, and 100.5% for refinance transactions if the guarantee fee is included in the loan amount

- Closing costs may be financed when there is equity above the contract price as supported by the appraisal
- Discount points may not be financed
- Minimum 80.01% LTV required on purchase transactions. No minimum on refinance transactions
- Secondary financing may be used if it is approved by Rural Housing and is offered by city or county agencies
- Conventional declining policy does not apply

### 8.1-C15 Mortgage Insurance / Guarantee Fee

- No monthly mortgage insurance or private mortgage insurance required
- Loan Guarantee Fee can always be financed, regardless of the appraised value
- This one-time Guarantee Fee can always be financed, regardless of the appraised value
- If the borrower pays the Guarantee Fee upfront, you just take 2% of the loan amount
- \*\*In the MID screen of E3 choose RH-30 for the MI program and the Rural Housing Guarantee Fee rate will populate.
- Calculating the maximum loan guarantee amount when including the 2% fee:

Transaction Type	Guarantee Fee Not Financed	Guarantee Fee Financed
Purchase Transactions	<p>Multiply the loan amount by 2.00% and round to the nearest cent.</p> <p>Example: \$100,000 x .02 = \$2,000</p>	<p>The fee is calculated as follows:</p> <p>Divide the base loan amount by .98 and round to the nearest cent</p> <p>Multiply that number by .02</p>

		<p>(2.00%) and round to the nearest cent</p> <p>Example: <math>\\$100,000 \div .98 = \\$102,040.8163</math> (rounded to <math>\\$102,040.82</math>).</p> <p><math>\\$102,040.82 \times .02 = \\$2,040.8164</math> (rounded to <math>\\$2,040.82</math>)</p>
Rate and Term Refinance	<p>Multiply the loan amount by .50%</p> <p>Example: <math>\\$100,000 \times .005 = \\$500</math></p>	<p>Follow steps 1 and 2 above, substituting .9950 for .98 and .005 for .02.</p> <p>Example: <math>\\$100,000 \div .9950 = \\$100,502.51</math></p> <p><math>\\$100,502.51 \times .005 = \\$502.51</math></p>

### 8.1-C16 Non-Traditional Credit – Currently Not Allowed

- Non-traditional credit on government loans has been eliminated (Spotlight 09.02.2008). All borrowers must have traditional credit history with the exception of non-credit qualifying streamline refinances. Here’s some clarification on scenarios that you might come across.
- Two borrowers with no credit scores: Not Allowed
- One occupant borrower with a credit score and one occupant borrower without a credit score: Allowed. The reported credit score is used for qualification and non-traditional credit does not need to be built for the borrower with no credit score. Valid credit score and an automated approval through TOTAL scorecard is required.
- Occupant borrower with no credit score and a non-occupant borrower with a credit score: Not allowed, because the occupant borrower would be required to build non-traditional credit which is no longer acceptable
- Occupant borrower with a credit score and a non-occupant borrower without a credit score: Not allowed. A non-occupant borrower must have credit scores.

### 8.1-C17 Refinances

- Only allowed if the previous loan was a Rural Housing Guaranteed or Rural Housing Direct loan
- The program may not be used to refinance FHA, VA, or other government or conventional mortgages
- Temporary buydowns are not permitted
- Term of the new loan will be 30 years
- Interest rate of the new loan cannot exceed the interest rate of the loan being refinanced
- Property must be owned and occupied by the borrowers as their principal residence

- The guarantee fee is .50% of the total principal obligation of the new loan
- The .50% guarantee fee may be financed into any Rural Housing refinance transaction. As usual, the borrower may finance other closing costs and fees up to 100% of the current appraised value. However, it is possible for the LTV of the new loan to reach 100.5% if the .50% guarantee fee is financed. Loans may exceed 100% LTV only to the extent that the excess represents a financed guarantee fee of no more than .50%
- Maximum loan amount cannot exceed the balance of the loan being refinanced, plus the guarantee fee, and reasonable and customary closing costs, including funds necessary to establish a new escrow account
- Unpaid fees, such as late fees due the current servicer, are not eligible to be included in the new loan amount
- Household income limits may not be exceeded
- Ratios must meet standard requirements. The monthly housing expense to income ratio should typically not exceed 29% and the total debt to income ratio should typically not exceed 41%. SecurityNational Mortgage underwriters may ask for a ratio waiver if the borrower has compensating factors. A satisfactory payment history for the current mortgage will be considered a strong compensating factor
- Rural housing refinances are permitted for properties in areas that have been determined to be non-rural since the existing loan was made
  - Borrowers are not eligible to receive “cash-out” from the refinance transaction. However, applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinance transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of “cash-out” to the borrowers (beyond reimbursement of these prepaid items) may occasionally result due to final escrow and interest calculation. This amount, if any, must be applied as a principal reduction of the new loan
  - Subordinate financing such as home equity seconds and down payment assistance “silent” seconds cannot be included in the new loan amount. Any existing secondary financing must be subordinate to the new first lien
  - As part of the refinance transaction, additional borrowers may be added to the new GRH loan or existing borrower may be removed from the current loan. All applicants that will be a party to the promissory note for the new loan must meet all eligibility requirements
  - A full appraisal is required per SNMC policy
  - No other property inspections or certifications are necessary. However, any conditions noted on the appraisals that are related to the safety or livability of the subject property must be addressed and rectified prior to loan closing. Expenses related to property inspection and property repairs may not be financed into the new loan , or escrowed for prior to closing

### 8.1-C18 Temporary Buydowns

- Must be funded by the lender, seller, builder, or other third party. May not be funded by the borrower
- The buydown period is 24 months. There is a 2% reduction in note rate in year one (1) and a 1% reduction in note rate in year two (2). For years three (3) through thirty (30), the loan returns to the maximum rate.
- Allowed on purchase transactions only

- Only allowed with compensating factors
- The borrower must be qualified at the note rate
- Currently unavailable in Arizona
- As all loans are seller/lender funded, all 2/1 temporary buydown loans must be disclosed on the Truth-in-Lending at the full note rate without the benefit of the 24-month subsidy

## **8.1-D Property**

### **8.1-D1 Appraisals**

- Appraisals should be completed by an FHA appraiser and should be ordered from Landsafe. The broker will be required to bring in a cashier check payable to SNMC to the Branch. The Branch will order the appraisal from Landsafe and forward a copy of the order, along with the original check and loan number to Jake Spanton in Credit Policy. When ordering an appraisal from Landsafe specify in the comments section that you require an FHA Roster Appraiser.
- Rural Housing requires the new Fannie Mae/Freddie Mac form 1004MC, “Market Conditions Addendum”.
- Appraisals do not need to conform to the HVCC (Home Valuation Code of Conduct)
- A LandSafe Field Review is required on all loans if the original appraisal was not a LandSafe appraisal
- The cost approach section of the appraisal must be completed in its entirety when the dwelling is less than one year old. For dwellings more than one year old, the cost approach section of the appraisal needs to be completed only to the extent necessary to comply with the site value analysis.
- If an appraisal is obtained that was not completed by an FHA Roster Appraiser you must obtain a separate home inspection report prepared by a qualified home inspector. Any health or safety issues that the home inspector notes on the inspection report must be repaired for the loan to be acceptable for Rural Housing.
- Some States require Termite inspections. Please check with the local Rural Housing office for your area.

Property must meet HUD minimum property standards per HUD Handbook 4150.2, Valuation Analysis for Home Mortgage Insurance for Single Family One- to Four-unit Dwellings (Appraisal Handbook) and 4905.1, Requirements for Existing Housing – One- to Four-Family Living Units. The appraiser must comment on page 3 of the appraisal that the property does meet the guidelines. Although not a complete list, here are some of the minimum property standards:

- A complete visual inspection of the property must be completed
- Appraiser to determine the highest and best use for the site
- Appraiser must analyze the relationship of street grades, floor elevation, and lot grades
- Consider off-site improvements such as street surface, curbs, sidewalks, and driveways. These improvements should enhance the market acceptance
- Streets and driveways must provide all-weather access. Shared driveways are permitted as long as the access to the property is transferable with the title to the property
- Consider all easements, restrictions, encroachments and their impact on the market value of the subject property. Perform limited due diligence to verify the existence of these types of significant limiting factors. These items should be recorded in the URAR if they are considered in the value estimate.

- Required repairs are limited to those repairs necessary to preserve the continued marketability of the property and to protect the health and safety of the occupants
- Septic system inspection must be completed and the following items considered (completed by the appraiser unless the appraiser asks for a local health authority to inspect):
  - The type of service
  - Topography
  - Depth of ground water
  - The type of soil to a depth several feet below the surface
- Structures in a geographic area with no active termite infestation may not require a pest inspection. However the appraiser must always note:
  - Any infestation
  - Any damage from previous infestation
  - Whether damage from infestation has been repaired or is in need of repair
- Heating must be adequate for healthful and comfortable living conditions
- Utilities must be independent for each living unit
- The home must have access to a continuing supply of safe and potable water

### 8.1-D2 Condominiums

- Condominiums, Planned Unit Developments (PUDs), or other dwellings served by a homeowners association (HOA) may be accepted when the project has been approved or accepted by HUD, VA, FNMA, or FHLMC. The SecurityNational underwriter is responsible for documenting warrantability. Non-warrantable condos are not allowed.
- Small residential condominiums that are not served by a homeowners association based on the condo documents may still be eligible for financing. The SecurityNational underwriter must ensure that the condominium is still warrantable
- HUD, FNMA, and FHLMC have delegated to lenders the authority to warrant that condominium projects meet their requirements. Lenders have the ability to “self-certify” or warrant that condominiums purchased by FNMA or FHLMC, or insured by HUD, meet the minimum requirements of those entities. Lenders can warrant that they have reviewed condominium documentation, that the condominium meets the requirements of HUD, FNMA, or FHLMC, and that the documentation remains available in the lender file for verification purposes. The documentation containing the information necessary to determine if a condominium would be approved by HUD, FNMA, or FHLMC are:
  - A condominium questionnaire, and
  - The condominium’s master hazard insurance policy
  - FHA Spot Approval form may be used to determine HUD warrantability
  - Condo/HOA Underwriter Cert must be signed, but does not have to be included in the file sent to rural housing or the investor.
- Certain types of condominium projects are not eligible under HUD, FNMA, FHLMC, or VA guidelines. They are included in the ineligible properties section below.

### 8.1-D3 Escrow Holdbacks

Not allowed

### 8.1-D4 Ineligible Properties

- Condo Hotels

- Condominium projects that include registration services and offer rentals of units on a daily basis
- Timeshares
- 2-4 unit properties
- Second homes or investment properties
- Manufactured housing
- Spot relocations
- 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 that has not been turned over to the association for which the 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 property 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
- A condominium project with non-incident business operations owned or operated by the owners' association such as, but not limited to, a restaurant, spa, health club, etc...
- Properties in Lava Zones 1 & 2 are not eligible

### 8.1-D5 New Construction

If the builder is providing a one-year warranty, the following inspections are required:

- Framing Inspection
- Footing Inspection
- Final Inspection

Or

If a 10-year Builder Warranty is provided, a Final Inspection may be required

Or

Certification of Occupancy with a 1 year builder warranty

Rural Housing may require additional information, which may include the following:

- Copies of plans, drawings, and specifications
- Certifications regarding the plans, drawings, and specifications
- Building permits
- Occupancy certificates

### 8.1-D6 Pools

In-ground swimming pools are permitted under the Single Family Housing Guaranteed Loan Program as long as loan funds are not used to finance the contributory value of the swimming pool. The appraiser should address subject property swimming pools and their value relative to the market. In many cases,

the swimming pool will have a value, and Rural Development staff should ensure that the contributory value of the pool is not included in the final loan amount. The value of the swimming pool should be deducted from the maximum loan amount before the guarantee fee is added back (if financed). The appraiser should not indicate that a swimming pool has no value simply because this is a Rural Development guaranteed loan.

In-ground pools are applicable only to regular annual allocations and does not apply to any funding under the American Reinvestment and Recovery Act (ARRA). Without exception, no swimming pools are permitted for loans obligated using ARRA funds. Please contact your local rural housing office to determine the eligibility of your loan.

### 8.1-D7 Property Eligibility

- Borrower may not own other adequate housing within the local commuting area (generally 50 miles)
- Borrowers may only have one primary residence. Borrowers may be the current owner of a structurally sound, functionally adequate house, as long as it is sold prior to or concurrently with the purchase of a new home. Exceptions may apply on a case-by-case basis. Exceptions must be approved by the SecurityNational Mortgage underwriter and the local rural housing office
- Primary residences only
- New or existing single family residences
- Condominiums or approved PUDs allowed
- Property must be a non-farm, non-income providing tract
- No restrictions on size or design
- Generally, the value of the site must not exceed 30% of the total value of the property. When the value of the site is typical for the area, as evidenced by the appraisal, and site cannot be subdivided into two or more sites, the 30% limitation may be exceeded
- A flood certificate is required. If the home is located in a flood zone, flood insurance is required
- Homes must be structurally sound and in good repair
- There is no acreage limitation, but it must be common for the area and must have similar comps
- In-ground swimming pools are generally not allowed. The local rural housing office may approve a home with an in-ground pool as long as no value is given. If the appraiser gives the pool a value, it must be subtracted from the appraised value. It is recommended that you call your local rural housing office about eligibility before approving a home with a pool.
- Properties in Lava Zones 1 & 2 are not eligible
- The property must be located on a rural area designated by USDA as eligible. Verify property location eligibility at: <http://eligibility.sc.egov.usda.gov>. From the home page, click “Single Family Housing” under “Property Eligibility”. Enter the property address to get an instant determination or to view a map.

### 8.1-D8 Well Certification

- The Safe Drinking Water Act does not protect private wells. The rules of the Environmental Protection Agency (EPA) only apply to “public drinking water systems” government or privately run companies supplying water to 25 people or 15 service connections. Most states regulate private household wells, and more health department, environmental offices, and county governments should have a list of state certified testing laboratories.
- Also, EPA’s Safe Drinking Water Hotline, (800) 426-4791, can help in many ways. The Hotline can:

- Provide the name and phone number of your state's Laboratory Certification Officer
- Provide the phone number of your state drinking water program
- Provide a listing of contaminants public water systems must test for
- Provide health advisories prepared for specific drinking water contaminants
- Explain the Federal regulations that apply to public water systems
- Compare individual water supply lab results to the federal standards. These standards can be found at: [www.epa.gov/safewater/mcl.html](http://www.epa.gov/safewater/mcl.html)

### **8.1-E Useful Websites**

[www.rurdev.usda.gov/rhs](http://www.rurdev.usda.gov/rhs) USDA Rural Development National Office website. Agency information and USDA e-Forms are available here. Individual state offices are also linked from this site.

[www.hud.gov/groups/lenders.cfm](http://www.hud.gov/groups/lenders.cfm) HUD information for lenders on various home financing topics, including required disclosures. This site provides access to the HUD reading room where you can obtain handbooks, mortgagee letters, and forms. A link is also available to search for FHA approved condominiums

[www.rurdev.usda.gov/regs](http://www.rurdev.usda.gov/regs) National website for instruction, administrative notices (policy updates) and non-fillable forms

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do> Eligibility website (income/property calculator)

[www.homeloans.va.gov](http://www.homeloans.va.gov) This site contains lender and applicant information for the Federal VA Home Loan Program. This site also contains a list of Federal VA approved condominiums

[www.hudclips.org](http://www.hudclips.org) HUD handbooks and forms

[www.fema.gov](http://www.fema.gov) Information on the National Flood Insurance Program (NFIP) and FEMA Form 81-93, Standard Flood Determination, can be found here

[www.allregs.com/default.asp](http://www.allregs.com/default.asp) AllRegs guidelines

[www.efanniemae.com](http://www.efanniemae.com) This site provides access to the current FNMA guidelines. The single family originating and underwriting link will provide access to a list of FNMA accepted condominiums

### **8.1-F Frequently Asked Income Questions**

- Is the income limit based on the number of people in the household?
  - Yes. Income from all adult household members must be counted against the income limit, even if an adult household member is not a co-borrower
- Can income limits be waived?
  - No, but deductions to household income are allowed
- What deductions to household income are allowed?
  - \$480 per each child in the household under age 18
  - \$480 per each child in the household aged 18-21 who are enrolled in post-secondary education
  - All reasonable and verified day care or after care expenses for children in the household age 12 and under
- Do deductions on household income affect or lower qualifying income?

- No
- What type of income can be excluded from household income, but still be used to qualify the borrower?
  - Foster care payments
- Who establishes the income limits?
  - USDA – Rural Development
- How often and when are the income limits adjusted?
  - Annually, anytime usually March-May