



MICHIGAN MUTUAL, INC.

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YOUR HOME LOAN PARTNER

# Guaranteed Rural Housing Guidelines

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# MICHIGAN MUTUAL UNDERWRITING

## *Program Description*

The Rural Housing Service (RHS) program provides very low-, 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 RHS assistance, borrowers must lack sufficient resources to obtain Conventional financing without RHS guarantee assistance (for example, borrower is unable to secure the necessary down payment, which is generally 20%).

**MMI will only approve loans that receive “Accept/Eligible” recommendations through Rural Development’s GUS (Guaranteed Underwriting System). Upon MMI approval (and possibly clearing of conditions), the file will be submitted to RD for Conditional Approval. All borrowers must have a mid credit score of 640 with GUS approval at this time. An “Accept/Eligible” through the GUS system does not guarantee an approval from Michigan Mutual.**

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# Product Specifications

Borrowers that are able to secure traditional conventional credit financing are not eligible for a USDA-guaranteed loan. Traditional conventional credit is defined as follows:

- the applicant is able to make a 20 percent down payment; and
- the applicant is able to pay all closing costs out of pocket; and
- the applicant's total debt ratio is 36 percent or less; and
- the applicant's debt ratio for principal, interest, taxes and insurance (PITI) is 28 percent or less; and
- the conventional mortgage loan term is for a 30-year fixed rate loan term without condition to obtain private mortgage insurance (PMI).

## *Ownership in Multiple Properties*

Not permitted. The borrower must not own any other adequate housing at the time of closing. All manufactured housing not on a permanent foundation (such as in a mobile home park or not on land owned by the applicant) is deemed inadequate by RHS.

## *Loan Purpose*

- Purchase
- Rate and term refinance (**cash-out refinances not permitted**)

## *Guarantee Fee*

Effective for Conditional Commitments issued October 1<sup>st</sup>, 2011 and after, an annual fee of 0.30% of the outstanding principal balance will be implemented. This will allow the Agency to reduce the up-front guarantee fee from 3.5% to 2% on purchase loan transactions.

Effective December 7<sup>th</sup>, 2011, the up-front guarantee fee for all refinance transactions will increase from 1% to 1.5%.

The annual fee for both purchase and refinance transactions is 0.3%.

The new Guarantee Fees and Annual Fee Calculators are now available on the USDA LINC Training and Resource Library, at <https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do>. The calculators are located in the Loan Origination section under Documentation and Resources.

## *Occupancy*

Owner-occupied, primary residences only

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## *Eligible Borrowers*

U.S. Citizens, Permanent Resident Alien (with evidence of lawful permanent residency)

## *Ineligible Borrowers*

- Non-occupant co-borrowers
- Non Permanent Resident Alien
- On HUD debarred list (see below Excluded Parties List System)
- Claim on HUD's CAIVRS (Credit Alert Interactive Voice Response System)
- Inter Vivos Trusts, Corporations, L.L.C.'s, etc.

## *Minimum/Maximum LTV*

### Purchase

- Minimum: 80.01
- Maximum: 100% for purchase transactions (not including guarantee fee). LTV of 100% may be exceeded by the amount of the guarantee fee if it is being financed.

### Refinance

- Minimum: No minimum LTV required on no cash out refinance transactions (**cash out transactions are not permitted**).
- Maximum: 100% for refinance transactions (not including guarantee fee). LTV of 100% may be exceeded by the amount of the guarantee fee if it is being financed.

## *Loan Amount*

- Minimum: \$40,000
- Maximum: \$417,000

## *Term*

30 years

## *Secondary Financing*

Soft/Silent Seconds are eligible only if provided by Government Agency as a soft/silent second. Any repayment must be considered in housing ratio.

## *Interested Parties' Contributions*

Seller contributions are allowed to a maximum of 6%

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## *Eligible Properties*

- Single Family
- Condominiums (site condos treated as single family)
- PUDs
- Existing Construction (properties older than 1 year)
- New Construction (less than 1 year old, with Certificate of Occupancy)

## *Ineligible Properties*

- Manufactured Homes
- Properties in Urban Areas
- Working Farm (income-producing tract)
- Properties with in-law quarters/suites
- Properties that are under construction

**NOTE:** Site Value must generally not exceed 30% of the total value of the property.

## *Repair Escrow Holdbacks*

Not Permitted

## *Assumability*

Assumability is subject to credit and property criteria for RHS 1980-D Loan program.

## *Escrow Waivers for Property Taxes/Hazard Insurance*

Not permitted

## *Minimum Credit Score*

640

## *Registration of Funds*

Must be registered with MMI as an RD loan. Registration of Funds with RD will be completed by MMI's Secondary Marketing Department.

## *Underwriting Method*

MMI will only underwrite with AUS Approval from the Guaranteed Underwriting System (GUS) of Accept/Eligible

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# Purchase Transactions

## *Property Designation*

In order for a property to be eligible for a Rural Development Guaranteed Loan, the property must be located in a rural-designated area as defined by Rural Development Instruction. You may view eligible areas on USDA's Rural Development website: <http://eligibility.sc.egov.usda.gov>

## *Maximum Loan Amount*

The appraisal determines the maximum loan amount. The borrower may finance up to 100% of the appraised value for purchase transactions. If the Guarantee Fee is included in the loan amount, max LTV may be exceeded by the amount of the guarantee fee. Closing costs (those normal and customary only) may be financed when there is equity above the contract price as supported by the appraisal. Discount points, however, are only eligible for financing for low income households as defined by Rural Development.

## *Property Condition*

Any conditions noted on the appraisal 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 inspections and property repairs may not be financed into the new GRH refinance loan, or escrowed for prior to closing.

***NOTE:*** See your local Rural Housing website for any state-specific requirements and complete details regarding the Purchase Agreement/Sales Contract Form that may be required.

## *Short Sales*

MMI will accept purchase transactions where the seller is selling the home under a "short sale" agreement with their current lender. MMI must be provided the fully executed short sale approval letter and the requirements set forth by the current lender must be met prior to closing.

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# Refinance Transactions

## *Maximum Loan Amount*

The applicant may borrow up to 100% of the appraised value for refinance transactions. If the Guarantee Fee is included in the loan amount, max LTV may be exceeded by the amount of the guarantee fee. Closing costs (those normal and customary only) may be financed when there is equity above the contract price as supported by the appraisal. Discount points, however, are only eligible for financing for low-income households as defined by Rural Development.

The 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.**

## *Property Eligibility*

The loan must be secured by the same property as the original loan. The original loan must be a Guaranteed Rural Housing (GRH) or USDA Section 502 Direct only. The Program may not be used to refinance FHA, VA, or other government or conventional mortgages. Refinance loans **are permitted** for properties in areas that have been determined to be non-rural since the existing loan was made.

## *Streamline Refinances*

Streamline refinances are not eligible.

## *“Cash Out” at Closing*

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 closing, a nominal amount of “cash out” to the applicants (beyond reimbursement of these prepaid items) may occasionally result due to final escrow and interest calculations. This amount, if any, must be applied to a principal reduction of the new loan.

## *Subordinate Financing*

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.

## *Adding / Deleting Borrowers*

As part of the refinance transaction, additional borrowers may be added to the new GRH loan or existing borrowers may be deleted from the current loan. All applicants that will be a party to the Promissory Note for the new loan must meet all eligibility requirements. [Back to Top](#)

## *Appraisal Requirements*

A complete Uniform Residential Appraisal Report (URAR) is required.

Any conditions noted on the appraisal 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 inspections and property repairs may not be financed into the new GRH refinance loan, or escrowed for prior to closing.

## *Interest Rate*

For GRH refinance transactions, the interest rate of the new loan must be at least 1% less than the interest rate of the existing loan.

## *Texas Refinances*

When refinancing a loan in Texas, it first has to be determined whether or not the property is eligible for max financing based on the borrower's current liens. A Texas cash out refinance is typically referred to as a 50(a)(6). There are 2 different ways a property can be subject to Texas Article XVI, Section 50(a)(6):

- If the borrower will receive **any** amount of cash out from the refinance, even if it is of an incidental amount, or
- If the borrower has ever done a cash out refinance on the subject property before, or has taken a non-purchase money second, even if the current transaction is only a rate/term refinance. *Once a Texas Equity Loan, always a Texas Equity Loan.*

**MMI does not allow Texas 50(a)(6) transactions.** MMI will only approve purchases, and rate/term refinance loans in Texas where the borrower has never taken equity from the property.

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# Credit

## *Obligations Requiring Inclusion in DTI*

The total debt ratio must 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 (borrower's income, assets, amount of overall credit and current spending habits will be taken into consideration when determining if payment is "substantial"), the payment will also be included in long term debt.

If a debt payment is scheduled to begin within twelve months of the mortgage loan closing, MMI must include the anticipated monthly obligation in the underwriting analysis. Similarly, balloon notes that come due within one year of loan closing must be considered in the underwriting analysis. **All student loans, regardless of deferment status, and 12 months same as cash debts also must be included in the anticipated monthly obligation in the underwriting analysis.** For student loans where the payment is not reflected on the credit report and cannot be obtained, 1% of the balance may be used as the monthly payment.

## *Residence History*

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

## *Social Security Number*

Borrowers must have a valid Social Security Number (tax identification numbers are not permitted).

## *Credit Report*

3 bureau in-file merged report or RMCR must be provided. Borrowers are required to have at least 3 open and active trade lines with at least 12 month current history. Verification of Rent can act as 1 trade with 2 others.

## *Adverse Credit History*

Borrowers are not required to document adverse credit history, except those involving delinquent Federal debt or previous Agency loans. Additionally, existing collection accounts (not federal debt related) may remain outstanding.

## *Verification of Rent*

Rental verifications are not required; however, may be requested subject to overall loan file and underwriter review.

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## *Debts Cosigned by Borrower*

If the borrower has co-signed a loan for another party, an acceptable 12-month history and 12 months cancelled checks validating that the borrower is not making the payment must be provided in order to exclude the payment from the total debt. In addition, the credit report must reflect the account as a co-signed/joint account, or a copy of the installment note must be provided documenting same.

## *CAIVRS*

All borrowers must be screened using HUD's CAIVRS (Credit Alert Interactive Voice Response System) to determine if an applicant is delinquent on any federal loan.

## *Derogatory Credit*

### **Federal Debt**

Delinquent federal debt must be satisfied prior to loan closing, and borrower must show mitigating cause (extenuating circumstances).

### **Tax Liens**

Outstanding tax liens must be satisfied prior to loan closing, and borrower must show mitigating cause (extenuating circumstances).

### **Student Loans**

Delinquent student loans must be satisfied prior to loan closing, or if reflecting past due, must be brought current.

### **Bankruptcy**

Bankruptcy must be discharged for a minimum of 1 year, and loan must receive an Accept/Eligible recommendation.

### **Foreclosure**

Foreclosure must have occurred over 1 year ago (as evidenced by Sheriff's Deed) and must receive an Accept/Eligible recommendation.

\*If a deficiency balance is reflected owing on any federal debt, such as the result of foreclosure, the debt must be paid off before the borrower is eligible for an RD loan.

**NOTE:** *Federal Debt cannot be discharged in a Chapter 7 Bankruptcy.*

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## *Non-Purchasing Spouse in Community Property States*

Except for obligations specifically excluded by state law, the debts of the NPS must be included in the applicant's qualifying ratios when the applicant resides in a community property state or the property guaranteed is located in a community property state. The NPS's credit history is not considered a reason to deny a loan application. However, the NPS's obligations must be considered in the debt-to-income ratio unless excluded by state law. A credit report that complies with Rural Development requirements must be obtained for the NPS in order to accurately determine the debts that must be counted in the total debt ratio.

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

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# Employment/Income

In order to be eligible for a Rural Development guaranteed loan, the Borrowers' adjustable household income cannot exceed the maximum allowable income limit set forth in Rural Development Instruction. Borrowers must meet the income eligibility utilizing the Income Eligibility Worksheet from USDA Rural Development website (print and retain with income docs for investor and RD file). Copy and paste the link below to your browser:

<http://eligibility.sc.egov.usda.gov/eligibility/incomeEligibilityAction.do?pageAction=state&NavKy=income@11>

For a list of Single Family Housing Income Limits by county copy and paste the below link to your browser: <http://www.rurdev.usda.gov/rhs/sfh/sfh%40guaranteed%40loan%40income%40limits.htm>

## *Determining Eligible Income*

All household income will be considered to determine borrower(s) eligibility for GRH program. All eligible income may not be acceptable as qualifying income.

Generally, qualifying income will be calculated by considering the applicant's two-year history. If the applicant has had a recent substantial increase in earnings, concurrence of acceptance from both the underwriting and the state or local county Rural Development Office is required.

Income documentation is required for all income-earning members of the household, even if the household member is not a borrower on the mortgage transaction and/or if the income is not used for qualification.

**NOTE:** *Line of work changes require a minimum 6 month job time in order to use income.*

## *Non-Taxable Income*

Income which has been verified as non-taxable can be grossed-up 125%.

## *Non-Working Borrowers*

A non-working borrower or co-borrower must provide an affidavit that they are not currently working or seeking work.

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## *Reductions to Annual Income*

Annual income may be reduced by \$480 for each member of the family residing in the household, other than the applicant, spouse or co-applicant who is:

- Under 18 years of age
- A full time student aged 18 or older, or
- Disabled or handicapped (18 years of age or older). \*A "Certification of Disability or Handicap" form must be completed. This can be found on our website, at [www.michiganmutual.com](http://www.michiganmutual.com).

A one-time deduction of \$400 may be taken for any elderly family member (a person of 62 or older).

Additional adjustments in the amount of the annual expenses may be deducted for child care expenses for children up to the age of 12 if **both parents** are employed full time. A child care letter from the provider stating the cost of the care is required.

A deduction is permitted for reasonable attendant care and auxiliary apparatus expenses for each handicapped or disabled member of any household to the extent necessary to enable any member of such household (including handicapped/disabled member) to be employed. This deduction is limited to the amount by which the aggregate of such expenses exceeds 3% of the gross annual household income.

## *Child Support / Alimony / Separate Maintenance*

Child support, alimony, and separate maintenance will be considered as part of the household income if received regularly. The length of time this income has been received is not considered when determining household income for eligibility purposes. A minimum of 3 years continuance must be able to be verified. The borrower must also provide evidence that the funds have been received for the last 12 months. Acceptable evidence includes deposit slips, canceled checks, court records, or tax returns. If the income is non-taxable (ex: child support), it can be grossed up to 125% for qualifying purposes.

## *Upward Mobility*

For salaried borrowers, frequent job changes within the same line of work that improve borrower's situation (upward mobility) are acceptable as long as there are no gaps greater than 30 days.

## *Employment Gaps*

Borrowers with gaps in employment in excess of 30 days must provide satisfactory written explanation and documentation.

## *Tax Return Transcripts*

A signed 4506T at application is required for all applicants. Tax Return Verifications will be ordered by MMI, should broker decide not to order themselves.

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## *Hourly or Salaried Employees*

All sources of income must be verified using FNMA Form 1005 "Verification of Employment" as well as the most recent pay check stub. Rural Development, as outlined in Rural Development Instruction, will typically review the past 24 months to determine income eligibility. **MMI requires verified primary sources of income for a 24-month period to confirm loan approval.** Alternate documentation is permitted in place of FNMA Form 1005. Alternate documentation must include: two years W2's, 30 days paystubs with year-to-date information, and a Processor's Certification of Employment. If computer generated W2's and paystubs cannot be provided, a standard Verification of Employment form must be thoroughly completed and obtained.

## *Situations Requiring Last Two Years Tax Returns*

- Self-Employed borrowers
- Commissioned borrowers
- Borrowers employed by a relative or closely-held family business.
- Borrowers who are not commissioned, but need to validate their expenses (such as truck drivers or borrowers paid "piece work", etc).
- Borrowers using dividend and interest income to qualify.
- Borrowers receiving commission or bonus income  $\geq$  25% of their base pay.

## *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 indicates that the overtime or bonus income will in all probability continue. The lender 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.

## *Part Time or Second Job Income*

Part-time or second job income with duration of at least 24 months may be used. The income stream must have been consistent, and likely to continue. If the income has not been stable and/or is not likely to continue, it may not be used to qualify.

## *Self-Employed Borrowers*

Two (2) most recent years' 1040s 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 percent or greater ownership interest in any business entity, the applicant must also provide the most recent two (2) years' business tax returns with all forms and schedules (1120 for a Corporation, 1120S and K1 for an S-Corporation, or 1065 and K1 for a Partnership), along with a current Profit and Loss Statement with a Balance Sheet. It is underwriter discretion if the Profit and Loss Statement will be required to be prepared and signed by an accountant.

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### *Retirement Income*

Retirement income, such as 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 canceled checks attached), tax returns, or IRS W2 forms. This evidence must confirm a 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 / Public Assistance*

Unemployment and Public Assistance benefits will be considered as income if they are properly documented by letters or exhibits by the paying agency. The amount, frequency and duration of payments must be stated in the verifying documents. If an individual receives unemployment benefits as a regular part of his/her income, MMI requires 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.

### *Dividend / Interest Income*

Dividend and interest may be used as income provided the assets that are generating the 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.

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## Assets

Borrower's liquid assets, as well as equity in current home, must not be adequate to obtain 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 GRH Program. Those assets, however, should not be sufficient to meet the down payment and closing cost requirements associated with a traditional Conventional uninsured mortgage product (LTV ≤ 80%). This means applicants do have a choice of USDA-Guaranteed Rural Housing, FHA, VA, or a Conventional mortgage product with Private Mortgage Insurance.

### *Earnest Money Deposit*

Earnest money deposits are not required to be verified with copies of canceled checks if the amount does not exceed the greater of \$1000 or 2% of the loan amount (unless the borrower is getting the funds back at closing).

If the Earnest Money Deposit is of an amount that is required to be verified, but the EMD is not verifiable, the borrower(s) should not be given any credit for it in the transaction or on the HUD-1 Settlement Statement.

### *Reserves after Closing*

Not required.

### *Reimbursement of Prepaid Costs*

Evidence of payment of credit report and appraisal fees is required if trying to get back at close.

### *Asset Verification*

Verification of assets must evidence sufficient funds to close as stated in the Details of Purchase section of the application. Assets may be verified by either a Verification of Deposit (VOD) or 2 months bank statements.

### *Acceptable Funds to Close*

100% of the borrower's cash to close may come from a gift.

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## *Verification of Funds*

### **Verification of Deposit (FNMA Form 1006)**

Current balance must cover funds to close requirements. In addition the average balance must be consistent with current balance. Any significant increase (\$1000 or more) must be accompanied by written explanation and evidence of source of funds for large deposits.

### **Bank Statements**

Bank Statements may be provided as alternative documentation to the VOD. The borrower's bank statement(s) for the most recent two (2) months to verify funds that the borrower has in a deposit institution may be provided. 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 transactions, 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 borrower may provide any bank generated forms (such as deposit or withdrawal slips) that show a machine printed account number, balance, and date. Any significant increase must be accompanied by written explanation and evidence of source of funds for large deposits.

### **Cash on Hand**

Cash on hand is 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 the 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.

In certain circumstances, borrowers who have saved cash at home and are able to adequately demonstrate the ability to do so are permitted to have this money included as an acceptable source of funds to close the mortgage. The money must be verified, whether deposited in a financial institution or held by the escrow/title company and the borrower must provide evidence of the ability to accumulate such savings (as shown above in numbers 1 & 2). The borrower must explain in writing how such funds were accumulated and the amount of time taken to do so. MMI must be able to determine the reasonableness of the accumulation of the funds based on the borrower's income stream, the time period the funds were saved, spending habits, documented expenses and history of using financial institutions. If these conditions cannot be met the cash on hand is not an acceptable source of funds for closing.

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## **Gifts or Grants**

Gifts or Grants are an acceptable source of funds to close. 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 friend, or charitable organization, municipality, or nonprofit organization. **Gifts may not contribute to cash reserves in GUS transactions or be considered a compensating factor.**

A gift must be evidenced by a letter signed and dated 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.

Required Gift Documentation includes:

- Fully executed gift letter by the borrower and the donor
- The transfer of the funds from the donor to the borrower must be verified. Provide a copy of the donor's cancelled check and evidence of deposit into the borrower's account or a copy of the cashier's check (with the donor as remitter and payable to the borrower) with evidence of withdrawal from the donor's account and deposit into the borrower's account (same as policy for FHA loans).

Gifts from charitable organization or grants from a municipality or non-profit organization are permitted, provided they are unrelated to the transaction. 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. This supporting document must include language indicating that no repayment of the gift or grant is expected, and an indication of how the funds will be transferred (to the borrower, the lender, or the closing agent). The lender must include in the individual mortgage file evidence of the transfer of the funds, such as a copy of the donor's canceled check or a settlement statement showing receipt of the check.

## **Disposition of Personal Assets**

Proceeds from the sale of personal property may be used towards closing costs. Required documentation for funds obtained include a bill of sale, bank statement verifying deposit of funds, and, when applicable, a transfer of title.

## **Subordinate Financing**

Subordinate Financing is acceptable as long as provided by a Government Agency as a soft/silent second. Any repayment must be considered in housing ratio.

## **Updated Documents**

When updating expired funds verification documents, alternate documentation can be used. For example, when updating an expired Verification of Deposit, bank statements or print-outs may be used. Although one month current bank statement and bank printout may be used to update funds, these cannot be used to initially verify funds.

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# Homeownership Counseling

Applicants utilizing the Guaranteed Rural Housing Program represent a wide spectrum of credit profiles. Most applicants have never owned a home and many applicants have never rented. 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, as well as to comply with the current Rural Development Instruction Counseling, the underwriter may request evidence of your 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 to demonstrate an ability to handle the proposed housing payment on a timely basis.

If this condition is part of our underwriting decision on your Rural Development loan file, the condition may be cleared by utilizing Fannie Mae's "Guide to Homeownership", or a comparable program offered by local non-profit organizations, or by standard mortgage insurance classes given in the mortgage industry. This condition may be cleared by providing a signed certificate of completion and the household budget worksheet information.

Please note, while Homeownership Counseling is not required on all files by MMI, many Rural Development State Offices require all first-time home buyers to complete home buyer education.

## **Rural Development State Offices that require Homeownership Counseling:**

- **Georgia**
- **South Carolina**

\*The Homeownership Counseling requirement may not be limited to the states mentioned above. If you are originating a Guaranteed Rural Housing product in a state not referenced above, please **confirm your state's requirements regarding Homeownership Counseling with the local Rural Development office**, as additional states are considering this requirement as a mandatory item for all first-time home buyers. If Homeownership Counseling is required by the local RD office, this will be a requirement for MMI approval as well. See Rural Housing website for state specific requirements and complete details at [www.rurdev.usda.gov](http://www.rurdev.usda.gov)

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# Collateral

*MMI requires all USDA appraisals to comply with FHA Appraisal Independence requirements.*

## *Appraisal Requirements*

An appraisal must be obtained through the broker's assigned AMC (to be ordered in the Broker's name or MMI's name as the Lender/Client – either is acceptable), completed by an FHA Roster appraiser who can certify that "HUD's Minimum Property Standards have been met."

**NOTE:** *MMI is unable to accept transferred appraisals on USDA loans.*

### **Uniform Appraisal Dataset (UAD)**

Effective for residential property appraisals with an effective date (date of inspection) of January 1, 2012 or after, appraisal reports must be completed in compliance with the Uniform Appraisal Dataset (UAD). This rule applies to all Rural Development mortgage loans.

The UAD defines all fields required for an appraisal submission for specific appraisal forms and standardizes definitions and responses for a key subset of fields. UAD was formulated to improve the quality and consistency of appraisal data. The UAD does not change the look of the existing appraisal forms, but some fields on the forms are being extended to include additional information.

The appraisal forms that must be UAD-Compliant effective January 1<sup>st</sup> are:

- *Uniform Residential Appraisal Report (FNMA Form 1004)*
- *Individual Condominium Unit Appraisal Report (FNMA Form 1073)*
- *Exterior-Only Inspection Individual Condominium Unit Appraisal Report (FNMA Form 1075)*
- *Exterior-Only Inspection Residential Appraisal Report (FNMA Form 2055)*

**NOTE:** *MMI is unable to accept properties with a Condition Rating of C5 or C6, nor a Quality Rating of Q5 or Q6.*

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## Property Eligibility

### **Seasoning**

Property must be owned by the seller at least 91 days prior to execution of sales contract and application date.

**NOTE:** Bank-owned properties and HUD/FNMA/FHLMC-owned properties are not subject to the 90 day seller seasoning requirement.

### **Property Characteristics**

#### ***Income Producing Properties***

Subject property must be a non-farm, non-income producing tract. Properties that include buildings which largely or in part have been designed for a business or income producing purpose are not eligible. Examples of income producing buildings include, but are not limited to, warehouses, bed and breakfast facilities, boarding homes, buildings with mechanical equipment remaining from a prior business, horse riding arenas, and nonresidential buildings such as office buildings, commercial buildings, or mixed-use properties with store-fronts that contain residential space. Income-producing land signifies properties bought or developed specifically to earn revenue for the owner. Some examples of income producing land include the purchase of a residence with a lot or parcel of land which customarily produces or is capable of producing the commercial sale of one or more agricultural commodities, including timberland, or sites with one or more income-producing wind turbines or cell towers. **Whether the property actually produces a profit is immaterial.**

#### ***Site Value***

According to Rural Development instruction, "Generally, the value of the site must not exceed 30 percent of the total value of the property. When the value of the site is typical for the area, as evidenced by the appraisal, and the site cannot be subdivided into two or more sites, the 30 percent limitation may be exceeded."

#### ***Access***

The property must be contiguous to and have access to a paved or all-weather surface street, road or driveway.

#### ***Flood Zones***

For properties that are located in a 100 year flood zone (Zone A) National Flood Insurance must be available and flood insurance is required. **Flood Zones are ineligible if the property is on a well and septic system.**

#### ***Swimming Pools***

In-ground swimming pools are permitted providing the contributory value for the in-ground pool (disclosed on the appraisal report) is deducted from the total appraised value prior to calculating LTV. The Rural Development Area Office staff will prepare a pool waiver request and forward it to the Rural Development State Office for approval.

### ***Farm Service Buildings***

A nonfarm tract to be purchased with loan funds must not be closely associated with farm service buildings. MMI considers a farm to be a parcel of land operated for the production of one or more agricultural commodities and which customarily produces or is capable of producing such commodities for sale.

MMI considers a farm service building to be any of the structures used in farming operations, which may include buildings to house workers and their families, or livestock, machinery and crops. Service buildings can include, but are not limited to, livestock barns and shelters; machinery- and farm supply-storage buildings; buildings and facilities for crop storage, including fodder; and special purpose structures such as grain silos. The nature and arrangement of farm facilities vary significantly. Older buildings may be built with lumber, while modern buildings are typically steel. Farm service buildings are typically associated with a tract of land cultivated for the purpose of agricultural production or devoted to raising and breeding domestic animals, such as cattle. They can also be associated with other types of farm operations involving water, such as oyster, catfish, or trout farms.

Properties that are actively used as a farm operation, or in cases where the seller previously used the property to operate a farm, are ineligible for the SFHGLP. The same apply for properties that contain farm service building(s), even if the building(s) have no contributory value. **If a farm service building is located on the lot or parcel being purchased, then the property is not eligible regardless of the farm service building's value.**

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## **Eligible Properties**

Single family, primary residences only. Site condos will be treated as single family. Multi-family residences are not eligible. In-law Suites are not eligible.

### ***Condominiums***

Non-warrantable condominiums are not eligible. Additional condominium requirements include:

- Amenities to be 100% complete.
- Homeowners must be in control of the Homeowners Association.
- Standard insurance requirements apply
- Project must be acceptable to FHA, VA, FNMA or FHLMC.

In addition to \$1 million Liability Insurance / Fidelity Bond Coverage, MMI requires the borrower to purchase an HO-6 Insurance Policy (“Walls-In” insurance). This will insure the flooring, cabinetry, countertops, etc for the individual units. These items are not covered by the Association’s Master Policy or by a borrower’s Contents Policy. The dwelling coverage needs to reflect 20% of the appraised value of the subject property, at a minimum.

See the Rural Housing Website for state-specific requirements and complete details regarding condos.

### ***Planned Unit Developments (PUDs)***

Project must be acceptable to FHA, VA, FNMA or FHLMC. See the Rural Housing Website for state-specific requirements and complete details regarding PUDs.

## ***Private Roads***

A recorded Private Road Maintenance Agreement or recorded Easement Agreement is required.

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## *Existing / New Construction*

### **Existing**

Existing construction is defined as properties older than one year. Evidence of Certificate of Occupancy may at times be required. Property may be currently or previously occupied, and must meet the current requirements of HUD Handbooks 4150.2 and 4905.1, typically verified through an RHS Adequacy Certification or by the appraiser certifying in the comments section of the appraisal that the property meets HUD Handbooks 4150.2 and 4905.1. Additionally, a Thermal Certification is required.

### **New**

New Construction is defined as 100% complete, less than 1 yr old, with an issued Certificate of Completion.

### ***Builder Warranties***

- If the builder is providing a one-year warranty, the following is required: Framing Inspection, Footing Inspection, Thermal Certification, and Certified Plans & Specs
- If the Builder is providing a 10-year warranty, only the Thermal Certification is required

## *Repairs to Subject*

Repairs, if any, must be completed prior to final loan approval (repair escrows are not permitted). Any conditions noted on the appraisal that is related to the safety or livability of the subject property must be addressed and rectified prior to loan closing. Expenses related to property inspections and property repairs may not be financed into the new GRH refinance loan, or escrowed for prior to closing.

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## *Inspections*

### **Individual Wells**

- Must be checked to ascertain the distance from the septic system, ease of maintenance and repair of the well, as well as adequacy of the water pressure.
- Water supply must meet the local health or state drinking water standards based on the results of the following:
  - Bacteriological analysis of the water supply.
  - Chemical analysis of the water supply source where there is a history of ground water contamination in the area.
  - The well construction must meet the requirements of the health authority.
  - Water samples to be collected by a third party source.

### **Septic Systems**

Confirm with Rural Development your state's requirements regarding Lot Sewage Disposal Systems (septic inspection). The inspector must be state-licensed for sewage disposal systems, or a member of a qualified inspection service. The inspection must address the following:

- That the system is operating satisfactorily.
- That the system is adequate to dispose of all domestic wastes in a manner that does not endanger the public health.

Cesspools are ineligible unless the Sewage Enforcement Officer can address the following:

- That the cesspools are common to the area (appraiser also must provide comparables of properties with cesspools).
- That the system is functioning properly.
- That there are not records/citations indicating that the system has malfunctioned in the past.
- The site must be sufficient to install a replacement system. A Soil Evaluation and Percolation Test for required alternate site is required.

### **Termite Inspections**

If required by the lender, appraiser, inspector, or state law, a pest inspection must be obtained to confirm the property is free of active termite infestation

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