

Guaranteed Rural Housing Loan Program

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). You may view eligible areas on USDA Rural Development's web-site at: <http://eligibility.sc.egov.usda.gov>

To be eligible for RHS assistance, borrowers must lack sufficient resources (for example, borrower is unable to secure the necessary down payment which is generally 20%, to obtain conventional financing without RHS guarantee assistance).

MMI will only approve loans that receive "Accept/Eligible" recommendations through Rural Development's GUS (Guaranteed Underwriting System). Upon MMI approval and clearing of all conditions, the file will be submitted to RD for Conditional Approval. All borrowers must have a mid credit score of 620 with GUS approval. An "Accept/Eligible" through the GUS system does not guarantee an approval from Michigan Mutual. **GUS IS CURRENTLY UNAVAILABLE – see below Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10.**

Product Specifications

Guarantee Fee

3.5% Purchase & Refinance Transactions – any overage will be refunded to the borrower in the form of a principal reduction.

Ownership of 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 of existing RHS loan (**cash-out refinances not permitted**)

Occupancy

Owner-occupied primary residences only

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.

Product Specifications, continued - GUS is currently unavailable – see below Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10.

Minimum/Maximum LTV Purchase

- Minimum - 80.01
- Maximum – 100% of the appraised value for Purchase transactions. 103.50% if the guarantee fee is included in the loan amount.

Minimum/Maximum LTV Refinance

Minimum – No minimum LTV required on no cash out refinance transactions (**cash out transactions are not permitted**).

Maximum - 100% of the appraised value for refinance transactions. 103.50% if the guarantee fee is included in the loan amount.

Minimum Loan Amount

\$40,000

Max Loan Amount

\$417,000

Term

30 years

Prepayment Penalty

Not allowed

Secondary Financing

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

Interested Parties' Contributions

Seller contributions are allowed up to a Maximum of 6% for closing cost and prepaids only.

Eligible Properties

You may view eligible areas on USDA Rural Development's web-site at: <http://eligibility.sc.egov.usda.gov>

Existing Construction only (properties older than 1 year) and New Construction under the below conditions.

- Single Family (1 Unit)
- Condominiums (must meet FNMA warrantable condo requirements)
- Site condos (treated as SFR)
- PUD's

Ineligible Properties

- No Manufactured Homes
- Properties located in a flood zone
- Working Farms (Income producing Tract)
- Site Value generally must not exceed 30% of the total value of the property
- In-ground swimming pools are not permitted without waiver from RD (will be obtained by MMI)
- Properties with in-law quarters/suites
- Properties held in Inter Vivos Trusts, Leaseholds, Corporations, L.L.C.'s, etc.

Product Specifications, continued - GUS is currently unavailable – see below Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10.

**Repair Escrow Holdbacks
Not Permitted**

Escrow Waivers For Property Taxes/Hazard Insurance

Not permitted – escrows required.

Minimum Credit Score

620

Ratios

GUS is currently unavailable – Manual Underwriting Guidelines are effective with all loans 06-30-10. Maximum ratios allowed are 29/41 however ratio waiver is possible with documented compensating factors. See below Credit Qualifying Manual Underwriting Guidelines.

Payment Shock

GUS is currently unavailable – Manual Underwriting Guidelines are effective with all loans 06-30-10. Borrowers that have no rent or housing history to verify, or if the proposed PITI is 100% or greater than the current rent or housing expense present great risk and must present documentable significant compensating factors for approval. See below Credit Qualifying Manual Underwriting Guidelines.

Homebuyer Education

Home Ownership Counseling for all first-time homeowners is required by RHS only in certain states: See Rural Housing website for state specific requirements and complete details (additional states are adding this requirement as a mandatory item for all first time homebuyers, please confirm with RD in your State). www.rurdev.usda.gov

Registration of Funds

Subject to the availability of funds, and MMI to obtain Conditional Commitments from the local RD office.

Underwriting Method

MMI will pull credit and submit through the RD GUS system. Loans must receive an "Accept" to be eligible for approval. **GUS is currently unavailable – see below Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-28-10.**

Borrower Eligibility

Credit Qualifying Criteria - GUS is currently unavailable -below Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10.

Manual Underwriting Guidelines - effective with all loans 06-30-10

- A tri-bureau in-file merged credit report or RMCR must be provided.
- Borrowers are required to have at least 3 open and active tradelines with at least 12 months reviewed - verification of rent can act as 1 trade with 2 others. **The borrower must have a valid credit score ≥ 620 (non-traditional credit not allowed).**
- **If the borrower currently owns/rents their current residence a verification of Mortgage/Rent for the current 12 months (or time elapsed) is required.** All mortgage history/rent history must be 0 x 30 in last 12 mos. **Payment Shock: Borrowers that have no rent or housing history to verify, or if the proposed PITI is 100% or greater than the current rent or housing expense present great risk and must present documentable significant compensating factors for approval.**
- A 24-month history of residence is required to be reflected on the loan application (Fannie Mae Form 1003) on all files.
- Borrowers must have a valid Social Security Number (tax identification numbers are not permitted). 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 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.
- 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 if deferred) 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 for the monthly payment.
- 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.
- All borrowers must be screened against the Excluded Parties List System and print the results for the loan file. The following is the link to the website: <https://www.epls.gov/>
- **Signed/dated credit explanation from the borrower must be provided for all instances of derogatory credit (late payments, collection accounts, charge offs, judgments, etc.).**

Borrower Eligibility, continued

Credit Qualifying Criteria, continued - GUS is currently unavailable –below Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10.

- **The borrower must have an acceptable credit history. Any or all of the following may be indicators of an unacceptable credit history unless the cause of the problem was beyond the applicant's control. If the borrower has documentable extenuating circumstances (i.e. loss of income – divorce is not considered extenuating circumstance nor is the inability to sell a property) the file may be submitted for review with a signed/dated credit explanation and supporting documentation for the extenuating circumstance. The borrower must have an otherwise satisfactory credit history before and after the period of adverse credit. These transactions will require a credit waiver. The below constitutes unacceptable credit for manual underwriting:**

1. Delinquent federal debt must be satisfied prior to loan closing and show mitigating cause (extenuating circumstances).
2. Outstanding tax liens and/or judgments must be satisfied prior to closing and show mitigating cause (extenuating circumstances).
3. Delinquent student loans must be satisfied prior to loan closing or if reflecting past due must be brought current.
4. Bankruptcies need 2 years from discharge or dismissal to date of application date with re-established credit.
5. Foreclosures need to have 3 year time period from date of foreclosure to date of application date to be eligible, If a deficiency balance is reflected owing on any federal debt (such as a 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.)
6. All installment debt with 6 or more payments remaining must be included in DTI. All revolving debt must be included in the DTI regardless of when the debt will be retired.
7. Borrower must otherwise exhibit an acceptable credit history. There cannot be a history of late payments, collection accounts, charge offs, etc.

Please note a signed/dated credit explanation from the borrower must be provided for all instances of derogatory credit (late payments, collection accounts, charge offs, judgments, etc.).

Compensating Factors

- **Credit score of 660 or greater.**
- **No (or low) payment shock: minimal housing increase expense or current rent is comparable to proposed PITI.**
- **Conservative use of credit and ability to accumulate savings.**
- **Previous credit history demonstrates borrower has the ability to devote a greater portion of income to housing expense.**
- **Borrower receives additional income (such as bonus, overtime, commission, etc.) that lacks stability to be used for qualifying but may be used as a compensating factor. Co-Borrower on loan receives income that is not stable to use as qualifying income (i.e. borrower lacks 2 year employment history) may be used as compensating factor.**
- **Assets/Reserves not used for closing and available after closing.**
- **Potential for increased earnings and career advancement as documented by job training or education in the borrower's profession.**
- **Any of the above in conjunction with Homebuyer Counseling.**

Borrower Eligibility, continued

Income Requirements - GUS is currently unavailable – see above Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10. All below Income Requirements remain the same.

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 below link to your browser. <http://eligibility.sc.egov.usda.gov/eligibility/incomeEligibilityAction.do?pageAction=state&NavKey=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%20guaranteed%20loan%20income%20limits.htm>

- **All household income will be considered for GRH eligibility to determine borrow(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. **Please note- line of work change requires a minimum 6 month job time in order to use income.**
- Non-taxable income can be grossed-up 125%.
- A non-working borrower or co-borrower must provide an affidavit that they are not currently working or seeking work.
- 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 of Handicapped must be completed and the form may be found on our website).
- 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 that states 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 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.

Borrower Eligibility, continued

Income Requirements, continued - GUS is currently unavailable – see above Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10. All below Income Requirements remain the same.

- Salaried borrowers: Frequent change of job within same line of work (upward mobility) acceptable as long as there are no gaps greater than 30 days. Borrowers with gaps of employment in excess of 30 days must provide a satisfactory written explanation and documentation.
- Self-Employed: Signed 4506T at application is required.

Income Verification Requirements - GUS is currently unavailable – see above Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10. All below Income Verification Requirements remain the same.

- 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 W-2's, 30 days paystubs with year-to-date information, and a Processor's Certification of Employment. If computer generated W-2's and paystubs cannot be provided a standard Verification of Employment Form must be thoroughly completed and obtained.
- Employment gaps over 30 days must be explained in writing by the borrower.
- **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 regardless if the income is not used for qualification.**
- Two (2) years of tax returns will be required for:
 1. Self-employed borrowers.
 2. Commissioned borrowers.
 3. Borrowers employed by a relative or closely-held family business.
 4. Borrowers, who are not commissioned, but need to validate their expenses (such as truck drivers or borrowers paid "piece work", etc.).
 5. Borrowers using dividend and interest income to qualify.
 6. Borrowers receiving bonus income $\geq 25\%$ of their base pay.
- Overtime and bonus income can be used to qualify the applicant if the employer verifies that the applicant has received it during the last 12 months and indicates that the overtime or bonus income will in all probability continue. The lender must develop an average of the last 12 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 with duration of 12 months may be used.

Borrower Eligibility, continued

Income Verification Requirements, continued - GUS is currently unavailable – see above Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10. All below Income Verification Requirements remain the same.

- 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 percent 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 Corporate, or 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.
- Alimony, Child Support, and Separate Maintenance. MMI requires 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 that the funds have been received for the last 12 months. Acceptable evidence includes deposit slips, canceled checks, court records, or tax returns.
- 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 canceled checks attached), tax returns, or IRS W-2 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 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 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.
- Dividends 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.

Borrower Eligibility, continued

Assets Requirements - GUS is currently unavailable – see above Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10. All below Asset Requirements remain the same.

Borrower's liquid assets as well as equity in current home cannot exceed 20% of the purchase price, excluding income producing assets and retirement funds. 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 GRH 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%). 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 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.
- Reserves not required.
- Evidence of payment of credit report and appraisal fees is required if trying to get back at close.
- 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.
- 100% of the borrower's cash to close may come from a gift.

Borrower Eligibility,

Verification of Funds - GUS is currently unavailable – see above Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10. All below Asset Verification Requirements remain the same.

- 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 must be accompanied by written explanation and evidence of source of funds for large deposits.
- 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.

Borrower Eligibility, continued

Verification of Funds, continued - GUS is currently unavailable – see above Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10. All below Asset Verification Requirements remain the same.

- Cash on hand is typically not an acceptable source of funds for closing. However, it may be acceptable if the following can be documented:
 1. Analysis of discretionary income through a household budget supports the ability to accumulate the funds.
 2. 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.

- Gifts or Grants are an acceptable source of funds to close provided the donor is unrelated to the transaction. 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, friend, charitable organization, municipality, or nonprofit organization. A gift must be evidenced by a letter that is signed and dated by the donor. The letter must:
 1. Specify the dollar amount of the gift and the date the funds were transferred;
 2. Indicate the donor's name, address, telephone number, and relationship to the borrower; and
 3. Include the donor's statement that no repayment is expected.

Required Gift Documentation:

1. Fully executed gift letter by the borrower and the donor (if individual)
2. 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.
3. 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).

Note: All supporting gift documentation (other than the gift letter) is not required if the entire gift is going toward closing costs/prepays (any amount) or being used to pay-off debt of \$1000 or less.

Borrower Eligibility, continued

Verification of Funds, continued - GUS is currently unavailable – see above Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10. All below Asset Verification Requirements remain the same.

- Disposition of Personal Assets - Proceeds from the sale of personal property may be used towards closing costs. Documentation for funds obtained include a bill of sale, bank statement verifying deposit of funds, and when applicable, a transfer of title.
- Borrowing of Funds on an Unsecured Basis - Borrowers that qualify may borrow funds on an unsecured basis to pay for their closing costs and prepaids. For example, a borrower could obtain an unsecured loan from a family member, bank or credit union, or even a credit card cash advance.

Note: In order to qualify for this option, a borrower's median credit score must be 660 or above.

When utilizing this option, Lenders must remember to include the unsecured debt in the total debt calculations, and should indicate on the "Source of Down payment, Settlement Changes, and/or Subordinate Financing" Section of the FNMA 1003 (Uniform Residential Loan Application) the amount of the unsecured funds.

- 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.
- Updating Documents - When updating expired verification of funds 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.

HOMEOWNERSHIP COUNSELING - GUS is currently unavailable – see above Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10. Homeownership Counseling Requirements remain the same.

Homeownership counseling is not required on all files by MMI, however many Rural Development State Offices require first-time home buyers to complete home buyer education. See Rural Housing website for state specific requirements and complete details www.rurdev.usda.gov

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.

Property Eligibility - GUS is currently unavailable – see above Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10. Property Eligibility Requirements remain the same.

- Property must be owned by the seller at least 91 days prior to execution of sales contract and application date.
- Property must be a nonfarm, non-income providing tract.
- 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." **The Appraiser must note in the appraisal report per city records if property may be subdivided.**
- The property must be contiguous to and have access to a paved or all-weather surface street, road or driveway.
- In-ground swimming pools are not permitted without waiver from RD (will be obtained by MMI). Appraiser must give value to pool. Pool value to be deducted from value before determining mortgage amount.
- Outbuildings are allowed. The appraiser must give a value to the outbuildings. The outbuilding value will be deducted from value before determining mortgage amount.
- Single Family, Primary Residence Only (Multi Units not eligible. In-Law Suites are not eligible). Site Condo's will be treated as Single Family.
- New Construction: Allowed. The property must complete according to plans and specifications and must be appraised "As Is". Repair escrows are not allowed – no exceptions (there will be no escrows for grading, seed, landscaping, appliances, etc. and credits from builder on the HUD-1 at closing for these items is not allowed).
- Condominiums (See Rural Housing Website for state specific requirements and complete details. Non warrantable condo's are not eligible. Condominium checklist is attached):
 1. Amenities to be 100% complete.
 2. Homeowners must be in control of the Homeowners Association.
 3. Standard insurance requirements apply
 4. Project must be acceptable to FHA, VA FNMA or FHLMC.
- Planned Unit Developments (PUD's) (See Rural Housing Website for state specific requirements and complete details). Project must be acceptable to FHA, VA FNMA or FHLMC.
- For private roads: a recorded Private Road Maintenance Agreement or recorded Easement Agreement is required.

Property Inspections - GUS is currently unavailable – see above Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10. Property Inspection Requirements remain the same.

- Obtain an appraisal on standard Fannie Mae approved form. 2055's and 1073/465 (Condos) are acceptable. Appraisal is good for 120 days. Certificate of Occupancy is required for new construction and the property must meet the current requirements of HUD Handbooks 4150.2 and 4905.1.

Property Eligibility, continued

Property Inspections, continued - GUS is currently unavailable – see above Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10. Property Inspection Requirements remain the same.

If the appraisal is completed by a conventional appraiser, an RHS Adequacy Certification (Existing Dwelling Inspection Report) must be provided.

If the appraisal is completed by an FHA roster appraiser, they must comment that the property meets requirements of HUD Handbooks 4150.2 and 4905.1. Additionally, a Thermal Certification is required by some local RD offices.

Repairs, if any, must be completed prior to final loan approval (repair escrows are not allowed). 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.

- Individual Wells:
 1. 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. Individual inspection not required if FHA roster appraiser provides comments on the acceptability.
 2. Water supply must meet the local health or state drinking water standards based on the results of the following (see MMI website for Water Testing Requirements Chart).
 - a. Bacteriological analysis of the water supply.
 - b. Chemical analysis of the water supply source where there is a history of ground water contamination in the area.
 - c. The well construction must meet the requirements of the health authority.
 - d. Water samples to be collected by a third party source.
- **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:
 1. That the system is operating satisfactorily.
 2. That the system is adequate to dispose of all domestic wastes in a manner that does not endanger the public health.
- Cesspools will be ineligible unless the **Sewage Enforcement Officer** can address the following:
 1. That the cesspools are common to the area (appraiser also must provide comparables of properties with cesspools).
 2. That the system is functioning properly.
 3. 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.

Purchase Transactions - GUS is currently unavailable – see above Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10. Purchase Transaction Requirements remain the same.

- The appraisal determines the maximum loan amount. The borrower may finance up to 100% of the appraised value for purchase transactions (103.5% if the guarantee fee is included in the loan amount). 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 mortgage amount cannot exceed the appraised value by more than the amount of the financed Guarantee Fee.**
- **Any conditions noted on the appraisal 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 RHS loan, or escrowed for prior to closing.**
- **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.**

Refinance Transactions - GUS is currently unavailable – see above Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10. Refinance Transaction Requirements remain the same.

- The applicant may borrow up to 100% of the appraised value (103.50 if the guarantee fee is included in the loan amount). 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 mortgage amount cannot exceed the appraised value by more than the amount of the financed Guarantee Fee.**
The loan must be secured by the same property as the original loan. The original loan must be 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.
- Applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinance transaction, such as an appraisal fee or credit report fee. **At loan closing, a nominal amount of “cash out” to the applicants (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 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.

Property Eligibility, continued

Refinance Transactions, continued - GUS is currently unavailable – see above Credit Qualifying Manual Underwriting Guidelines effective with all loans 06-30-10. Refinance Transaction Requirements remain the same.

- 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.**
- As part of the refinancing 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.
- A complete Uniform Residential Appraisal Report (URAR) is required unless the refinance loan amount includes only the unpaid principal balance with or without the .50% guarantee fee.
- **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.**
- For Guaranteed Rural Housing refinance transactions, **the interest rate of the new loan must be less than the interest rate of the existing loan.**