Lending Guide

Chapter 14 | USDA

The Single-Family Housing Guaranty Loan Program (SFHGLP) through the US Department of Agriculture (USDA) is designed to provide low- and moderate-income households the opportunity to own adequate, modest, decent, safe, and sanitary dwellings and related facilities for their residential use in rural areas. The program is also referred to as 502 Guaranteed and provides loan guarantees for loans made to eligible borrowers. Cardinal originates loans that meet all the requirements of the USDA handbook and applicable administrative notices.

Cardinal does not offer the Section 502 Direct or Section 504 Home Repair loan programs.

Ability to Repay

Cardinal will verify the borrower's income, employment, assets, credit, recurring expenses, and other aspects of the loan to ensure the borrower can repay the loan in accordance with USDA guidelines.

Age of Documents

Credit Documents

Refer to Chapter 2 Documentation Standards.

Title Report

The title report must be no older than 90 days from the note date.

Appraisal

The appraisal is valid for 180 days from the effective date of the appraisal for both new and existing construction.

The validity period of an appraisal report can be extended only one time with an Appraisal Update Report. The appraisal may be expired at the time the appraisal update is requested. However, when the original appraisal is subsequently updated, the appraisal is valid for no greater than one year from the effective date of the original appraisal report at loan closing.

- An original appraisal report can be updated one time with an Appraisal Update Report.
- The appraisal may be expired at the time the appraisal update is requested.
- The purpose of an appraisal update request is to determine if the property has declined in value since the effective date of the original appraisal.
- An update is not eligible to support a higher appraised value of the property.

Conditional Commitment

The lender is required to comply with all conditions stated on Form RD 3555-18 or Form RD 3555-18E, Conditional Commitment for Single Family Housing Loan Guarantee, and any attachments, as applicable. The loan must close under the same terms as underwritten and approved for in the Conditional Commitment.

Lenders are not authorized to close loans prior to the issuance of the Conditional Commitment. Closing a loan prior to obtaining a Conditional Commitment from the Agency will render that loan submission ineligible for a Loan Note Guarantee and may affect the lender's approval status to participate in the program.

Required Closing Time Frame

For both purchase and refinance transactions, the lender has 90 days from the issuance of the Conditional Commitment to close the loan, with an opportunity for one 90- day extension. The extension must be requested prior to the expiration of the Conditional Commitment.

Requests for extensions must be approved by the Agency in writing. Upon approval, a new Conditional Commitment will be issued reflecting the new expiration date. The Guaranteed Loan System (GLS) application page will be updated with the commitment extension.

GUS

Cardinal requires all loans to be submitted to GUS with the exception of Streamlined-assist Refinances.

If the loan is processed through GUS and receives an Accept Recommendation, then all the requirements of the GUS approval must be met. For all loans, the underwriter is responsible for evaluating the transaction weighing all factors to ensure all program requirements are met, the borrower has the ability to repay the transaction, and that all processing requirements have been followed.

Loans that receive a finding of Refer may be manually underwritten with a final approval issued by the USDA.

GUS Findings and Underwriting Report

The responsibilities associated with producing loans of acceptable quality for loans guaranteed by the Agency remain the same for a GUS evaluated loan or manually underwritten loans. When a lender enters mortgage loan data into GUS and requests a loan underwriting evaluation, a two-part underwriting summary is delivered to the lender through a GUS Underwriting Findings Report. The first portion of the underwriting summary will render an underwriting recommendation of Accept, Accept with Full Documentation, Refer or Refer with Caution. The underwriting recommendation is followed by a risk evaluation of Eligible, Ineligible, or Unable to Determine. The second portion represents a combined analysis of property, income, loan eligibility, and borrower eligibility.

GUS is mandatory for all supported applications; prior to a GUS Final Submission, the lender is responsible for uploading all required documents outlined in Attachment 15-A, Loan Origination Checklist.

The GUS Findings and Underwriting Report provides important feedback messages and conditions for the loan. The lender must review the final findings, comply with the conditions, and provide the Agency with any additional documents as applicable. The final submission must be retained in the lender's permanent loan file.

Manual submissions, Accept with Full Documentation, Refer, and Refer with Caution, or Ineligible will be accompanied by attachment 9-B, the Uniform Transmittal Summary (FNMA Form 1008/Freddie Mac Form 1077), or equivalent. The documentation provided must include calculations for annual, adjusted, and repayment income.

The Agency commitment will reference the GUS underwriting findings report as a condition of guarantee loan approval.

Regardless of the underwriting recommendation provided, the lender remains accountable for compliance with SFHGLP eligibility requirements, as well as any credit, capacity, and documentation requirements. No borrower should be approved or denied an SFHGLP guarantee solely on the basis of a risk assessment generated by GUS.

Resubmission Policy

The Underwriter is responsible for the integrity of the data used to obtain an underwriting evaluation in GUS. If data changes during the loan application stage, after Conditional Commitment, or before loan closing, the GUS underwriting recommendation could be compromised.

Underwriters are responsible for re-submitting the loan to GUS when material changes are discovered. Any request to release GUS for data updates after issuance of a Conditional Commitment will be treated as a new request, processed in date order of applications received.

Under the following conditions, the loan must be resubmitted through GUS for an updated evaluation:

- Borrowers were either added or deleted from the loan application, or critical information has changed.
- A decrease in the borrower's income.
- A decrease in the borrower's assets, funds to close, or reserves (if applicable)
- An increase in loan amount on the mortgage loan request.
- An increase in the interest rate on the mortgage loan request.
- Any changes that would negatively affect the borrower's ability to repay the mortgage

The loan must be released from the Agency to the lender. The data should be modified and the loan resubmitted through GUS for an updated final evaluation underwriting recommendation.

Note: some data changes do not affect the outcome of an underwriting recommendation.

Once a mortgage loan has been sent to the Agency as a "Final Submit," the following data changes do not require that the GUS loan application be updated:

- A decrease in the loan amount
- A decrease in interest rate
- A decrease in the mortgage or personal liabilities
- An increase in assets

Refer to the Tolerance Threshold section for guidance on increases to liabilities.

Joint Applicants

Lenders may follow credit repository guidelines, lending laws, etc., to determine if joint applicants must have separate credit reports. USDA does not require unmarried applicants to be on one credit report, loan application, Form RD 3555-21, etc.

Eligible Properties

- SFR attached/detached
- Attached/detached PUD
- VA, FHA, or Fannie Mae Approved Condos
- Modular Homes
- New Manufactured Housing - double or single wide homes are eligible
- Property must be in an eligible area as defined by the USDA.

Eligibility

On October 1, 2023, new ineligible area maps will be updated to the USDA Income and Property Eligibility Site at https://eligibility.sc.egov.usda.gov. The current maps will be moved to the "Previous Eligibility Areas" tab.

Single Family Housing Loan Guarantee Processing

On October 1, 2023, all properties for new applications must be located in an eligible rural area based on the new eligibility maps. However, a property that is located in an area being changed from rural to non-rural may be approved if all of the following conditions are met:

- The application is dated and received prior to October 1, 2023, and the Loan Estimate was issued by the lender within 3 days of application receipt,
- The applicant has a signed/ratified sales contract on a property that is dated prior to October 1, 2023,
- Applicant meets all other loan eligibility requirements

If the property is located in an area being changed from rural to non-rural, lenders must provide Rural

Development all of the following information in addition to all other required documentation. For loans submitted via the Guaranteed Underwriting System (GUS), the documentation must be uploaded into the system:

- Copy of the signed/ratified and dated sales contract,
- Copy of the Loan Estimate issued to the applicant,
- Verification that the property was located in an eligible rural area prior to October 1, 2023

Note: Maps of the "Previous Eligible Areas" (eligibility maps prior to October 1, 2023) will be available on the Eligibility site beginning October 1, 2023. A printout of the map indicating the property address was previously eligible is acceptable.

GUS underwriting recommendations will display an INELIGIBLE property determination for property that is no longer located in an eligible rural area. This does not prevent the final submission to Rural Development. The Rural Development reviewer will be able to override the property eligibility determination when the lender has uploaded the required documentation noted above.

Ineligible Properties

A property is ineligible if any of the following conditions are present:

- Marijuana grow facilities for income or personal use on the premises
- Hawaii homes located in Lava Flow Hazard Zones 1 or 2
- Condominiums or manufactured home with less than 400 square feet
- Leaseholds
- Co-ops
- Properties with in-law suites or basement apartments
- Properties not located on a hard surface or all-weather road
- Working farms
- Unimproved land
- Income-producing properties

- Multifamily
- Properties with grain bins, silos, dairy farms, multiple barns, or service buildings
- Properties with cisterns

Ineligible Products or Transactions

- Energy Efficient Mortgages (EEMs)
- Living trusts
- Applicants as either a Corporation or Partnership
- Loans with non-occupying borrowers
- Supplemental loans
- Texas Section 50(a)(6) loan

Temporary Interest Rate Buydowns

A temporary buydown allows borrowers to reduce their effective monthly payment for a limited period of time through a temporary buydown of the interest rate.

- The effective interest rate that a borrower pays during the early years of the mortgage is reduced as a result of the deposit of a lump sum of money (sometimes called a “subsidy”) into a buydown account. A portion of the subsidy is released each month to reduce the borrower’s payments.
- The buydown funds may be provided by various parties, including the lender, the property seller, or other interested parties to the transaction.
- Buydown funds may not come from the borrower.
- Eligible for Purchase Transactions only.

General Requirements

- Buydown program is “2-1”
    - Interest rate for the first year is 2% lower than the Note rate
    - Interest rate for the second year is 1% lower than the Note rate
    - Interest rate for the remaining years is the Note rate

- Buydown program is “1-1”
  - Interest rate for the first year is 1% lower than the Note rate
  - Interest rate for the second year is 1% lower than the Note rate
  - Interest rate for the remaining years is the Note rate
- Buydown program is “1-0”
  - Interest rate for the first year is 1% lower than the Note rate
  - Interest rate for the remaining years is the Note rate
- The actual note rate and monthly payment that the borrower is obligated to pay is never actually reduced, and the full rate and payment must be reflected on the mortgage documents.
- At the end of the buydown period, the buydown funds collected at closing will have been exhausted, and the buydown period ends.
- Allowed on fixed-rate mortgages
- Primary residence 1-unit dwelling
- Eligible for single and double-width manufactured homes
- Rate increase will not exceed 1% per year
- The mortgage instruments must reflect the permanent payment terms rather than the terms of the buydown plan

Buydown Funds Provided by Interested Parties to the Transaction

- When the source of the buydown funds is an interested party, the Interest Party Contribution limits will apply

Lender-Funded Buydowns

- If the buydown is funded by the lender as part of the pricing on the loan, the buydown agreement must require that the funds in the buydown account be transferred to the new servicer if the mortgage is subsequently transferred.

Buydown Agreements

- The buydown agreement must provide that the borrower is not relieved of his/her obligation to make the mortgage payments required by the terms of the Note.
- The buydown agreement may include an option for the buydown funds to be returned to the lender, if it funded the buydown, if the mortgage is paid off before all of the funds have been applied.

Qualifying the Borrower

- The mortgage loan must be underwritten at the full note rate. Both the full note rate and the initial buydown rate must be entered into GUS.

Terms of the Buydown

- The buydown plan provides for increases of not more than 1% in the interest rate paid in each 12-month interval.

Buydown Funds

- Funds for buydown accounts must be deposited in an escrow with a financial institution supervised by a federal or state agency
- The buydown funds are applied toward payments as they come due under the Note
- Buydown funds are not refundable unless the mortgage is paid off before all funds have been applied
- Buydown funds cannot be used to pay past-due payments

Verification Requirements

Lenders must verify income and asset documentation provided by the applicant(s) and other adult household members. Lenders will verify the income for each adult household member for the previous 2 years. The following guidance will assist:

- Written, oral, or electronic verifications, and documents provided or prepared by third-party sources are acceptable. These verifications must be provided directly to the lender.
- Lenders may not accept verifications or documents transmitted by, or passed through, an interested third party such as builders, real estate professionals, or sellers.
- Facsimiles, photocopies, digital images, and computer-generated documents may be accepted in lieu of original forms.
- The lender is responsible for the integrity and accuracy of the information in the mortgage underwriting file. Regardless of the type of documentation used to support the loan application, the documents must be legible and free of any alterations, erasures, “white-outs,” or similar indications that changes have been made.

- Verification documentation of household annual, adjusted annual, and repayment income will be retained in the lender's permanent case file.

Appraisal General Information

The specifics in this section are in addition to Cardinal's standard Property and Appraisal Requirements. If there is a conflict between the two policies, the most restrictive applies.

FHA and Conventional appraisals are acceptable. If a Conventional appraisal is used, a home inspection must be completed. If an FHA appraisal report is used, the report must meet all FHA requirements.

Appraisal Requirements

All appraisals must comply with the reporting requirements of USPAP available at www.appraisalfoundation.org. All appraisal reports must meet the Uniform Appraisal Dataset (UAD) requirements set forth by Fannie Mae and Freddie Mac.

The market or sales comparison approach is required in all cases. Not less than three comparable sales will be used unless the appraiser provides documentation that such comparable sales are not available. The appraiser must use their knowledge of the area and apply good judgment in the selection of comparable sales that are the best indicators of value for the subject property.

The cost approach is required in the following instances, or when determined as needed by the appraiser:

- The property is unique, or has specialized improvements, or
- Is a manufactured home, or
- If the client requests the cost approach to be completed

The appraiser will identify the source of the cost estimates and will comment on the methodology used to estimate depreciation, effective age and remaining economic life.

The income approach is only required if the appraiser determines that it is necessary to develop credible assignment results.

An appraisal prepared for REO purposes, loan servicing consideration, or any other purpose other than the guaranteed purchase or refinance transaction is ineligible to be used in the origination of a guaranteed loan. A new appraisal with the intent to arrive at an opinion of value for a purchase transaction must be obtained.

For guidance on Appraisal Conversions, i.e. USDA to Conventional product type, refer to Chapter 2 Documentation Standards.

Photographs

Photographs in the appraisal report must be in color and be clear and descriptive to identify the property's condition and quality. Photographs must clearly represent the improvements, any physical deterioration of the property, amenities, conditions and external influences that may have a material effect on the market value or marketability of the subject property.

The appraisal report will be uploaded at the Application Documents page, in the Agency's automated underwriting system, GUS, by selecting *10002 Appraisal Report* and uploading as an individual document. An appraisal report with interior and exterior inspection of the subject property must include at least the following:

- A front view of the subject property;
- A rear view of the subject property;
- A street scene identifying the location of the subject property and showing neighboring improvements;
- The kitchen, main living area, bathrooms, bedrooms;
- Any other rooms representing overall condition, recent updates, such as restoration, remodeling and renovation;
- Basements, including all finished and unfinished rooms
- Attic and/or crawl space when it can be safely accessed without disturbing or moving items that obstruct access or visibility;
- Comparable sales, listings, and/or pending sales utilized in the valuation analysis must include at least a front view of each comparable utilized;
- The HUD Data Plate and the HUD Certification Label(s) for manufactured homes; and
- Condominium projects should include additional photographs of the common areas and shared amenities

Form Requirements

- Form 1004 is for a 1-unit single-family property

- Form 1004C for manufactured housing
- Form 1073 is required for attached condominiums
- Form 1025 is required on 2-4 unit properties

1004D Repair / Completion Inspection

Cardinal Financial strives to streamline our settlement process to assure timely closing and funding of our loan transaction. To achieve that, we strongly urge that any repair or completion inspection be provided to the underwriter as a PTA condition before "clear to close."

In instances where timing precludes obtaining the inspection before closing, the underwriter can move the 1004D for new construction *and* existing properties to PTF. The following steps should be followed to accomplish moving the document from PTA to PTF:

- If a 1004D was provided PTA, but it is not a clear inspection with all work completed, the underwriter will Approve the 1004D document. Proceed to the Transaction screen > Tags and affix uw_need_appraisal_1004D_PTF, then press Force Update.
- If a 1004D is not provided PTA, the underwriter will note EXCLUDE with a reason that the document is moving to PTF and Save. This will waive the document PTA. Proceed to the Transaction screen > Tags and affix uw_need_appraisal_1004D_PTF, then press Force Update.

  Since the loan will not fund without the underwriter reviewing the 1004D, there is no additional escalation or approval needed in order for the underwriter to move this document to PTF.

Disaster Area Requirements

Events such as fires, earthquakes, landslides, hurricanes, floods, tornadoes, thunderstorms, and hail storms are natural disasters that may impact loans in process or funded but not yet delivered to investors. Properties in areas where natural (or other) disasters have occurred must be evaluated in terms of the effect on the subject's habitability, marketability, and value. While the Federal Emergency Management Agency (FEMA) and states may declare disaster areas, the event does not require a declaration.

Cardinal will finance properties located in FEMA/Federally declared disaster areas provided the requirements in this document are adhered to and documented in the loan file.

Please follow the directive in the Compliance | Natural Disaster Operations Policy for information on inspection requirements for affected properties.

Age Restricted Properties

- The appraisal must reflect the impact that the restrictions have on the property's value and marketability.
- The appraisal must be supported by comparables with similar restrictions.
- Borrower(s) must acknowledge the restriction terms by signing a Resale Restriction Notice at closing.

Appraisal Transfer

Transfer of the appraisal is permitted. Cardinal will not accept an appraisal that was NOT ordered through the Cardinal-approved AMC unless it can confirm the appraisal is compliant via an AIR certification provided by the prior company, or the prior company becomes an approved vendor of Cardinal via the Third Party Vendor Management process.

A letter from the initial lender who ordered the appraisal report must be retained in the permanent loan file as evidence the lender transferred the report to Cardinal. All appraisals must reflect Cardinal as the client on the transaction.

If the appraisal calls for repairs or additional inspections, those issues must be addressed. If the lender requires an Appraisal Update (1004D), then the lender is responsible for engaging the original appraiser to provide the 1004D.

Per USPAP guidelines, AMC's may no longer transfer the rights of an appraisal from one lender to another. All transfer requests are considered a "new assignment," and the appraiser is entitled to charge a new fee.

Income Producing Buildings

The property characteristic, zoning, and present land use should be analyzed to determine if the subject property is residential in nature. The subject property should conform to other properties in the area, e.g., if the typical property is 2.0 acres, then the subject should be approximately 2.0 acres. Particular attention should be paid to the Highest and Best use to ensure that the property and neighborhood are residential in nature.

Cardinal does not lend on agricultural-type properties, undeveloped land, or land-development type properties.

The subject property cannot include buildings designed for income-producing purposes such as:

- Barns
- Silos
- Greenhouses
- Livestock facilities
- ~~Windmills~~
- ~~Cell towers~~
- Farms
- Unimproved land
- Multifamily
- Properties generating Boarder Income

Barns, storage sheds, and other outbuildings that are not used for income-producing activity are permitted. Home-based businesses such as child care, home offices, or craft production that do not alter the residential structure are permitted.

Effective for loans with Conditional Commitments dated 4.1.24, a residential site that houses a minimal income producing feature such as a windmill, billboard, or cell phone tower, etc. located on the property, does not render the site income producing. These features are typically maintained with a legal agreement and generate a minimal amount of additional income. The underwriter must review the available documentation and income received for the purpose of calculating annual household income, as applicable.

Inspection Requirements

Private Septic: Septic systems must be free of an observable failure.

If the property has a septic system and there is a public sewer available to the property, a public connection is required unless the cost is considered prohibitive.

If the cost to connect the septic will exceed 3% of the value of the property, then connection to the public system is not required.

If the cost to connect is less than 3%, but the borrower expresses that this is not feasible for them and this cost to connect presents a financial hardship, the underwriter is permitted to provide exceptions to this requirement dependent on evaluating the borrower's financial situation and the cost of connection.

Carbon Monoxide and Smoke Detector Standards

Cardinal Financial will rely on the information provided in the residential appraisal report completed by a state-licensed appraiser regarding compliance with any applicable city, county, state, or other local jurisdiction laws or requirements. If a compliance issue regarding missing or nonfunctional carbon monoxide detectors or smoke detectors is indicated by the appraiser, the following requirements must be met depending on the status of the appraisal. If the Appraiser does not indicate that these items are not installed but completes the appraisal as meeting minimum property standards, we will assume that the items required to comply with state or local laws are in place.

'As-Is' Property Appraisal for Newly Constructed Properties

Newly Construction Properties with an 'As-Is' property appraisal requires **one** of the following documentation options to confirm that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements:

- Written statement from the builder verifying that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.
- Supporting photo(s) verifying that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.
- Copy of receipt, confirming the purchase of smoke detector(s)
- Copy of receipt, confirming the payment of services for the installation of smoke detector(s)
- Appraisal Form 1004D (provided by the appraiser) confirming the smoke detector was successfully installed

‘As-Is’ Property Appraisal for Existing Properties

Existing Properties with an “As-Is’ property appraisal requires **one** of the following documentation options along with an executed Certification and Indemnification Agreement to confirm that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements:

- Written statement from a licensed contractor, handyman or similar vendor confirming that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.
- Supporting photo(s) verifying that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.
- Copy of receipt, confirming the purchase of smoke detector(s)
- Copy of receipt, confirming the payment of services for the installation of smoke detector(s)
- Appraisal Form 1004D (provided by the appraiser) confirming the smoke detector was successfully installed

AND

- An executed Certification and Indemnification Agreement

Note: The Certification and Indemnification Agreement may be signed by the borrower, real estate agent or property seller on a purchase transaction. The Certification and Indemnification Agreement must be signed by the borrower on a refinance.

‘Subject-To’ Property Appraisal

- A 1004D (provided by the appraiser) must be provided to verify that the functioning detector(s) have been installed to ensure compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.

Septic Inspections

The appraiser will inspect the age of the system, the land around the house, the type of system, ascertain the distance between the septic system/well (if applicable), and how deep the septic tank is in relation to the groundwater. If the appraiser observes or suspects a problem with the septic system, a formal septic inspection by a specialist may be required but is only required if the appraiser recommends this extra step.

A septic inspection will only be required if the appraiser requires a test or inspection based on any observable deficiencies or the appraiser indicates a state or local jurisdiction requires a septic inspection. The appraiser's affirmation that states property meets HUD minimum property standards according to the HUD 4000.1 is sufficient.

If an inspection is required, a certification must be provided by a health authority or approval from the local municipality or a licensed sanitarian that the system meets state or local requirements.

Community Owned Septic

Community Owned If the property is served by a community wastewater system operated by a private corporation or nonprofit property owners association, the lender must ensure that the system:

- Meets any applicable requirements of the state or local health authority with jurisdiction;
- Is licensed, operating properly, and has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health;
- Is subject to a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service.

Termite

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

Thermal

There are no thermal requirements for loans on existing dwellings.

Water and Wastewater Disposal Systems

The site must have acceptable water and wastewater disposal systems to ensure the property is decent, safe, sanitary, and meets community standards. Public water and wastewater disposal systems are presumed to meet state and local requirements with no additional documentation or inspections. Private well and wastewater systems that meet the requirements in HUD Handbook 4000.1 or meet the requirements of local and state health authority do not require additional inspections other than water purity tests, as discussed in this section.

Water

Water systems, for existing or new construction, that require continuous or repetitive treatment to be safe bacterially or chemically may be used if the individual water system, with purification, meets the requirements of the state department of health or other comparable reviewing and regulatory authority.

Individual Privately Owned

Individual water systems are owned and maintained by the homeowner and subject to compliance with all requirements of the local and State Health Authority codes. Water quality tests are required as follows:

- The water quality of the well must meet the requirements of the state or local authority. If the state or local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply.
- The local health authority or a state-certified laboratory must perform a water quality analysis. The Safe Water Drinking Act does not apply to private wells. Contact the Environmental Protection Agency (EPA) at (800) 426- 4791 for referral to certified labs and other inquiries.
- The water analysis report must be no greater than 150 days (180 days as of Conditional Commitments dated 4.1.24) old at loan closing. If the Agency is aware of any recent environmental impacts that may render the previous analysis invalid (for example – chemical spills, natural disasters, etc.), a new report may be required.

If located on an adjacent property, evidence of water rights and recorded maintenance agreement must be retained in the lender's permanent loan file as acceptance of the well as the primary source of water.

Individual Privately Owned Shared

If the property is served by a shared well or off-site facility, the lender must ensure the private system will provide a continuous and adequate supply of safe and potable water. The following requirements must also be met:

- The well serves properties that cannot feasibly be connected to an acceptable public or community water supply system.
- A shared well must have a valve on each dwelling.

- The water supply is adequate for all families served. A shared well must service no more than four living units or properties.
- The water quality of the well must meet the requirements of the state or local authority. If the state or local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply.
- The well must have an agreement that meets the following requirements:
  - Is binding upon all signatory parties and their successors in title;
  - Is recorded or will be recorded no later than the closing date;
  - Makes provisions for maintenance and repair of the system and the sharing of costs to do so. These provisions must include a permanent easement that allows access for maintenance and repair.

Community Owned

If the property is served by a community water system operated by a private corporation or nonprofit property owner's association, the following conditions must be met:

- The system and the water supply meet all applicable federal, state, and local requirements.
- The system has the capacity to provide a sufficient water supply during periods of peak demand.
- The system is operated under a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service.

Required Inspections and Documentation

Documentation that the wastewater system meets state and local standards must be obtained.

Individual Water Systems in Hawaii and the Western Pacific Region

Due to the limited regulation provided by local ordinances and regulations of each jurisdiction in Hawaii and the Western Pacific Region regarding individual water systems (IWS), including rainwater catchment systems, the Agency has determined that an IWS is considered an eligible water system if the following conditions are met:

- The property is located in Hawaii or the Western Pacific Region.

- The property does not have an available, affordable connection to a public or private community water system.
- The alternative water supply system, the rainwater catchment system, complies with and is not prohibited by ordinances or regulations of the local jurisdiction in which the property is located.
- Water quality tests are not required if the state or local authority does not have specific requirements, and EPA testing is not available.
- Reliance upon the rainwater catchment system does not diminish the marketability or value of the property within its marketplace. The system must be typical for the area as described by the appraiser.
- The applicant must acknowledge and certify their responsibility to maintain the rain catchment system.

Wastewater

Individual Privately Owned

The lender is required to obtain a septic evaluation. A qualified appraiser who certifies the property meets required HUD's Single-Family Housing Policy Handbook, a government health authority, a licensed septic system professional, or a qualified home inspector may perform the septic evaluation. The inspector may require additional inspections as a result of the inspection. The septic system must be free of observable evidence of failure. Existing dwellings appraised by a qualified appraiser, who has indicated the dwelling meets the required HUD handbook policy does not require further septic certification.

If the property is served by an individual sewage disposal system, the lender must ensure the system:

- Meets any applicable requirements of the state or local health authority with jurisdiction;
- Is located entirely on the subject property. If any part of the system is located on an adjacent property (for example, leach lines), evidence such as a perpetual encroachment easement must be recorded to establish the rights of the property owner's permitted use; and
- Is operating properly and has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health.

Community Owned

If the property is served by a community wastewater system operated by a private corporation or nonprofit property owner's association, the lender must ensure that the system:

- Meets any applicable requirements of the state or local health authority with jurisdiction;
- Is licensed, operating properly, and has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health; and
- Is subject to a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service.

Required Inspections and Documentation

Documentation that the wastewater system meets state and local standards must be obtained.

Distance Between Septic System and Water Well

The appraiser must comment that both the septic and well, if applicable, meet HUD standards. If they are unable to confirm that the distance is acceptable, a survey may be required by the appraiser to verify and add the required language regarding the distances to the appraisal. The survey takes the form of a professional surveyor's sketch showing the location and distance between the property line, septic tank, drainage field, and well.

Although the appraiser is not required to sketch the distance between the well and septic, the appraiser should be mindful of FHA's minimum distance requirements and provide the distance between the well and septic on the sketch addendum to the appraisal report; the appraiser should comment that both the septic and well, if applicable meet HUD standards. If the appraiser does not provide commentary, the underwriter may make a reasonable determination based on the survey.

Distances for Existing Construction

- Property line – 10 feet
- Septic tank – 50 feet
- Drain field – 100 feet
- Septic tank drain field reduced to 75 feet if allowed by the local authority.

If the subject property line is adjacent to residential property, then local well distance requirements prevail.

If the subject property is adjacent to non-residential property or roadway, there needs to be a separation distance of at least 10 feet from the property line.

Note: Distance requirements of local authority prevail if greater than stated above.

Distances for New Construction

- Property line – 10 feet
- Septic tank – 50 feet
- Absorption field – 100 feet
- Seepage pit or cesspool – 100 feet
- Sewer lines with permanent watertight joints – 10 feet
- Other sewer lines – 50 feet

Note: Distance requirements of local authority prevail if greater than stated above.

Minimum Property Requirements/Existing Dwellings

If the subject property was completed more than 12 months ago or has been previously occupied, the subject property must meet the requirements of the Single Family Housing Policy Handbook (SF Handbook; HUD Handbook 4000.1, also known as HUD Handbook) or as superseded by HUD. The appraiser must state that the subject meets the current minimum property requirements of the Single Family Housing Policy Handbook (SF Handbook; HUD Handbook 4000.1) or as superseded by HUD.

Mixed-Use Properties

Mixed-Use refers to a property suitable for a combination of uses, including any of the following:

- Commercial,
- Residential,
- Retail,

- Office, or
- Parking space

Mixed-Use properties are eligible for financing, provided:

- Non-residential use is legally permitted;
- A minimum of 51 percent of the entire building square footage is for residential use; and
- The commercial use will not affect the health and safety of the occupants of the residential property.

Multiple Parcels

The lender will ensure the mortgage provides a valid first lien covering each parcel. Each parcel must be conveyed in its entirety and have the same basic zoning. The entire property will contain only one dwelling but may have non-residential, non-income producing buildings, such as a garage.

An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home. Parcels divided by a road that would otherwise be contiguous are acceptable.

New Property Exhibits and Inspections

New dwellings must be designed and constructed in accordance with certified plans and specifications. Evidence of all of the items below must be retained in the lender's permanent loan file:

- Certified Plans and Specifications
- Required constructions Inspections
- Thermal standards are met

New home purchase transactions that cannot meet the minimum required plan certification, inspections, and warranty document requirements outlined below are limited to a 90 percent loan to value (LTV).

Requirements for Conditional Commitments Requested prior to 4.1.2024

Documentation Requirements for New Construction

Documentation	Option 1	Option 2	Option 3

Requirements			
Evidence of Certified Plans and Specifications	Copy of the certification from a qualified individual or organization that the reviewed documents comply with applicable development standards; OR	Certificate of Occupancy issued by a local jurisdiction; OR	Building Permit (or equivalent) issued by local jurisdiction
Evidence of Construction Inspections	Certificate of Occupancy issued by a local jurisdiction showing that it has performed at least 3 construction phase inspections, and an acceptable 1 year builder warranty; OR	Three construction phase inspections performed at each of the phases; OR	Final inspection and a 10-year insured builder warranty
Evidence of Thermal Standards	The final inspection, or certificate of occupancy issued by a local jurisdiction; OR	Builder may certify confirmation with the IECC standards; OR	A qualified, registered architect or a qualified, registered engineer may certify confirmation with IECC standards

Certifications may be accepted from individuals or organizations trained and experienced in the compliance, interpretation, or enforcement of the applicable development standards for drawings and specifications.

One year builder warranties are deemed acceptable when the policy is non-refundable or cancellable, the policy is from an insurance company licensed to do business in the state where the property is located, and the coverage includes (from effective date) at least one year for any defects caused by faulty workmanship or defective materials. This section will provide documentation options necessary to meet each of these requirements for both stick built and manufactured homes

New Construction Certified Plans and Specifications

The lender's file must contain evidence the plans and specifications comply with all development standards* applicable to the new construction. Acceptable evidence includes:

1. Copy of the certification from a qualified individual or organization that the reviewed documents comply with applicable development standards. Form RD 1924-25 is an acceptable format but may not be required by the Agency for guaranteed loans. -OR
2. Certificate of Occupancy issued by a local jurisdiction. -OR
3. Building Permit (or equivalent) issued by local jurisdiction

The lender may accept certifications from individuals or organizations trained and experienced in the compliance, interpretation or enforcement of the applicable development standards* for drawings and specifications. Plan certifiers may be any of the following:

1. Licensed architects;
2. Professional engineers;
3. Plan reviewers certified by a national model code organization;
4. Local building officials authorized to review and approve building plans and specifications; or
5. National codes organizations

*Applicable development standards. The current International Code Council (ICC) standards or current state adopted ICC code(s) for residential construction.

Evidence of Construction Inspections

The lender's file must contain copies of the documents described in one of the following three options:

Certificate of Occupancy issued by a local jurisdiction showing that it has performed at least 3 construction phase inspections, including inspections noted in option 2 below and a 1-year builder warranty plan acceptable to Rural Development. -OR

Three construction inspections performed when:

- Footings and foundation are ready to be poured and prior to back-filling;
- Shell is complete, but plumbing, electrical and mechanical work is still exposed (this is not applicable to new manufactured homes);
- Final inspection of completed work prior to occupancy; and
- A 1-year builder warranty plan acceptable to Rural Development. Builders may utilize their own warranty form, HUD-92544 or Form RD 1924-19. Applicants who build their own homes cannot provide a self-warranty.
- New manufactured home construction only requires footing and final inspections.

OR -

Final inspection and a 10-year insured builder warranty

- Final Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442) is acceptable as a final inspection, provided the appraiser is deemed qualified by the lender
- Builder backed 2/10 warranty fulfills the 10-year warranty requirement.

Evidence of Thermal Standards

The Lender's file must contain evidence that thermal standards meet or exceed the International Energy Conservation Code (IECC) in effect at the time of construction. Evidence of thermal standards is typically included in the plans and specs to which the dwelling is built. The final inspection or Certificate of Occupancy issued by a local jurisdiction meets this requirement. Otherwise, documentation of conformance may be by one of the following options:

Documentation of conformance may be met by one of the following options:

- The builder may certify confirmation with the IECC standards; or
- A qualified, registered architect or a qualified, registered engineer may certify confirmation with IECC standards

Requirements for Conditional Commitments Requested on or after 4.1.2024

Certifications may be accepted from individuals or organizations trained and experienced in the compliance, interpretation, or enforcement of the applicable development standards for drawings and specifications.

One year builder warranties are deemed acceptable when the policy is non-refundable or cancellable, the policy is from an insurance company licensed to do business in the state where the property is located, and the coverage includes (from effective date) at least one year for any defects caused by faulty workmanship or defective materials. This section will provide documentation options necessary to meet each of these requirements for both stick built and manufactured homes.

Documentation Requirements for New Construction Stick Built Homes

Documentation Requirements	Option 1	Option 2	Option 3
Evidence of Certified Plans and	Copy of the certification from a qualified	Certificate of Occupancy issued by a	Building Permit (or equivalent) issued by

Specifications	individual or organization that the reviewed documents comply with applicable development standards; OR	local jurisdiction; OR	local jurisdiction.
Evidence of Construction Inspections	Certificate of Occupancy issued by a local jurisdiction showing that it has performed at least 3 construction phase inspections, and an acceptable 1 year builder warranty; OR	Three construction phase inspections performed at each of the phases and an acceptable 1 year builder warranty; OR	Final inspection and a 10-year insured builder warranty. Builder backed 2/10 warranty fulfills the 10-year warranty requirement.
Evidence of Thermal Standards	A qualified, registered architect or a qualified, registered engineer may certify confirmation with IECC standards; OR	Builder may certify confirmation with the IECC standards; OR	The final inspection, or Certificate of Occupancy issued by a local jurisdiction

New Construction Certified Plans and Specifications for Stick Built Homes

The lender's file must contain evidence the plans and specifications comply with all development standards* applicable to the new construction. Acceptable evidence includes:

1. Copy of the certification from a qualified individual or organization that the reviewed documents comply with applicable development standards. Form RD 1924-25 is an acceptable format but may not be required by the Agency for guaranteed loans. -OR
2. Certificate of Occupancy issued by a local jurisdiction. -OR
3. Building Permit (or equivalent) issued by local jurisdiction

The lender may accept certifications from individuals or organizations trained and experienced in the compliance, interpretation or enforcement of the applicable development standards* for drawings and specifications. Plan certifiers may be any of the following:

1. Licensed architects;
2. Professional engineers;

3. Plan reviewers certified by a national model code organization;
4. Local building officials authorized to review and approve building plans and specifications; or
5. National codes organizations

*Applicable development standards. The current International Code Council (ICC) standards or current state adopted ICC code(s) for residential construction.

Evidence of Construction Inspections for Stick Built Homes

The lender's file must contain copies of the documents described in one of the following three options:

1. Certificate of Occupancy issued by a local jurisdiction showing that it has performed at least 3 construction phase inspections, including inspections noted in option 2 below and a 1-year builder warranty plan acceptable to Rural Development. -OR
2. Three construction inspections performed when:
    - Footings and foundation are ready to be poured and prior to back-filling;
    - Shell is complete, but plumbing, electrical and mechanical work is still exposed ;
    - Final inspection of completed work prior to occupancy; and
    - A 1-year builder warranty plan acceptable to Rural Development. Builders may utilize their own warranty form, HUD-92544 or Form RD 1924-19. Applicants who build their own homes cannot provide a self-warranty.

   OR -

3. Final inspection and a 10-year insured builder warranty
    - Final Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442) is acceptable as a final inspection, provided the appraiser is deemed qualified by the lender
    - Builder backed 2/10 warranty fulfills the 10-year warranty requirement.

Evidence of Thermal Standards for Stick Built Homes

The Lender's file must contain evidence that thermal standards meet or exceed the International Energy Conservation Code (IECC) in effect at the time of construction. Evidence of thermal standards is typically included in the plans and specs to which the dwelling is built.

Documentation of conformance may be met by one of the following options:

- The builder may certify confirmation with the IECC standards; or

- A qualified, registered architect or a qualified, registered engineer may certify confirmation with IECC standards; or
- The final inspection or Certificate of Occupancy issued by a local jurisdiction meets this requirement

Documentation Requirements for New Construction Manufactured Homes

Documentation Requirements	Option 1	Option 2	Option 3
Evidence of Certified Plans and Specifications	Copy of the certification from a qualified individual or organization that the reviewed documents comply with applicable development standards; OR	Certificate of Occupancy issued by a local jurisdiction; OR	Building Permit (or equivalent) issued by local jurisdiction.
Evidence of Construction Inspections	Certificate of Occupancy issued by a local jurisdiction showing that it has performed at least the footing and final inspections, and an acceptable 1 year builder warranty; OR	Footing and final inspections performed by a qualified inspector and an acceptable 1 year builder warranty; OR	Final inspection and a 10-year insured builder warranty. Builder backed 2/10 warranty fulfills the 10-year warranty requirement
Evidence of Thermal Standards	HUD Data Plate confirmation with IECC standards; OR	Builder may certify confirmation with the IECC standards; OR	The final inspection, or Certificate of Occupancy issued by a local jurisdiction

New Construction Certified Plans and Specifications for Manufactured Homes

The lender's file must contain evidence the plans and specifications comply with all development standards* applicable to the new construction. Acceptable evidence includes:

1. Copy of the certification from a qualified individual or organization that the reviewed documents comply with applicable development standards. Form RD 1924-25 is an acceptable format but may not be required by the Agency for guaranteed loans. -OR
2. Certificate of Occupancy issued by a local jurisdiction. -OR
3. Building Permit (or equivalent) issued by local jurisdiction

The lender may accept certifications from individuals or organizations trained and experienced in the compliance, interpretation or enforcement of the applicable development standards* for drawings and specifications. Plan certifiers may be any of the following:

1. Licensed architects;
2. Professional engineers;
3. Plan reviewers certified by a national model code organization;
4. Local building officials authorized to review and approve building plans and specifications; or
5. National codes organizations

*Applicable development standards. The current International Code Council (ICC) standards or current state adopted ICC code(s) for residential construction.

Evidence of Construction Inspections for Manufactured Homes

The lender's file must contain copies of the documents described in one of the following three options:

1. Certificate of Occupancy issued by a local jurisdiction showing that it has performed at least 2 construction phase inspections, including inspections noted in option 2 below and a 1-year builder warranty plan acceptable to Rural Development. -OR
2. Two construction inspections performed when:
    a. Footings and foundation are ready to be poured and prior to back-filling;
    b. Final inspection of completed work prior to occupancy; and
    c. A 1-year builder warranty plan acceptable to Rural Development. Builders may utilize their own warranty form, HUD-92544 or Form RD 1924-19. Applicants who build their own homes cannot provide a self-warranty. OR -
3. Final inspection and a 10-year insured builder warranty
    a. Final Update and/or Completion Report (Fannie Mae Form 1004D/Freddie Mac Form 442) is acceptable as a final inspection, provided the appraiser is deemed qualified by the lender
    b. Builder backed 2/10 warranty fulfills the 10-year warranty requirement.

Evidence of Thermal Standards for Manufactured Homes

The Lender's file must contain evidence that thermal standards meet or exceed the International Energy Conservation Code (IECC) in effect at the time of construction. Evidence of thermal standards is typically included in the plans and specs to which the dwelling is built.

Documentation of conformance may be met by one of the following options:

1. A HUD Data Plate confirmation with IECC standards; or
2. The builder may certify confirmation with the IECC standards; or
3. The final inspection or Certificate of Occupancy issued by a local jurisdiction meets this requirement

Lender Responsibilities

In general, the lender has primary responsibility for all loan origination activities. The Agency has primary responsibility to review lenders' actions and monitor participants' compliance with program requirements. The Agency will not require the lender to routinely submit documentation maintained in the lender's file regarding new construction that is not required to be submitted under program guidelines, such as:

- Copies of plans, drawings, and specifications;
- Certifications regarding the plans, drawings, and specifications. Although lenders may voluntarily elect to use Form RD 1924-25, this form is not a required form for the SFHGLP. The certification may be on the plans and drawings, a separate form, or on any document that conveys the necessary information;
- Building permits;
- Copies of new construction inspections, including pest and termite inspections that the lender may opt to collect as part of state laws or investor requirements;
- Occupancy certificates; and
- Copies of construction warranties.

The Agency has the option to request any of these documents in appropriate situations such as:

- The Agency is performing a processing review of a newly approved lender;
- The Agency is performing a periodic review of the lender's compliance with program regulations;
- The Agency believes the lender is not fulfilling the obligations of the Lender Agreement and/or program guidelines; or
- The Agency is reviewing a loss claim

Private Roads

The site must be contiguous to, and have direct access from, a public or private street, road, or driveway. Private roads or streets are acceptable provided each property has vehicular or pedestrian access. Private roads or streets must be protected by permanent recorded easement (non-exclusive and non-revocable easement without trespass from the property to a public street) or the street must be maintained by a homeowner's association (HOA). Shared driveways must also meet these requirements requiring a permanent recorded easement for ingress and egress.

This agreement must be binding to successors and title. A copy of a title report, retained in the mortgage file, may be used to evidence the easement. Private road maintenance agreements are not required.

Property Flipping

It remains the underwriter's responsibility to ensure any recently sold property's value is strongly supported when a significant increase between sales occurs. The lender must perform a thorough review of the appraisal report to validate and support the property's value and protect the applicants from possible predatory real estate lending.

Properties Listed For Sale

The subject property may not be listed for sale at the time of closing. Properties that have been listed for sale in the last 12 months require:

The appraiser must confirm:

- The property is not currently in the MLS listed for sale.
- The home is not FSBO or another public offering.
- Confirm the date the listing expired or was withdrawn.

When the property is listed for sale at the time the appraisal is completed, the borrower must provide proof the property has been withdrawn from the market or the listing has expired.

REO Appraisals

Real Estate Owned (REO) properties are properties managed by or in the possession of a lender as a result of foreclosure or deed-in-lieu of foreclosure.

These properties possess an additional collateral risk because they are uninhabited. The appraiser must address the adverse items found that could affect the livability or marketability of an REO property.

All standard appraisal and property Condition and Quality requirements apply.

Appraisals performed for REO purposes are not acceptable.

Repair Escrows for Existing and New Dwellings

Repair escrows, post issuance of the Loan Note Guarantee are acceptable provided the home is habitable, as determined by the lender. All items of new construction or repairs must be 100 percent (100%) complete in accordance with plans and specifications except for minor items not affecting the livability of the structure or that cannot be completed due to weather conditions.

Lenders may utilize Attachment 12-E, Repair Escrow and Rehabilitation & Repair with Purchase Comparison available in Chapter 12 of the Handbook 3555.1 when determining how repairs or rehabilitation may be financed. Repair items will be required to be completed within 180 days of loan closing. This period may be extended, at the discretion of the Agency, for homes that need exterior repairs but are in an area experiencing inclement weather conditions. The maximum exterior repair escrow period when an extension is granted is limited to 240 days. Extensions may be granted beyond 180 days for exterior escrows only.

Repair Escrows must be submitted to Credit Committee for approval; refer to Compliance | Loan Exception Policy for requirements.

Condition and Quality

All appraisal reports must meet the Uniform Appraisal Dataset (UAD) requirements set forth by Fannie Mae.

When an appraiser selects a rating or description of the subject property for a sales transaction, the rating or description must remain the same if/when the subject property is used as a comparable sale on a future report. The same is expected of the comparable sales used. The property ratings and descriptions should not change from one appraisal to the next.

Property Condition

Cardinal's property condition requirements are as follows:

- The appraisal report must give an opinion about the condition of the subject property improvements based on factual data.
- Appraisals based on interior and exterior inspections must include a complete inspection of the accessible areas of the property.
- Appraisal reports must reflect the adverse conditions apparent during the inspection or discovered while performing research, such as; needed repairs, hazardous waste, toxic substances, or adverse environmental conditions.
- Any detrimental conditions must be reported, even if they are typical for competing properties.
- The appraiser must consider and describe the overall condition and quality of the property improvements.
- The appraiser must identify items that need immediate repair and items where maintenance may have been deferred, whether they need immediate repair or not.
- The appraisal Additional Comments section must address needed repairs and physical, functional, or external inadequacies.

Property Condition Ratings

For appraisals required to be UAD compliant, one of the following standardized ratings must be assigned to the subject property and comparable sales.

Cardinal will accept appraisal reports with a Uniform Appraisal Dataset (UAD) condition rating of C1-C5. Properties with a Condition Rating of C6 are eligible provided any deficiencies that impact the safety, soundness, or structural integrity of the property are repaired before funding.

Rating	Description

C1	The improvements have been very recently constructed and have not been previously occupied. The entire structure and all components are new, and the dwelling features no physical depreciation.
C2	The improvements feature no deferred maintenance, little or no physical depreciation, and require no repairs. Virtually all building components are new or have been recently repaired, refinished, or rehabilitated. All outdated components and finishes have been updated or replaced with components that meet current standards. Dwellings in this category are either almost new or have been completely renovated and are in a similar condition to new construction.
C3	The improvements are well-maintained and feature limited physical depreciation due to normal wear and tear. Some components but not every major building component may be updated or recently rehabilitated. The structure has been well maintained.
C4	The improvements feature some minor deferred maintenance or physical deterioration due to normal wear and tear. The dwelling has been adequately maintained and requires only minimal repairs to building components/mechanical systems and cosmetic repairs. All major components have been adequately maintained and are functionally adequate.
C5	The improvements feature obvious deferred maintenance and require significant repairs. Some building components need repairs, rehabilitation, or updating. The functional utility and overall livability are somewhat diminished due to the condition. The dwelling remains usable and functional as a residence.
C6	The improvements have substantial damage, deferred maintenance with deficiencies or defects severe enough to affect the safety, soundness, or structural integrity of the improvements. The improvements are in need of substantial repairs and rehabilitation, including many or most major components. If the appraisal reflects a C6 rating, the underwriter must condition for repairs to bring the property to a C1-C5 rating. • Repairs must be completed before closing. • Appraiser's Certificate of Completion is required. The original condition rating does not need to be altered after completing the repairs. • Escrow holdbacks are not permitted.

Quality of Construction

For appraisals required to be completed using the UAD, the appraiser must assign one of the following standardized quality ratings in the table below when identifying the quality of construction for the subject property and comparable sales.

Appraisal reports with a Uniform Appraisal Dataset (UAD) quality rating of Q1-Q5 are acceptable. Properties with a Quality rating of Q6 are eligible provided any deficiencies that impact the safety, soundness, or structural integrity of the property are repaired before funding.

Quality Rating	Description
Q1	Dwellings with this quality rating are usually unique structures individually designed by an architect for a specified user. Typically constructed from plans and specifications and feature a high level of artistry, high-grade materials, high-quality exterior refinements and ornamentation, and exceptionally high-quality interior refinements. The artistry throughout the dwelling is of exceptionally high quality.
Q2	Dwellings with this rating are often custom-designed for an individual owner's site. High-quality tract homes featuring individual plans or highly modified or upgraded plans are also included. The design features detailed, high-quality exterior ornamentation, high-quality interior refinements, and detail. The artistry, materials, and finishes are generally high or very high quality.
Q3	Dwellings with this rating are residences of higher quality built from readily available designer plans in above-standard residential tract developments or on an individual site. The design includes significant exterior ornamentation and interiors that are well finished. The quality exceeds acceptable standards, and many materials and finishes have been upgraded from "stock" standards.
Q4	Dwellings with this quality rating meet or exceed the requirements of applicable building codes. Standard or modified standard building plans are utilized, and the design includes an adequate floor plan and some exterior ornamentation and interior refinements. Materials, artistry, finish, and equipment are of stock or builder grade and may feature some upgrades.
Q5	Dwellings with the rating feature economy of construction and basic functionality. The dwelling features a plain design using readily available or basic floor plans with minimal design ornamentation on the interior and exterior. These dwellings must

	meet minimum building codes and are constructed with inexpensive, stock materials with limited refinements or upgrades.
Q6	Dwellings with this rating are basic quality and lower cost. Some may not be suitable for year-round occupancy. They are built with simple plans or without plans, often utilizing the lowest quality building material. Such dwellings are often built or expanded by unskilled persons or those with only minimal construction skills. Electrical, plumbing, or mechanical systems or equipment may be minimal or nonexistent. Older dwellings may feature one or more substandard or non conforming additions to the original structure. If the appraisal was issued with an “as is” condition with a Q6 rating, the underwriter must condition for repairs to bring the property to a Q1-Q5 rating. • Repairs must be completed prior to closing • Appraisers Certificate of Completion is required, the original condition rating does not need to be altered after the completion of the repairs • Escrow holdbacks are not permitted

Site Requirements

A qualified property must be predominately residential in use, character, and design. Sites must be developed in accordance with any standards imposed by a State or local government. Therefore, the lender must verify that the following requirements are met at the time of application.

Site Size

There is no specific limitation to the size/acreage of the site. The appraiser must provide an explanation in the addendum of the appraisal to explain adjustments to comparable properties and how the subject compares to other properties in the area, etc..

Accessory Dwelling Unit

An Accessory Dwelling Unit (ADU) refers to a habitable living unit, within, or detached from a single family dwelling, which together constitute a single interest in real estate. The presence of a single ADU does not automatically render the property ineligible.

Design features such as converted portions of existing homes that include a kitchenette or additional attached living area (e.g., bedroom and/or bathroom) without a separate address or independent utilities (e.g., water, gas, electricity) are not restricted, provided they function in support of only the household members. ADU's which function in support of the household members, such as multigenerational households are consistent with the objective of this program, however those designed to create a potential rental income stream are not.

The appraiser will determine if the ADU represents a second single family housing dwelling unit. The appraiser must document the highest and best use, considering all property characteristics, including the status of the utilities if they are separate, when making this determination. The appraiser will include their evaluation in the site analysis and highest and best use section of the appraisal report, as applicable.

Condominiums and Planned Unit Developments

General Condominium Project Requirements

Lenders may request a Conditional Commitment for Loan Note Guarantee for a condominium unit if the condominium project:

- Has been approved or accepted by HUD/FHA, VA, or Fannie Mae.

A Condominium Rider must supplement the Mortgage or Deed of Trust. HOA dues for dwellings in a condominium project must be included in total debt-to- income. Aside from the lender certification to Rural Development, all condominium documentation should remain in the lender's permanent loan file and should be available upon request. Full documentation will be requested if the lender fails to certify the condominium unit meets the requirements of HUD/FHA, VA, or Fannie Mae project approval or acceptance.

Ineligible Condominiums

Condominium projects with ineligible characteristics listed under HUD/FHA, VA, or Fannie Mae guidelines are not eligible for guarantee. Lenders are responsible for verifying eligibility at the time of loan underwriting.

Underwriting a Condominium Unit in an Approved Condominium Project (by HUD/FHA, VA, Fannie Mae, or Freddie Mac)

Units in a condominium project are eligible for a guarantee if the condominium project has been approved or accepted by HUD/FHA, VA, or Fannie Mae. For all loans secured by a condominium unit, in a condominium project, the lender must perform an underwriting review of the condominium project to ensure the unit is approved or accepted by HUD/FHA, VA, or Fannie Mae. Participating lenders may certify to Rural Development that they have reviewed the condominium documentation that supports project approval or acceptance, and that the condominium is in compliance. The lender may indicate compliance by stating the project classification on the Uniform Underwriting and Transmittal Summary (Fannie Mae Form 1008). The lender may utilize Rural Development's Attachment "Rural Development Condominium Certification." Use of the Condominium Certification Form is optional. Lenders who receive an "Accept" underwriting recommendation through GUS, may be requested to present documentation confirming the condominium unit meets eligibility criteria.

Lenders may refer to HUD/FHA, VA, or Fannie Mae for additional guidance in performing their underwriting review of the condominium project. In addition, the lender must ensure that the condominium meets all the applicable requirements for units in approved condominium projects at the time of underwriting. Lenders may use Form HUD-9991, FHA Condominium Loan Level/Single-Unit Approval Questionnaire, or similar, to document these requirements.

Insurance

The lender is responsible for ensuring the condominium project and the unit are adequately insured.

(i) Walls-In (HO-6) Insurance: Applicants remain responsible for obtaining individual homeowners' insurance to cover the interior of the unit and personal property inside the unit. The lender must verify the applicant has obtained a Walls-In (HO-6) policy if the condominium project's master or blanket policy does not include interior unit coverage.

(ii) Hazard Insurance: The HOA must obtain and maintain adequate hazard insurance for the entire condominium project. Lenders must verify that the HOA has a master or blanket hazard insurance policy for the entire condominium project that provides coverage and compensation for physical damage resulting from fire, wind, or natural occurrences.

(iii)Flood Insurance: The lender must verify if the unit in the condominium project is located in a SFHA and ensure that the HOA obtains and maintains adequate flood insurance for buildings in a condominium project located within the SFHA.

A Condominium Rider must supplement the Mortgage or Deed of Trust. HOA dues for dwellings in a condominium project must be included in total debt-to income. Aside from the lender certification to Rural Development, all condominium documentation should remain in the lender's permanent loan file and should be available upon request. Full documentation will be requested if the lender fails to certify the condominium unit meets the requirements of HUD/FHA, VA, Fannie Mae or Freddie Mac project approval or acceptance.

When there is an indication that a condominium unit or project does not meet the requirements of HUD/FHA, VA, Fannie Mae or Freddie Mac, the Agency will request additional documentation from the lender. If the condominium unit or project does not meet the stated requirements as certified or warranted by the lender, the Agency may refuse to issue a conditional commitment or loan note guarantee.

Planned Unit Developments

A planned unit development (PUD) is a project or subdivision that includes common property that is owned and maintained by a homeowner's association (HOA) for the benefit of use by the individual PUD unit owners. All homeowners in the PUD must be part of the HOA and pay lien supported assessments. A PUD can consist of condominiums, townhomes or detached single family homes that are served by a HOA.

HOA dues for dwellings in a PUD must be included in total debt-to-income calculations. Condominium projects located within a PUD may have a separate condominium HOA fee in addition to the PUD HOA fee. In this case, both HOA fees must be included in total debt-to-income calculations.

The mortgage industry, including other Government housing programs like FHA, now recognize that PUD dwellings do not pose any more risk than single family dwellings not part of a PUD. Loans may be guaranteed for PUD single family dwellings the same as for single family dwellings not in a PUD.

Assets

Assets should never be overvalued as it affects the risk assessment provided by the automated underwriting system and misrepresents the file presented for a Conditional Commitment for Loan Note Guarantee.

Depository Accounts: Checking, Money Market Accounts, and Savings

Documentation

- Two months of recent bank statements; or
- Verification of Deposit (VOD) and a recent bank statement (official electronic printout of monthly statement is acceptable)

- Investigate all recurring deposits on the account statements that are not attributed to wages or earnings to confirm the deposits are not from undisclosed income sources. There is no tolerance or percentage of the amount of a recurring deposit that is not required to be investigated.
- If the source of a deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer, the Social Security Administration, an IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, the lender does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the lender still has questions as to the source of the deposit, the lender should obtain additional documentation.

Underwriters must use the balance as reflected on the most current bank statement, or on the verification of deposit if the date on the verification of deposit is dated after the bank statement. Electronic printouts are not permitted, unless they are the official electronic statements provided by the banking institution.

Business Accounts

Funds from a business account are eligible to be used as funds to close and/or reserves. USDA does not require evidence from all parties to access joint or business accounts unless access to the funds are restricted without it.

Documentation

- Two months of recent bank statements; or
- Verification of Deposit (VOD) and a recent bank statement (official electronic printout of monthly statement is acceptable)

Reserves

Underwriters must use the balance as reflected on the most current bank statement, or on the verification of deposit if the date on the verification of deposit is dated after the bank statement (online transaction printouts, registers or lists are not permitted in lieu of bank statements).

GUS Instructions

Enter as Asset Type “Other” in the “Other Assets You Have” section, and select either “Other Liquid Asset” or “Other Non-Liquid Asset.”

Custodial Accounts for Children or Others

A custodial account is a financial account (such as a bank account, a trust fund, or a brokerage account) set up for the benefit of a beneficiary and administered by a responsible person, known as a legal guardian or custodian, who has a fiduciary obligation to the beneficiary.

Funds from Custodial Accounts may be used with evidence the borrower is on the account.

College Accounts - 529C

Funds from a 529 College Savings Plans are an ineligible asset type.

Down Payment

There are no down payment requirements on USDA loans.

Earnest Money

If the earnest money deposit is being considered part of the borrower's overall assets, the earnest money deposit must be verified. If the funds have not cleared the borrower's bank account, they may be analyzed and counted in the total available assets. If the deposit has cleared the borrower's account, the following is required.

Documentation Required

- Copy of the canceled check or bank statement showing clearance of the check.
- Receipt from the holder of the deposit.
- Bank statements to source the deposit per the AUS findings.

Foreign Deposits

Funds may be used as an eligible source of funds for the down payment, closing costs, and reserves. Borrower funds that are deposited in a financial institution located either inside or outside of the U.S, but denominated in non-U.S. currencies, must be transferred into U.S institutions before closing.

The use of foreign deposits for closing funds and reserves require all of the following:

- Evidence of wire transfer of foreign assets into the borrower's U.S. bank/deposit account.

- Documentation that transferred funds belonged to the borrower before transfer.
- The source of all funds used for closing can be verified following the same requirements for U.S. based depository institutions.
- Evidence that the country of origin is not on the list of OFAC sanctioned countries.
- Transfer of funds to the appropriate U.S. institution must be verified prior to closing.

All documents must be filled out in English or must be translated into English by the document originator or a disinterested third-party translation service. The translation must be attached to each document and warrant that the translation is complete and accurate. Examples of acceptable third-party translation services:

- Google Translate or similar site
- Professional translation service
- An individual who considers themselves competent in both English and the document's original language.

Gift Funds

Gift funds may be used for downpayment and closing costs. They may not be used for reserves. The gifts may be provided by:

- An organization
- A relative

Gift Letter Requirements

The borrower must provide an executed gift letter from the donor. The gift letter must:

- State the dollar amount of the gift
- Reference the property being financed
- Date the funds were (or will be) transferred
- Include a statement from the donor that no repayment is expected

- Gift donor's name, address, telephone number, and relationship to the borrower of the donor

Documentation

- Gift funds are considered the applicant's own funds. Therefore they are eligible to be returned to the applicant at loan closing as applicable
- Gift funds may not be contributed from any source that has an interest in the sale of the property (seller, builder, real estate agent, etc.)
- Gift funds must be properly sourced:
    - If the funds have been deposited to the borrower's account, obtain a gift letter to state the funds do not have to be repaid and a bank statement as evidence of funds from the donor's account. Cash on hand is not an acceptable explanation for the source of funds.
    - If the funds have not been deposited in the borrower's account, obtain a gift letter to state the funds do not have to be repaid, a certified check, money order or wire transfer, and a bank statement showing the withdrawal from the donor's account. Cash on hand is not an acceptable explanation for the source of funds.
    - If the gift funds will be sent directly to the settlement agent, the lender must obtain a gift letter to state the funds do not need to be repaid, a bank statement as evidence of funds from the donor's account, and verification the funds have been received by the settlement agent. Cash on hand is not an acceptable explanation for the source of funds.
- Gift funds should be entered in the "Gifts or Grants You Have Been Given or Will Receive for This Loan" section of the "Loan and Property Information" GUS application page, as well as included in an Asset account on the "Assets and Liabilities" page. If the cashback is received at loan closing, it cannot exceed monies advanced by the borrower minus utilized gift funds.
- Gift funds applied as Earnest Money should not be reflected in the "Gifts or Grants You Have Been Given or Will Receive for This Loan" section of the "Loan and Property Information" GUS application page.

Gift funds are ineligible towards reserves.

Individual Development Account (IDA)

Documentation

- Two months of account statements; or
- Verification of Deposit (VOD); or

- Alternate evidence provided by the account trustee/management to support account activity and monthly balances.
- Verification must document the vested/amount available for withdrawal without penalty or reimbursement.

Eligible as reserves, must use the lesser of the current vested balance or the previous month's ending vested balance. Eligible as funds to close.

Joint Accounts

USDA does not require evidence for access to joint accounts from all parties to the account unless access to the funds is restricted without it.

Large Deposits

Bank Statements - Large Deposits

Investigate individual (non-recurring) deposits greater than $1,000 on the account statements that are not attributed to wages or earnings to confirm the deposits are not from undisclosed income sources.

If the source of a deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer, the Social Security Administration, an IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, the lender does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the lender still has questions as to the source of the deposit, the lender should obtain additional documentation.

Life Insurance

Documentation

- Document the applicant's receipt of funds from the policy
- Verify where the proceeds are held and confirm they are available to the applicant
- Confirm corresponding liability for this debt in the total debt ratio, if applicable

Eligible as reserves and funds to close.

Lump Sum Additions: IRS Refunds, Lottery Winnings, Inheritances, Withdrawals from Retirement Accounts

Documentation

- Document the applicant's receipt of funds
- Verify where the proceeds are held and confirm they are available to the applicant
- One-time deposits may not require annual income consideration under 7 CFR 3555.152(b)(5)(vi)
- Do not enter into GUS separately if it is already included in the borrower's depository account

Eligible as reserves and funds to close.

Non-Sufficient Funds/Overdraft

Non-Sufficient Funds (NSFs) or Overdraft fees showing on a borrower's bank statement(s) are generally an indication of the borrower's financial mismanagement and are considered a negative layer of risk. Consideration of NSF's or Overdraft fees should be made when assessing the overall risk of the loan.

Overdraft protection withdrawals are generally considered a neutral factor and are not considered negatively. However, recurring overdraft/NSF *fees* could have a negative impact on the applicant's credit accounts and repayment of the proposed mortgage debt.

The underwriter must include these fees in the applicant's monthly debt if they are occurring regularly, defined as more than once in a 30-day period. Overdraft or NSF fees manually added to the Asset and Liabilities GUS application page will not result in a manual downgrade of a GUS Accept/Accept with Full Documentation file underwriting recommendation.

To exclude the fees from the borrower's monthly obligations, a credit exception is required.

Overdraft protection funds are frequently unsecured loans or lines of credit. They may not be used for the borrower's EMD or funds to close unless they are transferred from another asset account held by the borrower and do not constitute an unsecured loan or line of credit.

Personal Property Sold

Documentation

- Document the applicant's ownership of the asset

- Evidence of the transfer of ownership of the asset through a bill of sale or statement from the purchaser
- Receipt of sales proceeds through deposit slips, bank statements, or a copy of the purchasing party's canceled check, money order, or electronic funds transfer

Eligible as reserves and funds to close.

Private Savings Club

USDA does not address private savings clubs, community or pooled savings accounts. In order to determine if the funds may be considered in the underwriting analysis, the underwriter will need to review the account to determine the level of access the applicant has to all, or a portion of, the funds, the conditions upon which the applicant may access the funds, and address any possible long term obligations that result from the applicant's use of the funds.

The underwriter should carefully review all documentation related to a private savings club to determine whether any members of the program may be an interested party to the transaction, or if the source of funds are from an ineligible source.

Real Estate Commission

If the borrower is a licensed Realtor, then they may use the entitled real estate commission from the sale of the subject property toward the cash investment or closing costs. Verification from the Broker is required to determine the amount of authorized commission for use toward the subject transaction.

Only commission earnings from the occupying borrower may be used in the transaction.

Octane

- Add the amount of commission to be used as an Earnest Money Deposit to ensure the amount is reflected on the CD.
- The requirement 'Evidence of EMD Clearance' can be waived.
- Place the verification from the Broker addressing the amount of authorized commission in the Purchase Contract folder.

Summary

Down Payment	Closing Costs	Considered part of	Eligible Occupancy

		Interested Party Contribution (IPC)	Types
Yes	Yes	No	Primary

Reserves

Cash Reserves calculated by the system represent the amount of liquid assets that remain available to the applicants/borrowers after loan closing (includes amounts received at closing).

Although all household assets must be verified and documented in the permanent loan file, the lender may underwrite to the most conservative approach with no consideration of assets entered into GUS. When assets are entered into GUS and used as reserves, lenders must ensure that the funds will be available to the applicants post-closing.

Unverified funds are not an acceptable source of funds for down payment, closing costs, etc.

Retirement: 401(k), IRA, etc.

Documentation

- Recent account statement (monthly, quarterly, etc.) to evidence the account balance, vested balance available for withdrawal, and early withdrawal penalty, if applicable
- Funds borrowed against these accounts may be used for funds to close, but are not considered in reserves. The borrowed funds should not be reflected in the balance of any asset entered on the “Assets and Liabilities” application page.

Asset as Reserves

- Eligible
- 60 percent of the vested amount available to the applicant may be used as reserves
- Funds borrowed against these accounts are not eligible for reserves. The borrowed funds should not be reflected in the balance of any asset entered on the “Assets and Liabilities” application page

Sale Proceeds

Funds from the sale of a home are an acceptable source of downpayment, closing costs, and reserves.

Documentation Requirements

When the property is pending sale and information related to estimated funds to close and/or payoff of a mortgage liability needs to be documented, one of the following items must be provided prior to approval (PTA):

- Estimated Settlement Statement
- Title Fee Sheet
- Loan Estimate
- Closing Disclosure (CD)
- HUD-1
- Net Proceeds Calculation Worksheet

To use proceeds from the concurrent sale of owned real-estate for a down payment, minimum contribution requirements, and/or cash reserves:

- The closing of the other real estate transaction must take place before or simultaneously with the subject closing, and
- A fully-executed Closing Disclosure (CD), relocation buyout agreement, or settlement statement must be provided to verify net proceeds to the borrower

Source of Funds

Two months of consecutive bank statements are required on all accounts, regardless of whether the borrower needs the funds to close.

Secondary Financing

Secondary financing is allowed provided the borrower is not placed in a substantially worse position than if the entire amount borrowed were a USDA first mortgage. The borrower must be qualified with the subordinate financing. The second lien cannot be subject to deed restrictions or an equity sharing arrangement.

Stocks and Bonds

If the borrower indicates that they have stocks, bonds, or a retirement account, a monthly or quarterly statement must be obtained.

Assumability

A USDA loan is assumable by a qualified borrower(s) during the life of the loan.

Borrower Eligibility

Eligible Borrowers

- All borrowers on the transaction must have a valid US Social Security Number
- Are US Citizens
- Are Non-U.S. Citizen Borrowers with a valid Social Security Number and work authorization, as evidenced by documentation such as an Employment Authorization Document, Form I-766 (EAD)
    - Refer to the Having Acceptable Citizenship or Immigration Status section for additional guidance related to Non-U.S. Citizen Borrowers
    - For refinance transactions, verification of an alien's eligibility status is required when a new borrower, who is not a U.S. Citizen, is added to the loan
- The borrower must be a natural person
- Maximum of 4 borrowers on the mortgage loan
- Are income-eligible

Have the legal capacity to incur the loan obligation. The title may not be in the name of a:

- Partnership
- Corporation
- Real estate syndication
- Trust Shared Equity Transaction

Having Acceptable Citizenship or Immigration Status

USDA has issued a temporary waiver for individuals with a valid social security number and work authorization, as evidenced by documentation such as an Employment Authorization Document (EAD), Form I-766, issued by the U.S. Department of Homeland Security, to participate in the SFHGLP.

Unless extended, this waiver will expire on May 2, 2025.

Under the waiver, the lender will be responsible for securing acceptable documentation confirming the Non-U.S. citizen meets eligibility requirements and retaining this evidence in their permanent case file. Non-U.S. citizens legally admitted into the United States will have a United States Citizenship and Immigration Services (USCIS) number. It must be determined whether the borrower is a U.S. Citizen, U.S. Non-citizen National, or a Qualified Alien. For all file submissions, the underwriter is responsible for documenting the applicants legal residency. Applicants are required to have a valid social security number and evidence of continued residency and income.

Citizenship must be supported by documentation requirements as noted in Chapter 2 Citizenship Requirements.

U.S. Citizen

Resides as a citizen in any of the 50 States, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Marianas, Federated States of Micronesia, and the Republics of the Marshall Islands and Palau.

Non-citizen National

A non-citizen national who resides in one of the foregoing areas after being legally admitted to the U.S. for permanent residence or on indefinite parole; the term “indefinite parole” is no longer a term used by the Citizenship and Immigration Service (CIS), formerly the Immigration and Naturalization Service (INS). Generally, a U.S. non-citizen national is a person born in American Samoa or Swains Island, or after the date the U.S. acquired American Samoa or Swains Island, or a person whose parents are U.S. non-citizen nationals. Typical evidence of the relatively uncommon status as a non-citizen national includes a birth certificate or passport.

Qualified Alien

A qualified alien (which may include permanent or non-permanent resident alien status) as identified in Section 401 of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (8 U.S.C. Section 1611) is eligible with acceptable evidence that they are qualified aliens.

A qualified alien is defined as:

- An alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act (INA); or
- An alien who is granted asylum under section 208 of such Act; or
- A refugee who is admitted to the United States under section 207 of such Act; or
- An alien who is paroled into the United States under section 212(d)(5) of such Act for a period of at least 1 year; or
- An alien whose deportation is being withheld under sections 243(h) or 241(b)(3) of such Act, as amended; or
- An alien who is granted conditional entry pursuant to section 203(a)(7) of such Act as in effect prior to April 1, 1980; or
- An alien who is a Cuban/Haitian Entrant as defined by section 501(e) of the Refugee Education Assistance Act of 1980; or
- An alien who has been battered or subjected to extreme cruelty under section 431 of the Immigration and Nationality Act

In addition to the categories of qualified aliens described above, Native Americans born in Canada may also be eligible as lawfully admitted for permanent residence. The documentation described above may be unavailable. To establish the applicants are qualified aliens, the Native American should provide all of the following documentation:

- A letter from their Native American tribe stating that the alien has at least 50 percent Native American or Aboriginal blood (also referred to as the blood quantum);
- Their Canadian “Certificate of Indian Status Card” with a red stripe along the top;
- Their birth certificate;
- If a Haudenosaunee, their Red I.D. Card;
- If an Inuit, an Inuit enrollment card from one of the regional Inuit lands claim agreements;
- Their social security card issued by the U.S. Social Security Administration; and
- Their Canadian or United States driver’s license

Obtaining Credit

Form RD 3555-21 requires both the lender and the applicants to certify that the applicants are unable to secure credit from other sources upon terms and conditions which the applicants can reasonably fulfill. The certification can be made if the applicants will not meet the requirements to obtain a traditional conventional credit loan at loan closing. Traditional conventional credit is defined for Agency purposes as:

- The applicants have available personal non-retirement liquid verifiable asset funds of at least 20% of the purchase price that can be used as a down payment;
- The applicants can, in addition to the 20% down payment, pay all their closing costs associated with the loan;
- The applicants can meet qualifying ratios of no more than 28% PITI and 36% TD when applying the 20% down payment; and
- The applicants can demonstrate qualifying credit for such a loan. The conventional mortgage loan term is for a 30- year fixed rate loan term without a condition to obtain private mortgage insurance (PMI)

If the applicants meet the cumulative criteria of traditional conventional credit, as defined by the Agency above; the applicants are ineligible for the SFHGLP. It remains the underwriter's responsibility to support the criteria of this Section. However, when the criteria identified in the first three bullet points above are met, documentation to support ineligibility for conventional credit should be submitted to the Agency as part of the complete loan application.

Liquid assets for conventional credit down payment purposes typically consist of cash or cash equivalents. Cash or cash equivalents include funds in the applicants' checking or savings accounts, sale proceeds from a real estate owned property, or investments in stocks, bonds, mutual funds, certificates of deposit, and money market funds, unless they are encumbered (pledged as collateral) or otherwise inaccessible without substantial penalty.

Cash equivalents do not include funds in Individual Retirement Accounts, 401(k) accounts, Keogh accounts, or other retirement accounts that are restricted and may not be accessed without incurring substantial monetary penalties. Educational college savings plans, such as a 529 plan, which incur a penalty to withdraw, are not considered a cash equivalent. Owning land is not considered a liquid asset.

If the applicants have ownership in a business, or are self-employed, closely review the asset accounts to verify assets are not transferred between a personal account and a business account and vice versa.

These accounts should function as two separate financial tools, one for personal transactions and one for business transactions. In the event the assets from the business account and personal account are co-mingled, the co-mingled assets would need to be included in the test for obtaining credit.

Owning an Existing Dwelling

An applicant who owns a dwelling to which they will retain ownership is eligible for a guaranteed loan to purchase another home if all of the criteria below are met:

- The homeowner's current dwelling is not financed by a Rural Development guaranteed or direct Section 502 or 504 loan or active grant (the grant agreement has not expired);
- The homeowner is financially qualified to own more than one house (the loan applicant is limited to owning one single-family housing unit other than the one associated with the loan request);
- The homeowner will occupy the home financed with the guaranteed loan as their primary residence throughout the term of the loan;
- The current home no longer adequately meets the applicants' needs (manufactured housing units that are not fixed on a permanent foundation are considered functionally inadequate). The determination that the current home no longer adequately meets the applicant's needs must include documentation of a significant status change in the circumstances of the borrower that require immediate remedy. Examples of changes in status could include, but are not limited to:
    - Severe overcrowding, which is defined as more than 1.5 household residents per room. The room count generally includes a living room, dining room, kitchen, den, recreation room, and bedroom(s). Room counts do not include the bathroom or an entry hall/foyer. The lender must verify that overcrowding has existed for more than 90 days and will persist for at least nine (9) months into the future.
    - The disability or limited mobility of a permanent household resident that cannot be accommodated without substantial retrofitting of the current property, e.g., the installation of a ramp, an elevator or stairlift, or extra-wide doors and hallways. Verification of the change in status, the existing property deficiencies, and the suitability of the new property must be provided.

- The applicant is or has relocated with a new employer or is being transferred by the current employer to an area not within reasonable and locally recognized commuting distance.
- The applicant is obtaining a divorce and the ex-spouse will retain the dwelling.

In all cases, provide an additional explanation of the burden upon the applicant imposed by the status change both in the near and long term and the reasons beyond homeowner convenience why the purchase of the property must be completed before the sale of the existing property. All documentation will be retained in the permanent loan file and may be requested by the Agency upon review.

Repayment Income for rents received less than 24 months

Applicants retaining their existing dwelling must qualify for all mortgage liability payments. Rents received less than 24 months do not represent a stable continued source of income for repayment income and cannot be used when qualifying the loan request. The corresponding mortgage liability associated with the retained dwelling must be included in the debt ratio calculation.

Repayment Income for rents received 24 months or more

When applicants can demonstrate rental income is stable and dependable, as evidenced and documented with the most recent two years tax returns and a copy of the current written lease executed by the homeowner and the lessee, the net rental income can be considered for repayment ratios. IRS Form 1040 Schedule E is required to verify all rental income. Depreciation or depletion shown on Schedule E may be added back to the net income or loss for repayment income. Positive rental income is considered gross income for repayment income. Negative rental income must be treated as a recurring liability and included in the debt ratio calculation.

Annual Income Calculation

Any positive net rental income will be included in the calculation of annual income to determine eligibility of the household. Rental income must be considered in the annual income analysis regardless of its duration.

Rental income, for annual income purposes, is considered the total rental real estate income amount reported on the most recent IRS Form 1040 Schedule E for the previous 12 months. In the absence of a Schedule E; canceled checks, money order receipts, bank statements, or other documentation may be used to support the amount of rents received for annual income purposes. Any negative net rental income is treated as zero for the purposes of calculating annual income.

Refer to the Rental Income section for information surrounding requirements of rental income.

Ineligible Borrowers

- Foreign Nationals
- Borrowers with diplomatic immunity
- Non-Occupying Co-Borrowers
- Borrowers who have been suspended or debarred from participation in Federal programs
- Non-Borrowing Spouse

If the subject property is located in a community property, state the debts of the non-purchasing spouse must be considered in the borrower's recurring monthly obligations and the residual income calculation.

- Obligations specifically excluded by state law do not need to be counted if satisfactory documentation to exclude the debt is provided.
- The credit history of the non-purchasing spouse is not a reason for loan denial.
- Any judgments, liens, or other delinquent credit that would compromise Cardinal's first lien position must be paid off before closing.
- If the non-purchasing spouse does not have a SSN, a credit report from an acceptable credit report provider is still required. Where a SSN does not exist for a non-borrowing spouse, the credit report must contain, at a minimum, the following information for the non-borrowing spouse:
    - Full name
    - Date of birth
    - Previous addresses for the last two years
- Octane, Cardinal's Loan Origination Software, calculates when credit reports are required here: Calc | Credit Required
- CAIVRS is not required for non-purchasing spouses in community property.

Community Property Debt Inclusion Exception

Except for debt obligations specifically excluded by state law, the debts of the non purchasing spouse must be considered in the debt rations. Cardinal Financial will consider exceptions to government lending requirements that require the inclusion of non-borrowing spouse debts for some scenarios in which the subject property or borrower's residence is located within a community property state, and the subject property transaction involves a government loan program.

These exceptions must be reviewed and approved by the Cardinal Credit Committee.

Subject Property State	Eligible for Spousal Debt Exception
Arizona	Yes
California	No
Idaho	Yes
Louisiana	Yes
Nevada	Yes
New Mexico	No
Texas	Yes
Washington	Yes
Wisconsin	Yes

Arizona

- The debt type requested for exclusion is installment or closed-end mortgage (revolving debt accounts are not eligible for exclusion);
- Debt requested for exclusion is held by the non-borrowing spouse is not jointly held by the couple, and there has been no agreement to hold jointly;
- Debt requested for exclusion was acquired before the date of the marriage in accordance with the state law's classification of community debt considerations; and

- Marriage certificate evidencing spouse identified and date of marriage, which is after the open date of the debt being requested to be excluded.
- Additionally, the satisfaction of collections and judgments of non-applicant spouses, even if obtained post marriage to the borrower for FHA loans, is not required in the following circumstances:
  - The non-applicant spouse is not contributing towards the down payment or costs on the transaction, including gift funds or any funds being remitted from a joint account. If any subject transaction funds are remitted by the spouse in the form of a gift or jointly held asset, all collections and judgments of the non-purchasing spouse are required to be paid in full before closing.
  - The non-applicant spouse signs the Disclaimer Deed to prevent any judgments from attaching to the property. The execution of this document will be Prior to Approval requirement.
  - The non-applicant spouse may not be a titleholder.

Idaho

- Separate assets of the borrowing spouse must be used in the transaction;
- The debt type requested for exclusion is installment or closed-end mortgage (revolving debt accounts are not eligible for exclusion);
- Debt requested for exclusion is held by the non-borrowing spouse is not jointly held by the couple, and there has been no agreement to hold jointly;
- Debt requested for exclusion was acquired before the date of the marriage in accordance with the state's law's classification of community debt considerations; and
- Marriage certificate evidencing spouse identified and date of marriage, which is after the open date of the debt being requested to be excluded.

Louisiana

- The debt type requested for exclusion is installment or closed-end mortgage (revolving debt accounts are not eligible for exclusion);

- Debt requested for exclusion is held by the non-borrowing spouse is not jointly held by the couple, and there has been no agreement to hold jointly;
- Debt requested for exclusion was acquired before the date of the marriage in accordance with the state law's classification of community debt considerations, and
- Marriage certificate evidencing spouse identified and date of marriage, which is after the open date of the debt being requested to be excluded.
- The non-applicant spouse is permitted to sign or intervene in the mortgage to indicate their intention to waive homestead exemption rights.
- When the non-applicant spouse chooses to intervene in the mortgage to waive their homestead exemption rights, the following requirements must be met:
    - A copy of the executed Intervention Affidavit must be provided before approval to evidence the waiver. This document is executed and recorded at the time of the execution of the sales contract and will be required before loan approval if spousal debts are required to be excluded. This document must be properly witnessed, notarized, and executed by the non-purchasing spouse. It must also be recorded with the Mortgage. (The local title agent should be able to provide this affidavit).
    - A copy of the executed and recorded Separate Property Declaration & Acknowledgement Form which must also be obtained before funding.
    - By indicating that the subject transaction is receiving special handling related to the spousal waiver, a closing task and requirement will be created requiring the non-applicant spouse to execute the mortgage as the "intervener."

Nevada

- The debt type requested for exclusion is installment or closed-end mortgage (revolving debt accounts are not eligible for exclusion);
- Debt requested for exclusion is held by the non-borrowing spouse is not jointly held by the couple, and there has been no agreement to hold jointly;
- Debt requested for exclusion was acquired before the date of the marriage in accordance with the state's law's classification of community debt considerations; and

- Marriage certificate evidencing spouse identified and date of marriage, which is after the open date of the debt being requested to be excluded.

Texas

- The debt type requested for exclusion is installment, closed-end mortgage or revolving debt;
- Debt requested for exclusion is held by the non-borrowing spouse is not jointly held by the couple, and there has been no agreement to hold jointly;
- Debt requested for exclusion was acquired before the date of the marriage in accordance with the state's law's classification of community debt considerations; and
- Marriage certificate evidencing spouse identified and date of marriage, which is after the open date of the debt being requested to be excluded.

Washington

- Separate assets of the borrowing spouse must be used in the transaction;
- The debt type requested for exclusion is installment or closed-end mortgage (revolving debt accounts are not eligible for exclusion);
- Debt requested for exclusion is held by the non-borrowing spouse is not jointly held by the couple, and there has been no agreement to hold jointly;
- Debt requested for exclusion was acquired before the date of the marriage in accordance with the state's law's classification of community debt considerations; and
- Marriage certificate evidencing spouse identified and date of marriage, which is after the open date of the debt being requested to be excluded.

Wisconsin

- Separate assets of the borrowing spouse must be used in the transaction;
- The debt type requested for exclusion is installment or closed-end mortgage (revolving debt accounts are not eligible for exclusion);
- Debt requested for exclusion is held by the non-borrowing spouse is not jointly held by the couple, and there has been no agreement to hold jointly;

- Debt requested for exclusion was acquired before the date of the marriage in accordance with the state's law's classification of community debt considerations; and
- Marriage certificate evidencing spouse identified and date of marriage, which is after the open date of the debt being requested to be excluded.

CAIVRS/GSA/SAM

Cardinal requires that a CAIVRS screening be performed and documented on each borrower and co-borrower. If any borrower has a delinquent or defaulted government obligation, the credit risk of the transaction cannot be considered satisfactory. Any and all debts owed to the federal government must be brought current or have a satisfactory repayment arrangement before the transaction is approved.

A CAIVRS screening is required for borrowers utilizing Streamline and Streamlined-Assist Refinance loans. A CAIVRS screening is not required for a non-purchasing spouse in community property states.

CAIVRS in GUS

GUS will automatically retrieve the CAIVRS response for each applicant when the Borrower Information application page is saved. If the automatically retrieved CAIVRS response is not an "A" response, the lender must obtain evidence of an "A" CAIVRS response outside of GUS. This documentation must be uploaded as part of a complete loan application submission of the GUS application to USDA.

The CAIVRS response cannot be overwritten or revised within GUS. USDA will retrieve and confirm an "A" CAIVRS response when the loan file is processed in the Agency's internal Guaranteed Loan System (GLS).

LDP/SAM

Individuals who have been suspended or debarred from participation in Federal programs are not eligible for a guaranteed loan. Applicants that have been excluded from a non-housing federal program continue to be eligible to participate in the SFHGLP, unless the individual becomes suspended or debarred pursuant to 2 CFR Part 180 and 417. Applicants that are excluded from federal housing programs or excluded from all federal programs are ineligible to participate in SFHGLP.

The Limited Denial Participation (LDP) and the General Service Administration (GSA) System for Award Management (SAM) websites must be checked to ensure that the following parties are not listed as excluded:

- Loan Officer
- Loan Processor
- Underwriter
- Appraiser
- Surveyor
- Builder
- Title Company/Closing Agent

Screenprints of the check must be retained in the loan file.

The above list is not all inclusive, refer to Chapter 2 Documentation Standards for additional guidance on LDP/GSA and parties listed on the Exclusionary Lists search.

Cash Back to Borrower

The borrower may not receive cashback at closing in excess of the amount the borrower paid out of pocket for costs such as a deposit, earnest money, appraisal, or other allowable items that may be financed with the loan being guaranteed.

Loan funds and seller-paid concessions may not be disbursed to the applicant(s).

Credit and Obligations

Tolerance Threshold

A tolerance threshold has been established when an increase in monthly payments does not exceed a cumulative total of $50. Examples of these debts include but are not limited to installment loans, revolving credit lines, real estate taxes, final homeowner's insurance premiums, etc. This tolerance threshold applies to situations where an increase in monthly debt provided on the loan application at the time of Conditional Commitment differs from the amount recorded at loan closing.

When the additional monthly amount(s) of the new/increased debt(s) does not exceed $50, the underwriter may retain the issued Conditional Commitment. All documentation must be retained to support the new/increased debt(s) and payment(s) in the permanent loan file. No further action is required.

Underwriters must request the GUS loan be released by USDA when the cumulative debt increases over $50. A new preliminary underwriting submission must be completed to confirm the GUS underwriting recommendation. Lenders must upload documentation as applicable and complete a new final underwriting submission to USDA. USDA will issue a new Conditional Commitment. Lenders cannot close loans without a valid Conditional Commitment.

Obligations not Included in Debt-to-Income Ratios

Obligations not considered or included in total debt-to-income ratio calculations include:

- Medical collections;
- Federal, state, and local taxes, unless a payment plan is in place;
- Federal Insurance Contribution Act (FICA) contributions;
- Other retirement contributions such as 401(k) accounts, including the repayment of loans secured by 401(k) funds
- Automatic deductions to savings accounts, mutual funds, stocks, bonds, certificates of deposit, including the repayment of loans secured by such funds;
- Collateralized loans secured by depository accounts;
- Utilities;
- Insurance, other than property insurance
- Commuting costs;
- Union dues;
- Open accounts with zero balances;
- Child care; and
- Voluntary deductions

Credit Report

Cardinal accepts merged credit reports and mortgage-only credit reports (for certain loan products only). Residential mortgage credit reports (RMCR) and in-file credit reports are not acceptable. The most recent and accurate credit report must be used in our loan decision.

Cardinal utilizes the following credit vendors:

- Corelogic Credco
- Credit Plus
- Kroll Factual Data

- Accurate Financial Services

All credit reports must meet the requirements of Fannie Mae, Freddie Mac, HUD, or VA. The report must be an original with no whiteout or erasures.

Frozen Credit Data

Frozen credit must be available from all repositories.

Authorized User Accounts

Monthly payments from an Authorized User (AU) Account do not need to be included in an applicant's debt ratio. A closed or terminated AU account requires no consideration.

The underwriter may continue to include the monthly debt at their discretion if they determine the applicant is making the payment.

AU accounts and credit score validation for GUS Refer, Refer with Caution, and manually underwritten loans are addressed in the Validating the Credit Score section.

Alimony/Child Support

When the borrower is required to pay alimony, child support, or maintenance payments under a divorce decree, separation agreement, or any other written legal agreement, the payments must be considered part of the borrower's recurring monthly debt obligations.

The borrower must provide a copy of a divorce decree, separation agreement, order for support, or any other written legal agreement to verify required payments under the following circumstances:

- Alimony, child support, or separate maintenance obligation is listed on the loan application
- Documentation in the loan file suggests that alimony, child support, or separate maintenance obligation may be present

Acceptable sources of documentation include:

- A copy of the finalized divorce decree
- A copy of the signed separation agreement
- A notarized agreement signed by all parties and their respective attorneys

- A copy of the court order specifying the amount
- Other legally accepted evidence dictated by local custom

The Underwriter can request additional documentation verification when needed.

Court-ordered debts with ten or fewer payments remaining may be excluded if the payment does not exceed five percent of the monthly repayment income. For GUS transactions, the obligation(s) will be manually entered as a monthly liability. A manual entry of this monthly obligation does not require an underwriting recommendation of “Accept” to be downgraded to a “Refer.”

Delinquent Child Support

The following adverse credit items will render an applicant ineligible for a guaranteed loan:

- Presently delinquent court ordered child support payments subject to the collection by an administrative offset, unless:
  - The applicant has brought payments current,
  - The debt is paid in full, or
  - Otherwise satisfied by a documented release of liability
- Presently delinquent court ordered child support not subject to an administrative offset, unless:
  - The applicant has an approved repayment agreement in place with three timely payments made prior to loan closing;
  - The arrearage is paid in full prior to loan closing, or
  - A release of liability is documented

In all cases, the lender must provide certification of the applicant’s eligibility as part of the application submission. Any documentation obtained to support the lender’s certification to the Agency will be retained in the lender’s permanent loan file.

Bankruptcy

The fact that a bankruptcy exists in a borrower’s credit history does not in itself disqualify the transaction. The circumstances surrounding the bankruptcy, the type of bankruptcy, and the length of time since the event should be evaluated.

Chapter 7

A Chapter 7 BK discharged or dismissed more than 36 months at the time of loan application is not considered adverse credit.

GUS Accept/Accept with Full Documentation Files

- GUS may render an Accept underwriting recommendation for loan files that have been discharged from Chapter 7 BK less than 36 months. No credit exception is required.

GUS Refer, Refer with Caution, and Manually Underwritten Files

- A Chapter 7 BK discharged within the previous 36 months is considered significant derogatory credit. If it is determined that the applicant(s) is creditworthy when their Chapter 7 BK has been discharged less than 36 months, a credit exception is required. Include applicable items in the debt ratio unless evidence confirms the applicant is no longer in ownership. Refer to the Credit Exception section for guidance.

Chapter 7 BK that includes a mortgage

- If the Chapter 7 BK absolved a mortgage debt, the applicant is not legally liable to repay unless the debt was reaffirmed (if the borrower chose to reaffirm the property from the BK or still holds the title, the borrower must meet the minimum requirements for retaining the property).

- Foreclosure action post-BK discharge is against the property, not the applicant, to allow the lender to obtain the title. However, until the property is fully titled to the lender, the applicant remains responsible for real estate taxes, home insurance premiums, HOA fees, special assessments, and similar debts. Include applicable items in the debt ratio unless evidence confirms the applicant is no longer in ownership.

A Chapter 7 bankruptcy discharged within the last 12 months is not permitted.

Chapter 11, 12 or 13

Chapter 11, 12, and 13 U.S. bankruptcy proceedings allow the debtor to reorganize their finances and debt payments under the supervision and approval of the court. An impartial trustee consolidates the debt and distributes money to each creditor. For a bankruptcy that has been dismissed or not completed, the lender will need to evaluate the overall credit profile to determine if a credit exception is applicable.

Plan in Progress - GUS Accept Files/Accept with Full Documentation

- Document all required payments have been made on time;
- Verify the applicant has written permission from the bankruptcy court/trustee to enter into a mortgage transaction. If the bankruptcy court/trustee does not review or issue permissions, the underwriter may determine if the applicant is an acceptable credit risk; and
- Confirm all payments for the Chapter 11, 12, or 13 BK are included on the Asset and Liabilities application page. GUS may render an Accept underwriting recommendation. No downgrade is required due to the manual entry of the monthly BK payment.
- No credit exception is required

Plan in Progress - GUS Refer, Refer with Caution, and Manually Underwritten Files

- Document 12 months of debt restructure plan has elapsed;
- Document all required payments have been made on time; and
- Verify the applicant has written permission from the bankruptcy court/trustee to enter into a mortgage transaction. If the bankruptcy court/trustee does not review or issue permissions, the underwriter may determine if the applicant is an acceptable credit risk.
- Confirm all payment amounts for the Chapter 11, 12, or 13 BK are included on the Asset and Liabilities application page in GUS or on the loan application.
- No credit exception is required.

Completed Plan - GUS Accept/Accept with Full Documentation

No credit exception is required.

Completed Plan - Refer, Refer with Caution, and Manually Underwritten Files

Plans completed 12 months before loan application require no further documentation. No credit exception is required.

Note: Conversion of a Chapter 13 to a Chapter 7 must be considered according to the Chapter 7 bankruptcy guidance.

Completed Plan (less than 12 months) - GUS Refer, Refer with Caution, and Manually Underwritten Files

Credit exception required. Plans completed less than 12 months prior to submission to the Agency will require a credit exception. Lenders must retain documentation in their permanent loan file. Refer to guidance in the Credit Exception section.

Business Debt

Business debts (e.g. car loan) reported on the applicants' personal credit report may be omitted from the monthly debt if there is evidence the debt was paid out of company funds, as evidenced by:

- Documentation of business payment of the liability for no less than 12 months preceding the Estimated Funding date. Acceptable documentation includes:
  - Twelve months canceled checks or bank statements from the business account, or
  - Evidence payment was cashed or debited from the business bank account for twelve months, or
  - Evidence the payment was transferred into a third-party money transfer application account that is owned by the business for twelve months.
- No history of delinquency is present.

Charge-Offs

The underwriter must review all charge-off accounts and determine if the applicant(s) is an acceptable credit risk, regardless of GUS underwriting recommendation. USDA does not require charge-off accounts to be paid.

If the applicant has a repayment plan with the creditor for a charged-off debt, include the payment in the Asset and Liabilities GUS application page or on the loan application.

No credit exception is required.

Co-Signed / Contingent Liabilities

When a borrower is obligated on a non-mortgage debt but is not the party who is repaying the debt, the debt may be excluded from the borrower's recurring monthly obligations if the account shows the borrower as joint or co-signer and the most recent 12 months' canceled checks (or bank statements) from the other party documenting a 12–month satisfactory payment history are obtained. There must be no delinquent payments for that debt in order to exclude it from the borrower's debt-to-income ratio.

If the account is shown on the credit report as an individual account, it may not be excluded.

Late payments reported on debts assigned to an ex-spouse in a divorce do not need to be charged to the borrower if delinquencies occurred after divorce.

Note: In the case of forbearance or deferment, if a payment has been deferred within the most recent 12 months, the obligation must be included in the borrower's DTI. Due to not meeting the required 12-month recent consecutive timely payments made by the other party, the monthly payment must be included even if the debt has been brought current or the forbearance canceled.

Collections

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

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

- Require payment in full of these accounts before loan closing; or
- Use an existing repayment agreement or require payment arrangements be made with documentation from the creditor and include the monthly payment; or
- Include 5 percent of the outstanding balance as the monthly liability amount. No further documentation is required.

All open collections must be listed on the Asset and Liabilities GUS application page and loan application. Non-purchasing spouse debts in a community property state are included in the cumulative balance of all collections unless specifically excluded by law.

No credit exception is required.

Consumer Credit Counseling

The credit score will reflect the degradation of credit due to participation in this plan. Credit accounts that are included in the repayment plan may continue to report as delinquent or as late pays. This is typical and will not be considered as recent adverse credit.

The monthly amount due must be included in the liabilities.

GUS Accept Files

No Credit Exception is required.

GUS Refer, Refer with Caution and Manually Underwritten Files

The following must be documented and retained in the loan file:

- One year of the payment period of the debt management plan has elapsed;
- All payments have been made on time; and
- Written permission from the counseling agency to recommend the applicant as a candidate for a new mortgage loan debt. If the counseling agency does not review or issue permissions, the underwriter may determine if the applicant is an acceptable credit risk.

No credit exception is required.

Credit Analysis

All transactions must be submitted to GUS. GUS will render one of the following recommendations:

GUS Recommendation	Action
Accept/Eligible	GUS Findings may be followed
Accept/Unable to Determine	USDA acknowledgment that the property is located in an eligible area required
Refer/Eligible	Manual Underwrite
Refer/Unable to Determine	USDA acknowledgment that the property is located in an eligible area required Manual Underwrite
Refer with Caution/Eligible	Manual Underwrite

Refer with Caution/Unable to Determine	USDA acknowledgment that the property is located in an eligible area required Manual Underwrite

Considerations for Credit Analysis

If the underwriter is aware of any potential derogatory or contractionary information that is not part of the data submitted to GUS, or if there is any erroneous information in the data submitted to GUS, the loan must be manually downgraded.

Credit Exceptions (Credit Waiver)

GUS Accept/Accept with Full Documentation

- No credit exception is required
- GUS has determined the credit is an acceptable risk. Confirm the GUS Declarations page is accurately completed for each applicant.

GUS Refer, Refer with Caution, Manually Underwritten Files

The credit exception must include the underwriter's documented rationale on the underwriting transmittal summary or similar underwriting form. The rationale must meet the following:

- The circumstances that led to the derogatory credit were temporary in nature, beyond the applicant's control, and due to the current employment/financial/health of the household are unlikely to recur. Examples include but are not limited to temporary loss of job/unemployment, delay or reduction in benefits, illness, divorce, dispute over payment for defective goods or services, etc.; and
- The applicant must provide documentation to the approved lender for their permanent loan file that supports the extenuating circumstances; and
- The underwriter must explain their rationale for issuing the credit exception (identified compensating factors, etc.) and why the applicant(s) remains an acceptable credit risk. The applicant's explanation along with the supporting documentation must be consistent with other information in the file; the documentation may be requested for Agency review

USDA does not approve the lender's credit exception. Lenders are responsible for their credit decision. Previous USDA losses, delinquent non-tax Federal debts, delinquent child support, and ineligible CAIVRS results are not eligible for lender approved credit exceptions.

Credit History

A credit history reflecting any or all of the following is considered unacceptable unless it can be documented that the occurrence was beyond the borrower's control:

- More than one 30 day mortgage late within the past 12 months
- Bankruptcy or foreclosure discharged less than 36 months
- Outstanding judgments within the past 12 months
- Two or more rent payments 30 days late within the past 36 months
- Outstanding collection accounts with no payment arrangements
- Outstanding tax liens or delinquent federal debt with no payment arrangements
- Debts are written off in the last 36 months

Credit Inquiries, Recent Debts and Undisclosed Debts

A credit inquiry is a request by an institution for credit report information. A hard inquiry is requested when an applicant is seeking credit and completes a credit application. Hard inquiries are typically listed on the credit report and factored into the credit score. A soft inquiry is not included on the credit report and does not result in a new credit/debt. Soft inquiries may include a free annual credit report, companies developing marketing lists, prequalification offers, etc..

Inquiries for credit made by the applicant(s) 90 days before the date of the credit report must be investigated to determine if new credit accounts were opened. Lenders must retain documentation in their permanent loan file to support newly identified debts.

Examples of undisclosed obligations:

- Tax liabilities or payments
- Court ordered obligations for alimony, child support or separate maintenance
- Allotments that appear on the pay stub or Leave and Earnings Statement

- Payments on bank statement to a creditor that is not listed on the credit report
- Debts incurred from short term installment plans (Buy Now/Pay Later) such as After Pay, Klarna, Affirm, Quadpay, Sezzle, Paypal Credit, Splitit, Zip Pay, Lay Buy, Open Pay, Uplift, Upgrade that show as debits on the bank statement

Any suspected undisclosed liability must be explained and documented.

GUS Accept/Accept with Full Documentation Files

No downgrade is required.

New installment or revolving accounts that are not reflected on the credit report in GUS and/or are not listed on the loan application but discovered during the mortgage loan application process must be manually entered on the GUS Assets and Liabilities page under the Liabilities – Credit, Cards, Other Debts and Leases that You Owe section.

GUS Refer, Refer with Caution, and Manually Underwritten Files

New installment or revolving accounts that are not reflected on the credit report in GUS and/or are not listed on the loan application but discovered during the mortgage loan application process must be manually entered on the GUS Assets and Liabilities page under the Liabilities – Credit, Cards, Other Debts and Leases that You Owe section or on the loan application for non-GUS loans.

Delinquent Federal Debt

Any delinquent federal debt including but not limited to student loans and tax liens, must be brought current, paid in full, or resolved with a satisfactory payment plan between the borrower and the federal agency. Written verification of the resolution must be received from the federal agency. The delinquency must be taken into account when analyzing the credit risk of the transaction.

Federal Taxes

Federal taxes are due each year on the date determined by the Internal Revenue Service (IRS). Taxpayers who owe taxes and do not pay in full by the filing date are determined delinquent by the IRS.

An IRS approved extension to file a tax return does not grant the applicant additional time to pay their taxes due. Applicants must pay their estimated income tax due by the IRS filing date or they are determined delinquent by the IRS. An applicant that has owed taxes on previous filed return(s) exhibits a pattern of taxes due, therefore an estimated tax payment must be made to the IRS by the specified deadline. The applicant may file their return at a later date and remain eligible for a guaranteed loan.

An applicant that has received tax refunds for previous filed return(s) may remain eligible with no estimated tax payment due to the IRS because they would not be determined delinquent. The applicant will remain eligible for a guaranteed loan.

Repayment Plans

No credit exception is required.

An applicant with delinquent Federal tax debt is ineligible unless they have proof of repayment plan(s) approved by the IRS. A minimum of three timely payments must have been made on each active repayment plan(s). Timely is defined as payments that coincide with the approved IRS repayment agreement. The applicant may not prepay a lump sum at one time to equal three monthly payments to meet this requirement. Evidence of the repayment agreement and payment history must be retained in the loan file.

While an applicant with multiple approved IRS repayment plan(s) are eligible, the underwriter must review and determine if the applicant(s) is an acceptable credit risk.

Include Federal or State income tax repayment plan payments in the monthly debt. If ten or fewer months of repayment remain per the plan, the monthly debt may be excluded if the payment does not exceed five percent of the monthly repayment income.

Failure to File

Applicants that are required to file taxes but have failed to do so for the current or previous years by required IRS due dates without approved extensions or required tax payments as determined by the IRS are ineligible.

Delinquent Federal Non-Tax Debt

A non-tax Federal debt is a debt owed to the U.S. Federal Government other than Federal income taxes. Federal debts are typically reflected in the Credit Alert Verification Reporting System (CAIVRS) result, credit report, public records, or equivalent.

An applicant with a delinquent Federal non-tax debt is ineligible until the debt is paid in full or a release of liability is documented. The underwriter must provide certification of the applicant's eligibility to the

Agency as part of the application submission. Any documentation obtained to support the underwriter's certification to the Agency will be retained in the lender's permanent loan file.

Deed-in-Lieu (DIL)

Confirm the Declarations in GUS or on the loan application are completed accurately. A DIL recorded 36 months before the date of loan application is not adverse credit.

GUS Accept/Accept with Full Documentation Files

No downgrade or credit exception is required.

Refer, Refer with Caution, and Manually Underwritten Files

A credit exception is required for a DIL in the previous 36 months before the loan application.

An applicant that has a DIL recorded post-divorce/filed legal separation agreement and the home was awarded to the ex-spouse/remaining party may document the loan was paid as agreed before the date of divorce decree/legal separation agreement. The payment history on the credit report or other documentation from the loan servicer/lender may be retained to confirm eligibility.

Disputed Accounts

Disputed Non-Derogatory Accounts

GUS Accept/Accept with Full Documentation files

No credit exception is required.

A GUS Accept recommendation is required to be downgraded unless one of the following are met:

- The disputed tradeline has a zero balance;
- The disputed tradeline states "paid in full" or "resolved" on the credit report;
- The disputed tradelines are 24 months or greater;
- The disputed tradeline is current and paid as agreed;
- The payment stated on the credit report is included in the monthly debts;
- A documented payment from the creditor is included in the monthly debts; or

- Five percent of the stated account balance on the credit report is included in the monthly debts

GUS Refer, Refer with Caution, and Manually Underwritten Files

No credit exception is required.

If the credit history does not meet the above requirements, the loan must be manually downgraded:

- The applicant must provide the applicable documentation to support the reason and basis of their dispute with the creditor; the underwriter must determine the impact of the disputed account on the repayment of the proposed mortgage debt.
- Each account must include:
  - The payment stated on the credit report,
  - Five percent of the balance of the account, or
  - A lesser amount documented from the creditor

Disputed Derogatory Accounts

Disputed derogatory accounts that must be considered are (non-medical) collections and accounts with late payments in the last 24 months. For all loan types/underwriting recommendations, the following may be excluded:

- Disputed medical accounts/collections;
- Charged off accounts;
- Disputed derogatory accounts that are the result of identity theft, credit card theft, or unauthorized use when evidence (police report, attorney correspondence, creditor statement) is provided to support the applicant's explanation; or
- Accounts of a non-purchasing spouse in a community property state.

GUS Accept/Accept with Full Documentation Files

GUS Accept files with less than $2,000 in disputed derogatory accounts will require the underwriter to determine if the disputed accounts may impact the applicant's ability to repay the proposed mortgage obligation.

Each account (excluding those listed above) must include a minimum monthly payment of:

- The payment stated on the credit report,
- Five percent of the balance of the account, or
- A lesser amount documented from the creditor.

No credit exception is required.

A GUS Accept must be downgraded to a Refer when the applicant has $2,000 or more collectively in disputed derogatory accounts (excluding those listed above) in the last 24 months.

Refer, Refer with Caution and Manually Underwritten Files

The underwriter must analyze the potential impact on the applicant's ability to repay the proposed mortgage debt with disputed derogatory accounts. Each account (excluding those listed above) must include a minimum monthly payment of:

- The payment stated on the credit report,
- Five percent of the balance of the account, or
- A lesser amount documented from the creditor.

No credit exception is required.

Forbearance

If the subject mortgage, or any mortgage tied to other Real Estate Owned by the borrower, is in a forbearance status, the loan is ineligible for financing. The guidance applies regardless of the reason for the request of the forbearance.

If a forbearance action was taken and subsequently canceled, the transaction may be eligible subject to the following requirements:

- Provide a written letter of explanation from the borrower regarding the request for forbearance;
- Ensure forbearance agreement is provided;
- Document all payments were made in the month owed and no outstanding payments are due; and

- Provide written confirmation from the lender that the forbearance has been canceled.

Foreclosure or Repossession

Confirm the Declarations in GUS and on the loan application are completed accurately. A period of no less than 12 months from the date of the event is permitted. In no case is a foreclosure sale less than 12 months acceptable.

Deficiency Balance

If a deficiency balance after the sale of the collateral remains, the outstanding debt would need to be treated the same as a collection account, unless there is documentation that the outstanding balance has been charged off. Refer to the Collections or Charge-offs section for guidance.

GUS Accept/Accept with Full Documentation Files

No credit exception is required.

Refer, Refer with Caution, and Manually Underwritten Files

A credit exception is required.

When the applicant has a foreclosure discharged or a repossession reported in the previous 36 months before the loan application, this is considered significant derogatory credit and requires a credit exception. The 36-month period will begin on the date in which the title transferred from the applicant.

An applicant that has a foreclosure discharged or a repossession reported post-divorce/filed legal separation agreement, and the home was awarded to the ex-spouse/remaining party may document the loan was paid as agreed before the date of divorce decree/legal separation agreement. The payment history on the credit report or other documentation from the loan servicer/lender may be retained to confirm eligibility.

USDA considers the loss of a timeshare adverse credit of a long-term obligation and not a foreclosure. This loss will be reflected in the credit score. Underwriters must review the applicant's credit history to determine if they are an acceptable credit risk. No credit exception is required for the loss of a timeshare.

Foreclosure on Vacant Land

Foreclosure of a borrower's vacant land (property without a dwelling) is subject to USDA's foreclosure waiting periods.

Garnishments

Garnishments must be included in the debt ratio. Garnishments manually added to the Asset and Liabilities GUS application page will not result in a manual downgrade of a GUS Accept underwriting recommendation. Review the debt type paid through the garnishment to ensure the applicant remains eligible for a guaranteed loan.

No credit exception is required.

401(k) Loans

A 401(k) loan repayment reflected on the paystub does not need to be counted as a debt in the qualifying ratios. Additional documentation supporting the omission does not need to be provided.

Housing History

An indicator of future mortgage payment probability is the applicant's payment of their current rent or housing. Lenders should include the current rent or mortgage payment amounts on the Income and Expenses GUS application page and/or the loan application.

All Guaranteed Loans

Underwriters should closely evaluate applicants that will pay a significantly higher proposed mortgage payment in comparison to their current housing payment, or who have had no previous housing obligations. Applicants paying higher housing payments than what they are currently paying is considered a risk factor and can lead to mortgage default. The underwriter should review the impact of this risk and the probability that the applicants will be able to repay their new mortgage obligation as part of their review; refer to the Payment Shock section below.

GUS Accept

If the transaction receives a GUS Accept recommendation, no additional housing history verification is required and credit exception is not required.

GUS Refer, Refer with Caution

A VOR may be required. Refer to the GUS Underwriting Findings Report to determine if a VOR is required for a complete loan application.

All housing payments entered in GUS must be adequately verified and documented. Any housing payments made within the previous 12 months must be verified. Mortgage payment histories from a family member or other interested party will not be considered unless 12 months of canceled checks, money order receipts, or electronic payment confirmations are provided.

Applicants with no verifiable history of housing payments are not automatically ineligible. The underwriter must review the available documentation to determine if the applicant has an acceptable credit history and meets program guidance.

One rent or mortgage payment paid 30 or more days past due in the previous 12 months is considered significant derogatory credit and will require a credit exception. Documentation must be retained in the permanent loan file. Refer to the Credit Exception section for guidance.

Rent History

- If a rental housing payment history is available, a rent payment reference should be obtained either as part of the credit report, directly from the landlord, or through canceled checks covering the most recent 12 months before the loan application.
- When a family member, interested party, or private individual is the applicant's present landlord, 12 months' worth of canceled checks indicating a satisfactory rent payment history is required. Written verifications by independent management companies and private landowners may be accepted in lieu of canceled checks or money order receipts.
- If the applicant does not have a full 12-month history, verify the amount of rental history that has been paid.
- Written verification must include
    - Creditor name,
    - Date of the rental agreement or when the contract began and
    - The monthly payment due
- Payment history must be reported in 0x30, 0x60, 0x90 day format. Statements such as "satisfactory" or "acceptable" are not valid. It remains the lender's responsibility to confirm the applicant's history of payment towards housing expenses is acceptable.

Borrower Living Rent Free

Underwriter to carefully analyze borrower(s) living rent-free or without a recent 12-month history of paying rent. Living rent-free and proposing to exceed allowable ratios may represent a high risk if an unsupported underwriter to address any associated risk, i.e., payment shock or limited history of maintaining a housing payment.

Payment Shock

An increase in the borrower's housing expense should be considered when assessing the overall risk of the loan.

Calculation

Payment shock is expressed as a percentage, determined by dividing the proposed housing expense by the present housing payment.

Example:

- Proposed Housing Payment = $1,400
- Present Housing Payment = $950
- $1400/$950 = 1.46
- 1.47 – 1.00 = .47
- .47 x 100 = 47 (47% increase)

Example:

- Proposed Housing Payment = $1,400
- Present Housing Payment = $650
- $1,400/$650 = 2.15
- 2.15 – 1.00 = 1.15
- 1.15 x 100 = 115 (115% increase)

It is not necessary to calculate payment shock when the borrower's proposed housing payment is less than their present housing payment.

Installments and Revolving Accounts

Installment Accounts

- Accounts that will be paid in full through a specified number of fixed payments such as auto, personal, secured/unsecured, etc., must have the monthly payment included.
- If ten or fewer months of repayment remain per the credit report, creditor verification, etc., the monthly debt may be excluded if the payment does not exceed five percent of the monthly repayment income.
- Installment debt may be paid down to ten months or less of the remaining debt.
- Note; when including an installment debt with payments less than ten months remaining, the Months Left field in the Credit > Liabilities screen must be manually changed to greater than ten months to ensure the monthly payment is captured in the qualifying ratios.

Revolving Accounts

- Credit cards, lines of credit, secured/unsecured, etc. must include the minimum monthly payment documented on the credit report or other creditor verification in the total debts.
- If the credit report shows an outstanding balance but no minimum monthly payment, the payment must be calculated as five percent of the balance reported on the credit report.
- The lender may obtain a current account statement or creditor verification to document the actual monthly payment and include that amount in the monthly debts.
- Revolving accounts with no outstanding balance on the credit report do not require an estimated payment to be included in the debt ratio.
- Revolving accounts with no outstanding balance are not required to be closed.

Payoff of Debt to Qualify

Payoff of debt solely to qualify must be carefully evaluated and considered in the overall loan analysis. The borrower's history of credit use should be a factor in determining whether the appropriate approach is to include or exclude debt for qualification. A borrower who increases debt and then periodically uses refinance or debt consolidation to reduce payments to a manageable level presents a higher degree of risk.

- Revolving Debt

- Provide documentation to source the funds used to pay off the debt.
- Verify that documentation has been provided to reflect the balance being paid off. Options include:
    - Debtor statements / printouts or other documents that outline the current balance, account number, and mailing address for the payoff funds; or
    - Credit supplements that also provide the mailing address for the payoff funds; or
    - Credit report along with other documentation providing the mailing address for the payoff funds; or
    - Loan Quality Initiative Report; use this option with caution. When this report is used to provide an updated balance for one or more liabilities being paid in full, it will reveal current balances for all liabilities. The updated balance for **each** liability referenced on the LQI report must be updated in Octane.

- Installment Accounts
    - The accounts can be paid off either prior to or at closing.
    - Provide documentation to source the funds used to pay off the debt.
    - A payoff statement is required to reflect the balance being paid off.
- HELOC
    - If paid off prior to closing, provide a credit supplement showing the debt closed.
    - If paid off at closing, provide a close out letter sent to the escrow/title company.
    - Provide documentation to source the funds used to pay off the debt.

Open 30-Day Accounts

- A 30-day account is a credit arrangement requiring the applicant to pay off the full outstanding balance on the account every month.
- The lender may utilize the credit report to document the applicant has paid the outstanding balance for the previous 12 months.

- If the credit report reflects late payments in the last 12 months, the lender must include five percent of the outstanding balance in the monthly debts.
- 30-day accounts that are paid monthly in full are not included in the total debt ratio.

Balloon and Deferred Payments

The full amount of the monthly debt associated with the expense (such as a car or equipment payment) must be included in the total debt ratio calculation.

Deferred debts and balloon debts that will require payment in full upon their due date must have a payment included in the monthly debts. When the balloon/deferred payment loan is due within 12 months, the underwriter must evaluate the complete loan application to make a determination regarding the applicant's repayment ability.

If the actual payment on a deferred/balloon loan is unknown, documentation may be obtained from the creditor to establish a monthly payment that will be due on a documented payment date, or five percent (5%) of the outstanding balance on the credit report or creditor verification must be used.

To analyze deferred student loan obligations, refer to the Student Loan section.

IRS Tax Liens/Judgments

Any outstanding tax liens and judgments on the title must be paid before or at closing. Federal judgments must be paid. There are no exceptions. Other judgments or tax liens not on title may be allowed to remain if proof of a repayment plan and timely payment for the most recent three months is provided. Payments may not be prepaid to meet this requirement.

Court-ordered judgments must be paid in full or have evidence that three timely payments have been made per an agreement with the creditor. Include the monthly payment (if applicable) in the debt ratio. A GUS Accept file is not required to be downgraded due to the manual entry of the payment.

Refer to Delinquent Federal Debt for additional guidance.

Lease Payments

Auto, energy, and additional lease payments must have the payment included in the monthly debt regardless of months remaining to pay on the contract.

Refer to the Solar Panels section for solar lease requirements.

Loan Modification

A restructured loan or loan modification experienced by the borrower will not render the loan ineligible. A period of twelve months must have elapsed since the event, with timely payments made according to the terms of the modification.

Refer to the Resource | Government Loan Seasoning Requirements for additional credit and loan seasoning requirements.

Paycheck Protection Program (PPP)

The PPP is a loan issued by Small Business Administration lenders under the CARES Act. These loans are designed to provide a direct incentive for small businesses to keep their workers on the payroll. The underwriter should apply due diligence and review the actions of the business and any impact the current situation has taken on the flow of income.

USDA's current policy remains that a loan that has not been satisfied and does not have a documented release of liability would still require consideration for repayment in calculating debt ratio for qualification. If the monthly payment amount is unknown, guidance under Balloon, Deferred Payments, and Payments Coming Due Within the Next 24 Months applies.

Previous Mortgage

Retained Dwelling

A retained dwelling that has been rented for 24 months or longer before the loan application may have the mortgage obligation omitted when the applicant provides documentation to support the lease history. Refer to Owning an Existing Dwelling and the Rental Income sections for additional guidance.

No Release of Liability

Mortgage liabilities disposed of through a sale, trade, or transfer without a release of liability (i.e., borrower remains on the promissory note) must be included in the total debt ratio unless evidence can be obtained to confirm the remaining party/new owner has successfully made the payment for the previous 12 months before the loan application.

Evidence may be reported through the credit report or direct verification from the creditor/servicer to document the payment history has been current for the 12 months before the loan application.

If there are late payments in the previous 12 months before the loan application, the full mortgage obligation must be included in the monthly debt.

Divorce

In the case of a divorce, the lender must obtain a copy of the legal separation agreement or divorce decree to document that the remaining party/new owner is responsible for paying all mortgage debts from the effective date of the decree forward. To exclude the mortgage debt, document the previous 12 months have been paid as agreed before loan application through the credit report or direct verification from the creditor/servicer.

If there are late payments in the previous 12 months before the loan application, the full mortgage obligation must be included in the monthly debts.

Previous USDA Loss

An applicant with a previous Section 502 Single Family Housing Direct or Guaranteed loan that resulted in a loss paid by the Federal government within seven years prior to the date of submission to the Agency is considered significant derogatory credit. The following is required:

- Explain and document the circumstances that led to the loss paid on their behalf. For example, if the loss was due to reduced wages, IRS tax transcripts would document the loss of income. Medical explanations are not required to submit private health information,
- The underwriter must explain why the loss is unlikely to recur. For example, losses due to unemployment and no medical insurance would show a new stable work history with medical benefits; and
- The underwriter must provide the supporting documentation and recommendation for loan approval along with the final and complete application submission to the Agency. The lender's approval recommendation should include an explanation of positive aspects of the loan file which would contribute to future homeownership success. Examples include but are not limited to:
    - Stable job time of 2 years or more,
    - Low qualifying ratios,
    - Reserves available post loan closing, etc.

USDA will review the explanation and supporting documentation and make the final determination of the applicant(s) eligibility for a new guaranteed loan.

Short Sales

Confirm the Declarations in GUS and the loan application are completed accurately. A short sale closed 36 months before the date of loan application is not adverse credit.

An applicant that has a short sale closed post-divorce/recorded legal separation agreement and the home was awarded to the ex-spouse/remaining party may document the loan was paid as agreed before the date of divorce decree/legal separation agreement. The payment history on the credit report or other documentation from the loan servicer/lender may be retained to confirm eligibility.

GUS Accept/Accept with Full Documentation Files

No credit exception is required.

Refer, Refer with Caution, and Manually Underwritten Files

A credit exception is required when the applicant has a short sale closed 36 months before the loan application.

Solar Panels

Properties with solar panels leased or owned by a third party (Power Purchase Agreement/ PPA) are eligible for financing.

Required Documents

- Power Purchase Agreement (PPA)
- Solar Lease Agreement

Requirements

If the property owner (seller) is the owner of the solar panels and the solar panels will be included as part of the purchase transaction. Standard eligibility requirements apply, i.e., appraisal, insurance, and title. If the solar panels are subject to a lease agreement, power purchase agreement (PPA), or similar type of agreement, the following requirements apply:

- Leases and contracts will vary by company and should be considered on a case-by-case basis to ensure all terms/regulations are met.

- The first lien position, by the lender, should be protected and maintained.
- The property should maintain access to an alternative source of electric/gas power that meets community standards.
- The energy company or lessee should not block any foreclosure or servicing actions.
- If an agreement for an energy system lease or PPA could cause restriction upon transfer of the house, the property is subject to impermissible legal restrictions and is generally ineligible for the guaranteed loan.
- The lease agreement or PPA should indicate that any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment, and the owner is obligated to repair the damage and return the improvements to their original or prior condition.
- The lease agreement, PPA, or other agreement should indicate that the owner of the solar panels cannot be a loss payee on the homeowner's insurance policy.
- Leased solar panels are considered personal property and are not included in the appraised value.
- The monthly lease payments must be included in the debt-to-income ratio unless the lease is structured to:
    - Provide delivery of a specific amount of energy at a fixed payment during a given period. Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.

Difference Between a Solar Lease and a Solar Power Purchase Agreement (PPA)

While the terms "solar lease" and "solar PPA" are very similar in practice, there is a difference between the two:

- With a solar lease, a fixed monthly "rent" or lease payment is made, calculated using the estimated amount of electricity the system will produce in exchange for the right to use the solar energy system.

- With a solar PPA, instead of paying to "rent" the solar panel system, the borrower agrees to purchase the power generated by the system at a set per-kWh price.

Short-Term Debt Obligations

The file should be analyzed for debts incurred from short-term (buy now/ pay later) plans such as Klarna, Affirm, or Afterpay. When such plans are identified, either through disclosure by the borrower or from loan file documentation, repayment should be treated similarly to other traditional short-term installment obligations.

Documentation outlining the terms of repayment should be obtained; if the debt appears to be a long term debt, either revolving or installment, the payment must be included in the debt to income ratios.

If the repayment option is for a term of 10 months or less, the payment may be excluded if the payment does not exceed five percent of the monthly repayment income and the balance will be paid in full within the 10 months; refer to Installment and Revolving Accounts for additional guidance on the omission of debt. Installment debt with less than 10 months remaining may need to be considered as recurring monthly debt obligation if it significantly affects the borrower's ability to meet their credit obligations.

Student Loan

Payments must be determined as follows:

- Fixed payment loans
    - A permanent amortized, fixed payment may be used in the debt ratio when documentation is provided to verify the payment is fixed, the interest rate is fixed, and the repayment term is fixed. The fixed payment must fully amortize/pay in full the debt at the end of the term.
    - To use the reported payment on credit, the above documentation must be provided.
- Non-Fixed payment loans
    - Payments for deferred loans, Income-Based Repayment (IBR), Income-Contingent (IC), Graduated, Adjustable, and other types of repayment agreements that are not fixed must use the greater of the following:

- The current documented payment under the approved repayment plan with the creditor, ***when the payment amount is above zero***; or
- One-half (.50) percent of the outstanding loan balance is documented on the credit report or creditor verification ***when the payment amount is zero.***

Student loans in the applicant's name alone but paid by another party remain the legal responsibility of the applicant. The applicable payment must be included in the monthly debts. Student loans in a "forgiveness" plan/program remain the legal responsibility of the applicant until they are released from liability from the creditor. The applicable payment must be included in the monthly debts.

Timeshare Monthly Maintenance Fees

Maintenance fees associated with a Timeshare property must be included in the borrower's debt-to-income ratios.

Transfer of Servicing on Existing Mortgage

There are times when a mortgage has been transferred to a new servicer, but the credit report is still showing a balance with the prior lender. When this occurs, the following documentation can be provided to support the transfer and acceptable payment history with the new servicer:

- A credit supplement showing the mortgage on credit has been closed with a zero balance and an updated rating with the new servicer, or
- A transfer letter from the new servicer and evidence that the mortgage has been paid satisfactorily since the transfer of servicing.

Validating the Credit Score

Cardinal will allow borrowers without credit scores to qualify using alternative credit references. If an applicant does not have a usable credit score in connection with their loan request, then the use of nontraditional credit references is acceptable. Applicants without usable credit scores will be manually underwritten to arrive at a conclusion that the applicant's credit reputation is acceptable.

GUS Accept/Accept with Full Documentation Loans

No credit score validation is required.

GUS Refer, Refer with Caution, and Manually Underwritten Files

- One applicant whose income or assets is used to originate the loan must have a validated credit score. If there is more than one applicant, only one applicant is required to have a valid score.
- This applicant must have two tradelines on the credit report that have been/were/are open for 12 months based on the date the account was opened as stated on the credit report.
- A validated score does not indicate the applicant has an acceptable credit history. A validated score confirms that one applicant has an eligible minimum credit history.

The following tradelines are eligible to validate the credit score and may be open, closed, or paid in full:

- Loans (secured/unsecured),
- Revolving accounts,
- Installment loans,
- Credit cards,
- Collections,
- Charge off accounts,
- Deferred accounts, etc.
- An authorized user account may be used to validate the credit score when one of the following is met:
    - The tradeline is owned by another applicant on the mortgage loan application;
    - The owner of the tradeline is the spouse of the applicant; or
    - The applicant can provide evidence that they have made payments on the account for the previous 12 months before the loan application.
- Public records (bankruptcy, foreclosure, tax liens, judgments, etc.), disputed accounts, court-ordered debts, and self-reported accounts are ineligible tradelines for credit validation.

Common Scenarios:

- Only one eligible tradeline on the credit report? Non-traditional tradelines may be verified to meet the cumulative tradeline number requirement.
- No eligible tradelines on the credit report? One applicant whose income or assets are used to underwrite the loan must have an eligible non-traditional credit history.

GUS Refer, Refer with Caution, and manually underwritten files are not eligible for debt ratio exceptions if:

- There is not one applicant with a validated score using traditional tradelines on the credit report, or
- The file requires non-traditional credit tradelines.

Non-Traditional Credit

Acceptable Forms for Verification of Non-Traditional Credit

Some applicants may not have an established credit history, but credit verified through alternative sources may indicate a willingness to pay recurring debts. Neither the lack of credit history on a traditional credit report nor the applicant's decision to not use traditional credit can be used as a basis for rejection. For this type of applicant, the lender will utilize alternative credit verification to establish the applicant's willingness to repay the requested loan.

Applicants with a 12-month Verification of Rent (VOR):

- Two tradelines are required; the VOR plus one additional tradeline.
- This tradeline must be an eligible traditional tradeline from the credit report with a 12-month history or an eligible non-traditional tradeline.

Applicants with no rent history:

- Three tradelines are required.
- Tradelines may be a combination of traditional tradelines from the credit report with 12-month history or eligible non-traditional tradelines.

Non-traditional credit may be documented as one of the following:

- A Non-Traditional Mortgage Credit Report (NTMCR),

- Self-Reported tradelines on a traditional credit report, or
- Evidence from third-party verifications, canceled checks, money order receipts, electronic payments, payment histories from the creditor/company, bank statements that identify debit payments for the service/product, etc.

Eligible Non-Traditional Tradelines

An eligible non-traditional tradeline must have a 12-month history and cannot have been closed more than six months before the loan application. Examples of acceptable non-traditional credit sources include, but are not limited to:

- Rent or housing payments;
- Utility payment records (if utilities were not included in any rent payments) such as gas, electricity, water, land-line home telephone service, or cable TV;
- Insurance payments (excluding those premiums paid through payroll deductions, for example - employee group health plans) such as medical (other than those provided as an employee benefit through salary), automobile, life, and household, or renter’s insurance. Insurance premiums paid other than monthly, such as quarterly or annually, will require documentation that meets a full 12 months history of payment;
- Childcare: licensed childcare providers may provide documentation to support the date of enrollment, dates of fees paid, etc. Bank statements to support cash withdrawals or handwritten receipts are not acceptable.
- School tuition;
- Payments to local stores (department, furniture, appliance, and specialty stores);
- Payments for the uninsured portions of any medical bills;
- Internet/cell phone services;
- Automobile leases;
- A personal loan from an individual (other than a family member) with repayment terms in writing and supported by canceled checks or money order receipts to document repayment;

- A documented 12-month history of saving by regular deposits (at least quarterly/non-payroll deducted/no NSF checks reflected), resulting in a reserve account equal to three months of proposed mortgage payments (PITI) as a cash reserve post-closing; or
- Any other reference which gives insight into the applicant's willingness to make periodic payments on a regular basis for credit obligations.

Ineligible Non-Traditional Tradelines

Examples of unacceptable non-traditional credit sources include, but are not limited to:

- Child support,
- Alimony,
- Garnishments,
- Court-ordered debts,
- Monthly subscription services,
- Gym memberships,
- Pre-paid services

Note: Payments made to relatives for credit sources are ineligible as a non-traditional trade reference. For this section, a recent account is defined as an account that was closed no more than six months from the guaranteed loan application with the lender.

Applicants that utilize nontraditional credit to qualify for a guaranteed loan are not eligible for a debt ratio waiver.

Derogatory Credit History

Borrowers who do not have a credit score due to past derogatory credit histories are not eligible for financing.

Borrowers may not have any collection, charge-offs, or judgments filed in the last twelve (12) months.

Employment/Income Verification

USDA has no minimum history requirement for employment in a particular position. However, the borrower must have at least a one-year history of receiving stable income at the time of loan application and a reasonable expectation that the income will continue a minimum of three years into the mortgage. If it is determined that the borrower's income is unstable and undependable, the income must be excluded for qualifying purposes but still included in adjusted annual income calculations.

Income Calculations

- GUS recommendations that receive an Accept with Full Documentation, Refer, Refer with Caution, and Manually underwritten files require lenders to provide the agency a copy of annual and repayment income calculations with a complete loan application. Any of the following formats will be acceptable for documenting annual and repayment income calculations: USDA Attachment 9-B, or a copy of the Underwriting Analysis: FNMA 1008/FHLMC 1077, or equivalent.
- For GUS Accept loans, lenders must continue to document annual and repayment income calculations and retain them in their permanent loan file.
- Note: Streamlined-Assist refinance transactions do not require repayment income calculations, however annual income calculation must be provided to determine eligibility.

Stable and Dependable Income

Caution should be utilized for any applicant that has a documented sharp increase in earnings. A sharp increase in earnings is defined as a 20 percent or greater variance in income from the previous 12 months. Lenders must determine if an increase is supported and logical. Examples include but are not limited to:

- Promotion with the current employer,
- Documented pay raise with current employer,
- Income trend analysis for overtime, bonus, commission, seasonal employees, etc.

Caution should be utilized for any applicant that has a documented *decrease* in earnings. A documented decrease in earnings is defined as a 20 percent or greater variance in income from the previous 12 months. Lenders must determine if the decrease has/will continue or if there is evidence to support the earnings have stabilized. Examples include but are not limited to:

- Loss of job but new employment secured with lower wages,
- New profession/line of work,
- Loss of contract/clients,
- Economic cycle impact such as real estate, finance/lending, manufacturing, construction, etc.

Calculation of Annual Income

Annual income includes all eligible income sources from all adult household members, not just parties to the loan note. The annual income for the household will be used to calculate the adjusted annual household income. The adjusted annual income determines if the household is eligible for a guaranteed loan.

Annual income is calculated for the ensuing 12 months, based on income verification, documentation, and household composition. Lenders must examine all evidence to ensure the calculation is supported.

In addition to 7 CFR 3555.152(b) and annual income calculations listed with the specified income type, lenders must consider the following to calculate annual income:

- Use the gross amount, before any payroll deductions, of base wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, and other compensations for personal services of all adult members of the household, unless they meet the exclusion criteria of 7 CFR 3555.152(b)(5). Documented cost of living allowances or wage increases that will be effective on or before loan closing must be included in the annual income calculation.
- Include the first $480 of earned income from adult full-time students who are not the applicant, co-applicant, or spouse of an applicant.
- Include the income of an applicant's spouse, unless the spouse has been living apart from the applicant for at least three months (for reasons other than military or work assignment), or court proceedings for divorce or legal separation have been commenced. Evidence to support living apart for three months may include, but is not limited to, an apartment lease, bills, or bank statements in their name alone delivered to a different address, etc. This guidance applies to domestic partners, significant others, and fiancée's that are currently living with the applicant as a household/family unit. This guidance does not apply to adult dependents age 18 and up.

- An adult member that is currently unemployed but is seeking new employment must have their previous earnings included in annual income. The previous earnings are not required to be included when there is documented evidence to support they are not seeking to be reemployed, such as a tendered resignation, official termination from previous employer, or a signed statement from the adult household member that they do not plan to pursue new employment.
- Income verifications provided by the applicant that do not currently support historical earnings with the same employer (e.g. less hours worked, less overtime, less bonus, declining self-employment income, etc.) must be carefully reviewed to determine appropriate calculations.
- Verified changes of income amounts or sources in the ensuing 12 months must be documented. Examples include, but are not limited to, pending retirement, resignation tendered, documented raise that will occur prior to loan closing, etc.
- Income sources that will not be received for the entire ensuing 12 months must continue to be included in annual income unless excluded under 7 CFR 3555.152(b)(5). Examples include but are not limited to:
    - Child support,
    - Alimony,
    - Maintenance,
    - Social Security
- Annual income is the total of all income sources for a 12-month timeframe. Repayment Calculations must include the income source, the number of months receipts remaining for the ensuing 12-month timeframe, and the total amount to be received.

Income of Temporarily Absent Household Members

- A household member is defined as all persons routinely living in the dwelling as a principal residence, except for live-in aides, foster children, and foster adults (7 CFR 3555.10). If a member of the household that will make the dwelling their principal residence is temporarily absent, their income must be included.

Income Trending

After the monthly year-to-date income amount is calculated, it must be compared to prior years' earnings using the borrower's W-2's or signed federal income tax returns (or a standard Verification of Employment completed by the employer or third-party employment verification vendor).

- If the trend in the amount of income is stable or increasing, the income amount should be averaged.
- If the trend was declining but has since stabilized and there is no reason to believe that the borrower will not continue to be employed at the current level, the current, lower amount of variable income must be used.
- If the trend is declining, the income may not be stable. Additional analysis must be conducted to determine if any variable income should be used, but in no instance may it be averaged over the period when the declination occurred.

Verification Requirements

Income documentation provided by the applicant(s) and other adult household members must be verified. In addition to standard VVOE requirements, the following guidance will assist:

- Paystubs/earning statements must include adequate information to calculate income and include year-to-date earnings. The lender must utilize paystub(s)/earning statement(s) that are dated no earlier than 30 days before their initial loan application date.
- W-2 forms must include the most recent one-or-two years as applicable. W-2's must clearly identify the applicant and employer.
- Tax returns for self-employed borrowers must be copies of the original returns filed with the IRS and include all supporting schedules. Lenders may substitute IRS transcripts obtained directly from the IRS with all supporting schedules. The most recent tax return refers to the last return filed as determined by IRS schedule/deadlines. Lenders must continue to obtain the most recent two years of returns as applicable. USDA requires all applicants to be current on their income tax filings.
- An applicant with an approved IRS extension for the current tax year may continue to be eligible if they are not delinquent on taxes owed as determined by the IRS. Evidence of the extension and tax payment made, if applicable, must be retained in the lender's permanent loan file. USDA does not require an applicant to file a return for the current tax year if the IRS schedule/deadline for that tax year has not passed (i.e., before April 15th).

- When the current year's tax returns reflect federal taxes due, evidence of payment must be documented. Refer to the Tax Documentation Policy located in Chapter 2 | Documentation Standards for guidance.

Alimony or Separate Maintenance

Include amounts that will be received in the ensuing 12 months. Legally enforceable payments that have not been received may be excluded when payments are not received for an extended time and a reasonable effort has been made to collect them through the official entity responsible for enforcing such payments.

Court Ordered Payments

Required History: Six months. Maintenance that meets the minimum history, but the payment amounts are not consistent, must use an average consistent with the payor's current ability/willingness to pay.

Voluntary Payment Agreements

Required History: One year. Maintenance that meets the minimum history, but the payment amounts are not consistent, must use an average consistent with the payor's current ability/willingness to pay.

Documentation

- Final divorce decree, legal separation agreement, or court order (front and pertinent pages) to document the amount and timeframe of the obligation
- Evidence of timely receipt/consistent amount for required history: bank statements, canceled checks, deposit slips, tax returns, etc.

Assistance Programs

Unemployment

Income must have been received for two years. Income will be presumed to continue unless there is documented evidence the income will cease. Unemployment benefits may be considered stable and dependable income for individuals employed on a seasonal basis. Applicants with a sole source of unemployment income are ineligible for a guaranteed loan.

Workman's Compensation

Income must be received for six months. Obtain evidence the income is likely to continue for the first three years of the mortgage (based on Note date).

Annual Income: Include amounts that will be received in the ensuing 12 months.

Documentation

- Award letter or settlement to state amount and duration of payments
- Earnings statements/Paystubs
- Written VOE from employer

Automobile Allowance / Expense Allowance

Liability to include in Total Debt Ratio Calculation

An automobile or other expense allowance will not cancel out a monthly debt for an automobile or expense loan/debt. The full amount of the monthly debt associated with the expense (such as a car or equipment payment) must be included in the total debt ratio calculation.

Income for Automobile / Expense Allowance

Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months.

Two year history must be documented. Income will be presumed to continue unless there is documented evidence the income will cease. The full amount of the expense allowance may be included.

Documentation

- Paystub(s)/Earning statement(s)
- Contract/agreement from employer to state terms and duration of payments
- Federal income tax returns or IRS tax transcripts with all schedules

Base Wages

Obtain evidence of a minimum one-year history. The one year of required history may be met through a combination of employers, education, or military service. This history does not have to be with the same or current employer. Applicants with job gaps due to maternity leave, medical leave, relocation, etc., are considered to have employment continuity. Applicants returning to the workforce after leaving a previous job to care for a child/family member, complete education, etc., will require a 12-month employment history.

Time spent in school is considered towards requirements for annual and repayment income, including college, technical school, and career-based certificates in high school (ex. health and public safety career tracks). A standard high school diploma without an accompanying certificate does not meet the time requirements.

Annual Income: Include amounts received before deductions for payroll taxes, insurance, etc. Include amounts that will be received in the ensuing 12 months. Full-time students aged 18 and above that are not an applicant, co-applicant, or spouse of an applicant will only have $480 of their earnings included in the annual income calculation. These household members are not required to present income documentation.

Boarder Income

Guaranteed loans are for the purchase of a primary residence. Boarder income refers to rental income received from an individual renting space inside the dwelling, thus making the property income producing. The financing of income producing property is an ineligible loan purpose.

Bonus

Include amounts that will be received in the ensuing 12 months based on employment verifications

One year history in the same, or similar, line of work is required. Underwriters must analyze bonus income for the current pay period and YTD earnings. Significant variances (increase or decrease) of 20 percent or greater in income from the previous 12 months must be analyzed and documented (e.g. paid once annually, paid monthly, etc.) before considering the income stable and dependable. Continuance: Income will be presumed to continue unless there is documented evidence the income will cease.

Documentation

- Paystub(s)/Earnings statement(s)
- W-2's
- Written VOE or electronic verifications
- Federal income tax returns or IRS tax transcripts with all schedules

Capital Gains

Two years of history is required.

Lenders must analyze the previous two years of capital gains income. An average of the previous two years may be logical, or if the current year was 20 percent less than the previous year, the lesser of the current year must be utilized.

Documentation

- Federal income tax returns or IRS transcripts with all schedules
- Evidence of additional property or assets retained by the applicant through the title, bank statements, etc.

Child Support

Include amounts that will be received in the ensuing 12 months. Legally enforceable payments that have not been received may be excluded when payments are not received for an extended time and a reasonable effort has been made to collect them through the official entity responsible for enforcing such payments.

Court Ordered Payments

Required History: Six months. Child support that meets the minimum history, but the payment amounts are not consistent, must use an average consistent with the payor's current ability/willingness to pay.

Voluntary Payment Agreements

Required History: One year. Child support that meets the minimum history, but the payment amounts are not consistent, must use an average consistent with the payor's current ability/willingness to pay.

Documentation

- Final divorce decree, legal separation agreement, or court order (front and pertinent pages) to document the amount and timeframe of the obligation
- Evidence of timely receipt/consistent amount for required history: bank statements, canceled checks, deposit slips, tax returns, etc.

Continuance of Child Support

Documentation may not always provide for a defined end date for the receipt of child support income. Although laws vary from state to state, the following guidance may be applied in most cases.

Unless a minor is emancipated, child support typically continues until the child is 18 years of age (or has reached the age of majority) or has completed high school, whichever is later. In some cases, the court may order child support to continue after age 18 for a disabled child who remains a dependent.

Commission

One year, in the same or similar line of work, is required.

Must analyze commission for the current pay period and YTD earnings. Significant variances (increase or decrease) of 20 percent or greater in income from the previous 12 months must be analyzed and documented (example: variances due to seasonal/holiday/etc.) before considering the income stable and dependable.

Income will be presumed to continue unless there is documented evidence the income will cease.

Documentation

- Paystub(s)/Earning statement(s)
- W-2's
- Written VOE or electronic verifications
- Federal income tax returns or IRS tax transcripts with all schedules

Contract / Employment Offer

A one-year history is required.

The one-year of required history may be met through a combination of employers, education, or military service. This history does not have to be with the same or current employer. An applicant moving to a new employer (i.e., school district, same profession, etc.) with a contract to begin employment within 60 days of loan closing may be eligible if the underwriter determines the applicant has reserves available post loan closing to cover all monthly liability payments and the new mortgage obligation until employment begins.

Documentation

- Copy of signed employment contract/offer
- Paystub(s)/Earning statement(s) of current/former employer to confirm employment/income history
- W-2's
- Written Verification of Employment (VOE) or electronic verifications
- Federal income tax returns or IRS tax transcripts with all schedules

Credit Committee approval is required for borrowers with a contract or employment offer.

Depreciation/Depletion

Two years of history required.

The amount(s) of straight-line depreciation or depletion documented on acceptable IRS forms may be deducted. These amounts will be presumed to continue unless there is documented evidence they will cease. The amount(s) of straight-line depreciation or depletion may be added back to repayment.

Documentation

Federal income tax returns with all schedules.

Dividends

A two-year history is required.

Required Documentation

- Account statements to support the amount of income utilized for repayment purposes, including the balance, rate of interest, and payment amounts/continuance.
- Federal income tax returns or IRS tax transcripts with all schedules.

Employee Fringe Benefits

Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months.

One year history of receipt is required. Employer-provided fringe benefit packages documented on earning statements as taxable income may be included.

Documentation

- Paystub(s)/Earning statement(s)
- Contract/agreement from employer to state terms and duration of payments.
- Written VOE or electronic verifications
- Federal income tax returns or IRS tax transcripts with all schedules

Employment-Related Account

Income should be received at the time of application.

This income source may be a non-self-employed severance package. Lump-sum retirement packages should refer to Retirement or Pension Income. All payments must be deposited to a verified asset account with acceptable documentation of receipt.

Must document the following to consider towards repayment income:

- The applicant is currently receiving the income, and
- The amount of the income received each month, and
- Determine if there is a contract termination or modification date

Documentation

- Contract/agreement from employer to state terms and duration of payments
- Benefit/Award verification letter, IRS 1099, evidence of current receipt, bank statements, etc.
- Federal income tax returns or IRS transcripts with all schedules

Family Employment

Family Employment or Family-Owned Business Income refers to income earned from a business owned by the Borrower's family, but in which the Borrower is not an owner.

Although USDA does not address Family Employment, the underwriter should closely review all documentation to ensure the income used for qualifying is supported. The underwriter should consider the following when analyzing borrowers employed by family:

- Any increase or decrease in wages
- Type of income earned (i.e. salary vs. commission or bonus)
- Borrower's current versus prior years earnings
- Borrower's history of employment in their current line of work
- Consistency between rate of pay displayed on pay stubs and deposits into the borrower's bank account(s)
- Borrower's time employed by the family-owned business

Any inconsistencies should be thoroughly addressed and any supporting documentation must be provided in the loan file.

Time Employed by Family

Borrowers must be employed by family for a minimum of six months; a loan exception is required for borrowers employed by family less than six months.

Foster Children/Adults

Do not include this type of income for annual or repayment income.

Gaps in Employment

Underwriters are responsible for analyzing any gaps in employment to make a final determination of stable and dependable income.

Any gaps extending 60 days or longer require a letter of explanation from the borrower.

Government Benefits

Benefits must be received at the time of application. Lenders must document:

- The applicant is currently receiving the income, and
- The amount of income received each month

Income must be confirmed to continue a minimum of three years into the mortgage (based on Note date). Benefits that do not include expiration dates on the documentation will be presumed to continue. If the income is tax-exempt, it may be grossed up 25 percent.

Guardianship/Conservatorship Income

Include amounts that will be received in the ensuing 12 months (this guidance does not apply to income earned from foster care). Benefits that do not include expiration dates on the documentation will be presumed to continue.

There is no required history of receipt for this income type, however, income must be received at the time of application. To be eligible, evidence must be provided to support:

- The applicant is currently receiving the income; and
- The amount of the income received each month

Documentation

- Documentation to support payment amounts and duration, such as a court order, legal documents, or other supplemental information
- Online payment schedule from the Agency, bank statements, etc.
- Federal income tax returns or IRS tax transcripts with all schedules

Income from Gambling

Gambling winnings may be considered as acceptable income, provided it is regularly received by the borrower and expected to continue.

Documentation

- Two years' most recent tax returns reflecting gambling winnings. Gambling losses as itemized on Schedule A must be considered when determining qualifying income.
- A three-year continuance of the income (based on Note date), such as the borrower claiming a casino annuity, must be documented.

Income from Marijuana-Related Business

Marijuana / Cannabis Income is an unacceptable income type, regardless of state law. This applies to income derived from both W2 and Self-Employment sources.

If the borrower has ownership in a marijuana-based business that manufactures, distributes, or dispenses marijuana, and if any income or assets from that business is being used in the loan transaction, the loan will be ineligible.

Interest

A two-year history is required.

Net Family Assets that do not exceed a cumulative total of $50,000 are not required to be considered in the annual income calculation.

Documentation

- Account statements to support the balance, rate of interest, and payment amounts/continuance
- Federal income tax returns or IRS tax transcripts with all schedules

Location of Employer

If the Fraud Report reflects the distance between the borrower's place of employment and their primary residence as within an unreasonable commuting distance, supporting documentation addressing the borrower's ability to commute must be provided.

If the borrower is working remotely, support for the ability to work in this capacity must be provided in accordance with the below guidance (applicable for Purchase transactions only):

- Regardless of time on their current job, written confirmation directly from the employer addressing the ability to work remotely must be obtained

Borrower Relocating with the Same Employer

When the borrower is relocating to a different area while remaining employed with the same employer, the stability and continuance of the income must be supported.

Verification from the employer must be provided to support the borrower will remain employed in the same capacity without a change to income or pay structure. If there will be a change in the borrower's income or pay structure, documentation addressing the change must be provided directly from the employer; further analysis may be performed by the underwriter and additional conditions may apply.

The employer must also confirm the location of the new place of employment and address any interruption to employment, if applicable.

Mileage

Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months

One year history of receipt is required. Income will be presumed to continue unless there is documented evidence the income will cease. Mileage documented on earning statements as taxable income may be included. When a mileage deduction is claimed on the income tax return, the calculated amount may be added to repayment income.

Documentation

- Paystub(s)/Earning statement(s)
- Federal income tax returns or IRS tax transcripts with all schedules

The amount of allowable depreciation related to auto expenses will not correlate directly to the full amount of the current IRS Standard Mileage Rate. Only a portion of the rate is considered for automobiles a taxpayer uses for business purposes. The factors listed below may be used when multiplying the business miles driven by the depreciation factor for the respective year.

Tax Year	Portion of Business Standard Mileage

2023	28 cents per mile
2022	26 cents per mile
2021	26 cents per mile

Military Income

In addition to base pay, income sources such as variable housing allowances, clothing allowances, flight or hazard pay, rations, and proficiency pay may be used for income, provided it is verified as stable and dependable income. Income must be documented as received for a minimum of 12 months.

Annual Income: Hazard pay to a service person exposed to hostile fire is not included in the annual income calculation. Other pay allowances and types should be included for annual income purposes when there is a history of receiving these income types.

Mortgage Credit Certificate

Permitted as an addition to repayment income; do not include in Annual Income. Self-employed applicants are not eligible for MCC.

Documentation

- Copy of the approved MCC award letter/contract with the rate of credit documented
- History of receipt not required.

GUS

In the "Borrower Information" page under "Income from Other Sources," use the dropdown button in the Income Source field and select "Mortgage Credit Certificate." Tab to the Monthly Income field and enter the amount.

Manual Underwrite

Add the monthly benefit amount to repayment income calculations.

Mortgage Differential Payment

One year history of receipt required.

Include the differential payment in repayment income. Do not offset the mortgage payment with the amount of the allowance. Income will be presumed to continue unless there is documented evidence the income will cease.

Documentation

Verification from the employer to confirm the subsidy amount and duration of payments.

Net Family Assets

Net family assets are the value of assets available to a household that could be used towards housing costs. Net family assets are considered in the calculation of annual income and are used to determine whether the household must make additional cash contributions to improve or purchase the property.

For the purpose of computing annual income, the net family assets of all household members must be included in the calculation of annual income; assets of all household members must be obtained for review. Net Family Assets that do not exceed a cumulative total of $50,000 are not required to be considered in the annual income calculation.

Net family assets with actual earnings will use the stated rate of interest to calculate annual income. Net family assets that do not earn interest will use a current passbook savings rate (verified through the lender's personal banking rates, online website, etc.) to calculate annual income. If the applicants have ownership in a business, or are self-employed, the underwriter should closely review the asset accounts to verify assets are not transferred between a personal account and a business account and vice versa. These accounts should function as two separate financial tools, one for personal transactions and one for business transactions. In the event the assets from the business account and personal account are co-mingled, the co-mingled assets would need to be included in the calculation of net family assets.

Net family assets include, but are not limited to, the actual or imputed income from:

- Equity in real property or other capital investments, other than the dwelling or site;
- Cash on hand and funds in savings or checking accounts;
- Amounts in trust accounts that are available to the household;
- Stocks, bonds, and other forms of capital investments that are accessible to the applicant without retiring or terminating employment;
- Lump-sum receipts such as lottery winnings, capital gains, and inheritances;
- Personal property held as an investment; and

- Any value, in excess of the consideration received, for any business or household assets disposed of for less than the fair market value during the two years preceding the income determination. The value of assets disposed of for less than fair market value shall not be considered if they were disposed of as a result of foreclosure, bankruptcy, or a divorce or separation settlement.

Net family assets for the purpose of calculating annual income do not include:

- Interest in American Indian restricted land;
- Cash on hand which will be used to reduce the amount of the loan;
- The value of necessary items of personal property;
- Assets that are part of the business, trade, or farming operation of any member of the household who is actively engaged in such operation;
- Amounts in voluntary retirement plans such as individual retirement accounts (IRAs), 401(k) plans, and Keogh accounts (except at the time interest assistance is initially granted);
- The value of an irrevocable trust fund or any other trust over which no member of the household has control, or;
- Cash value of life insurance policies; and
- Other amounts deemed by the Agency not to constitute net family assets

Newly Employed Borrower

For borrowers who have recently started employment with a new employer and have been on the new job less than six months, the below requirements apply.

In addition to GUS requirements, the following must be provided:

- A Standard Verification of Employment (VOE) with income from TheWorkNumber, or

- Documentation reflecting the borrower has enrolled in direct deposit with the new employer and evidence to show the receipt and regular deposit of the net pay from the paystubs.

  Note: if either of the above requirements can be met, the underwriter may review and approve the income without an exception request.

If a Standard VOE from TheWorkNumber cannot be obtained, or if the borrower has not enrolled in direct deposit with the new employer, the following documentation must be provided:

- Provide documentation from the employer showing payroll dates, and
- Provide copies of pay stubs* for six months, and
- Provide actual bank statements for the six-month time period to show the receipt and regular deposit of the net pay from the pay stubs. Deposit dates must coincide with payroll dates as documented above.

If the borrower has been on the job less than six months and a Standard VOE from TheWorkNumber cannot be obtained, or if the borrower has not enrolled in direct deposit with the new employer, an exception request may be submitted to the Credit Committee for review.

Please note: These guidelines may not apply to a Seasonal or Union worker whose employment typically changes periodically. Refer to Seasonal Employment, Unemployment and Union Employee(s) for additional guidance.

*Pay Stubs from the employer should show standard payroll deductions as required by law. Deductions include but are not limited to:

- Federal Income Tax
- State Income Tax
- Social Security (FICA)
- Medicare Tax (FICA)
- Insurance Policies
- Retirement

Non-Taxable Income

The underwriter should give special consideration to regular sources of income that may be nontaxable, such as certain military allowances, social security, disability retirement payments, child and spousal support payments, workers' compensation benefits, and certain types of public assistance payments.

The underwriter must verify that the particular source of income is nontaxable. Documentation that can be used for this verification includes award letters, policy agreements, account statements, income tax returns, or any other documents that address the nontaxable status of the income.

If the income is verified to be nontaxable, and the income and its tax-exempt status are likely to continue, the lender may develop an "adjusted gross income" for the borrower by adding an amount equivalent to 25% of the nontaxable portion of the income to the borrower's qualifying income. See the specific income type for further guidance.

Non-taxable income may be "grossed up" only to calculate the debt ratio; the income must be noted in the "remarks" section of the Loan Analysis. Non-taxable income should not be grossed up for annual income purposes.

Notes Receivable

Two-year history required.

Documentation

- Copy of note to establish the amount and length of time of payment.
- Federal income tax returns or IRS transcripts with all schedules, for proof of receipt of income.

Overtime

Include amounts that will be received in the ensuing 12 months based on employment verifications.

One year history in the same, or similar, line of work is required. Income will be presumed to continue unless there is documented evidence the income will cease. Underwriters must analyze overtime for the current pay period, and YTD earnings. Significant variances (increase or decrease) of 20 percent or greater in income from the previous 12 months must be analyzed and documented (e.g. variances due to seasonal/holiday, etc.) before considering the income stable and dependable.

Documentation

- Paystub(s)/Earning statement(s)
- W-2's
- Written VOE or electronic verifications
- Federal income tax returns or IRS tax transcripts with all schedules

Pension

Include amounts that will be received in the ensuing 12 months. The income must be received at the time of loan application will be presumed to continue unless there is documented evidence the income will cease.

Lenders must document:

- The applicant is currently receiving the income; and
- The amount of the income received each month

Documentation

- Benefit/Award verification letter, retirement documents, IRS 1099, evidence of current receipt, bank statements, etc.
- Federal income tax returns or IRS tax transcripts with all schedules

Per Diem

One-year history required; taxable income only.

Include amounts documented on the pay statements as taxable gross earnings that will be received in the ensuing 12 months. Exclusions may apply under 3555.152(b)(5).

Income will be presumed to continue unless there is documented evidence the income will cease.

Documentation

- Paystub(s)/Earning statement(s)
- Contract/agreement from employer to state terms and duration of payments
- Federal income tax returns or IRS tax transcripts with all schedules

Public Assistance Income

Public assistance income that can be expected to continue for a minimum of three years from the date of the mortgage application is considered qualifying income.

To evidence the receipt of public assistance income, the underwriter must:

- Document the borrower's receipt of public assistance income with letters or exhibits from the paying agency that state the amount, frequency, and duration of the benefit payments.

Section 8 Housing Voucher

The Housing Choice Voucher Program (more commonly known as Section 8) is also an acceptable source of qualifying income. There is no requirement for the Section 8 voucher payments to have been received for any period of time before the date of the mortgage application or for the payments to continue for any period of time from the date of the mortgage application.

To document Section 8 housing income, the underwriter must:

- Obtain the Benefit/Award letter to verify the subsidy amount
- If the income is nontaxable, the underwriter can develop an adjusted gross income for the borrower.

Annual Income: Public assistance is not included in adjusted annual income.

GUS Instructions

Enter the amount on the "Borrower Information" page under "Income from Other Sources." Use the dropdown button in the "Income Source" field and select "Housing Choice Voucher Program." Tab to the "Monthly Income" field and enter the amount.

In-Home Supportive Services (IHSS)

Income generated from In-Home Supportive Services (IHSS) may be included as repayment income if a one year history of receipt is documented and a 3-year continuance is evidenced in the loan file. If the income is tax exempt, it may be grossed up 25 percent for repayment income calculations only.

If the IHSS income is non-taxable, the income would be excluded from annual income.

Rental Income

Monthly payment amounts for other property owned must be verified and must include:

- Principal and interest on the first lien,
- Principal and interest on any second lien,
- Property related taxes, insurance, mortgage insurance premiums (where applicable),
- Leasehold payments,
- Ground rent,
- Co-op maintenance, and
- Homeowners association dues (excluding unit utility charges)

When a payment appears to be for interest-only or a below-market ARM, obtain a verification of mortgage or comparable alternate documentation to confirm the correct recurring monthly payment to be used in calculating the property's applicable PITIA.

Refer to the Owning an Existing Dwelling section for guidance when the applicant retains ownership in their departing residence.

GUS Instructions

Complete the applicable fields in the "Real Estate" page. Include the corresponding mortgage debt associated with the property, if applicable.

Unless manually overwritten, GUS auto-calculates net rental income by employing a 25% vacancy factor. GUS uses 75% of the lender entered amount for monthly rental income and subtracts the lender entered amounts for monthly mortgage payment(s), insurance, taxes, association dues, etc.

Required Documentation

When applicants can demonstrate rental income has a two-year history of receipt and is stable and dependable, the net rental income can be considered for repayment ratios. The following documentation must be provided:

- The most recent two years tax returns, and
- A copy of the current written lease executed by the homeowner and the lessee, and
- Evidence of cash/check deposits, money order receipts, electronic payment receipt, etc. to document rents received for the most recent 30 days

IRS Form 1040 Schedule E is required to verify all rental income. Depreciation or depletion shown on Schedule E may be added back to the net income or loss for repayment income. Positive rental income is considered gross income for repayment income, while negative income must be treated as a recurring liability.

If the rental income has been received for less than two years, it may not be used as income. The full PITIA for the property must be included in the borrower's liabilities.

Note: Manufactured homes that are not on permanent foundations are considered functionally inadequate housing and deemed an unacceptable source of rental income.

Mortgage Late Payments on Rental Property

If the credit report reflects late mortgage payments on the rental dwelling in the twelve months before loan application, the full mortgage liability and all associated costs must be included in the monthly debts.

Annual Income Calculation

Any positive net rental income will be included in the calculation of annual income to determine the eligibility of the household for the SFHGLP. Rental income must be considered in the annual income analysis regardless of its duration. Rental income, for annual income purposes, is considered the total rental real estate income amount reported on the most recent IRS Form 1040 Schedule E for the previous 12 months.

In the absence of a Schedule E, canceled checks, money order receipts, bank statements, or other documentation may be used to support the amount of rents received for annual income purposes. Any negative net rental income is treated as zero for the purposes of calculating annual income.

Homeowner Association Dues (HOA)

Homeowner Association Dues for non-subject properties must be documented.

- If the property has no HOA dues, a signed letter from the borrower attesting to no dues will be required. A processor certification is not acceptable.
- If the property requires HOA dues, the documentation clearly showing the monthly liability must be provided. Acceptable documentation may include, but is not limited to:
    - Page 1 of an appraisal completed on another lending transaction confirming the amount and frequency of the property dues, or
    - Written Attestation from the HOA confirming the amount and frequency of the property dues, or
    - Verification of Homeowner's Association Dues Form
        - The homeowner's association management company may complete the form on behalf of the borrower to confirm the frequency, dues, and any other pertinent information associated with the property, or

- Redfin, Zillow, or other printouts such as an MLS listing confirming the amount and frequency of the property dues

  Note: A processor's certification or written verification from the borrower is not acceptable documentation to confirm monthly dues

Octane

Octane requirements for Evidence of Homeowner's Association Dues Liability will fire when it is indicated that the REO is HOA applicable by entering the HOA Fees in Property > Expenses. If the REO is not subject to HOA dues, the field will need to reflect zero.

Real Estate Taxes

Real estate tax amounts for non-subject properties must be evidenced utilizing one of the following documents:

- Property Tax Statement (Notice of Valuation)
- Income Tax Return Schedule E
- Form 1098
- Printout from County Tax Assessor
- Other documentation supporting property tax amount
- If taxes are escrowed, the mortgage holder's billing statement reflecting escrows

Lease Agreements or Form 1007 or Form 1025

When the current lease agreements or market rents reported on Form 1007 or Form 1025 are used, the remaining 25% of the gross rent is attributed to vacancy losses and ongoing maintenance expenses.

- Calculate the rental income by multiplying gross monthly rents by 75%.
- The rent calculation must then be reduced by the monthly principal, interest, taxes, insurance, and homeowner's dues, etc., to determine the monthly rental income or loss.

The receipt of the rental income may be verified by two years of canceled checks, money order receipts, or bank statements.

Properties Owned Free and Clear

If the borrower owns properties other than the subject property free and clear, the associated real estate taxes, insurance, and any homeowners-association fees must be documented and included in the calculation of that property's qualifying expense per the applicable method of qualification as a second home or investment property.

Partial or No Rental History on Tax Returns

When considering qualifying rental income, it must be determined whether or not the rental property was in service for the entire tax year or only a portion of the year.

If the borrower is able to document that the rental property was not in service the previous tax year or was in service for only a portion of the previous tax year, the underwriter may determine qualifying rental income by using:

- Schedule E income and expenses, and annualizing the income (or loss) calculation; or
- Fully executed lease agreement(s) to determine the gross rental income to be used in the net rental income (or loss) calculation.

Retirement

Include amounts that will be received in the ensuing 12 months. The income must be received at the time of loan application will be presumed to continue unless there is documented evidence the income will cease.

Lenders must document:

- The applicant is currently receiving the income; and
- The amount of the income received each month

Documentation

- Benefit/Award verification letter, retirement documents, IRS 1099, evidence of current receipt, bank statements, etc.
- Federal income tax returns or IRS tax transcripts with all schedules

Individual Retirement Account (IRA) Distributions

Comply with the above requirements with the exception of acceptable documentation as noted below.

Documentation

- IRA documents, IRS 1099, evidence of current receipt, bank statements, etc.
- Federal income tax returns or IRS tax transcripts with all schedules

Royalty Payments

Two-year receipt required.

Documentation

- Must confirm the amount, frequency, and duration of payments.
- Provide Royalty contract or agreement.
- Federal income tax returns with all schedules.

Seasonal Employment

Obtain a two-year history of receipt of Seasonal Employment in the same line of work. If the income is not earned at the time of loan application, the employer must provide verification that the applicant is still an employee along with an anticipated return to work date.

Secondary Employment

Include amounts that will be received in the ensuing 12 months. Evidence of resignation, termination, retirement, or relocation from these positions may result in the exclusion of this income.

Required History: One year of working primary and secondary employment concurrently. Income will be presumed to continue unless there is documented evidence the income will cease.

Documentation

- Paystub(s)/Earning statement(s)
- W-2's
- Written VOE or electronic verifications
- Federal income tax returns or IRS tax transcripts with all schedules

Social Security Income

Social Security Income is an acceptable form of qualifying income. The income documentation required will vary depending on the type of Social Security benefits received. The income must be received at the time of the loan application.

- Income must be confirmed to continue a minimum of three years into the mortgage (based on Note date)
  - Benefit letters that do not include an expiration date will be presumed to continue, unless the benefit is being paid on behalf of an eligible recipient who is not the borrower. Benefits received by the borrower on behalf of another individual must be confirmed to continue a minimum of three years into the mortgage.
- Benefits received by applicants on behalf of minors (funds are intended for their support) may be utilized for repayment income.
- Benefits received by applicants on behalf of an adult household member may be used for repayment income when there is evidence they are the legal guardian for the non-applicant adult household member.
- If the income is paid solely to a non-purchasing spouse, it cannot be used in repayment income, even if it is deposited into a joint checking account.

Documentation of regular receipt of payments depends on the type of benefit and the relationship of the beneficiary, the table below details the requirements per the type of Social Security benefit received.

<table>
<tr><th>Type of SSI Benefit</th><th>Borrower is drawing own SSI</th><th>Borrower is drawing another person’s SSI</th></tr>
<tr><td>Retirement</td><td rowspan="2">SSA Award letter, or form SSA-1099/1042S
Proof of current receipt</td><td rowspan="3">SSA Award letter, or form SSA-1099/1042S
Proof of current receipt
Legal guardianship/payee status for adult household members, AND
Proof of three-year continuance (e.g., verification of dependant beneficiary’s age)</td></tr>
<tr><td>Disability</td></tr>
<tr><td>Survivor Benefits</td><td>NA</td></tr>
</table>

Supplement Social Security Income (SSI)	• SSA Award letter, or form SSA-1099/1042S • Proof of current receipt	NA

Social Security benefit income may be Non-Taxable income. The underwriter must determine if the borrower's total income exceeds the threshold where Social Security income would be non-taxable. If the benefit is nontaxable, the underwriter may use the Social Security benefit plus 25% as qualifying income for the borrower.

To determine if the Social Security benefit income may be taxable, add half of the borrower's annual Social Security benefit to all other income from all sources that the borrower documents on their signed federal tax returns.

Then compare to the total amount below, if the total income is greater than the base amount below their borrower's Social Security benefits are taxable.

- $25,000 for borrower's filing taxes as single, head of household, qualifying widow, widower with dependent child, or married filing separately who did not live with their spouse at any time during the year.
- $32,000 for married couples filing jointly
- $0 for married persons filing separately who lived together during the year.

Borrowers who have not reported Social Security benefits on their latest year's federal tax returns may not use Social Security benefits as non-taxable income.

Non-Taxable Social Security Income

If a borrower does qualify using the Social Security Income (SSI) listed on the most recent SSI Award Letter (Letter), the underwriter may gross up the non-taxable portion of SSI by 25% to determine the monthly qualifying amount. Borrowers who have not reported SSI on their latest Federal Tax Returns (taxes) are not eligible for utilizing grossed income.

- Non-taxable SSI is reported on line 5(a) or 20(a) of the taxes. Taxable SSI is reported on line 5(b) or 20(b) of taxes.

- Underwriters are required to review the borrower's most recent taxes to determine what portion, if any, of the SSI is non-taxable.
- The underwriter must confirm if the SSI amounts listed on the tax return are solely the borrower's income.
- If the SSI income reported on the Return is a combination of two parties' income, the underwriter must determine the portion of SSI on the Returns that belong to the borrower in question.

The following link may assist when determining the benefit amount subject to taxation by the IRS https://www.ssa.gov/benefits/retirement/planner/taxes.html.

Using SSI Award Letter to Calculate Project Grossed Income

If the borrower's most recent Letter shows the SSI the borrower receives has increased since their last tax filing, the underwriter may use a projected gross income based on the information on the Letter.

Temporary Leave Income/Temporary Reduction in Income with Current Employer

This guidance is for an applicant that is currently employed. This guidance does not apply to an applicant that is currently unemployed.

Income must be received at the time of the loan closing. The following must be obtained from the employer:

- Verification that the applicant has the right to return to work following the leave
- Documentation of the applicant's return date
- Verification of the duration and amount of temporary leave income
- Documentation of regular employment before the temporary leave

An applicant that will return to work before the first mortgage payment may use their pre-leave income. An applicant that will not return to work before the first mortgage payment must use their current income received (which may be zero) plus non-retirement liquid reserves.

Reserves must meet USDA's required history and calculations for assets. The total of income and assets must meet the mortgage obligation and additional monthly liability payments until the applicant's date of return to work.

Calculation of income plus reserves divided by applicable months must be indicated on Attachment 9-B, the underwriting transmittal summary, or on an alternate underwriting form.

Tip Income

Obtain a one-year history of receipt of tip income. Underwriters must analyze tip income from the current pay period, and YTD earnings.

Annual Income: Include amounts that will be received in the ensuing 12 months.

Traveling Nurses

Travel nursing is a nursing assignment concept that developed in response to the nursing shortage. The industry supplies nurses who travel to work in temporary nursing positions, mostly in hospitals. While travel nursing traditionally refers specifically to the nursing profession, it can also be used as a blanket term to refer to nursing and allied healthcare professionals, physicians, advanced practice nurses, physician assistants, dentists and other support staff including certified nursing assistants.

Nurses may be paid as a contract employee and receive either a W2 or 1099 wage. Employment can also be offered under short or long-term assignments.

USDA does not provide direct guidance for income derived from employment as a traveling nurse, however, does require the income meet the requirements for Base Wages and Contract / Employment Offer (where applicable).

A Loan Level Review may be submitted if additional guidance is needed when reviewing the length of the borrower's employment history or to support Occupancy.

History of Employment

The degree of fluctuation and the length of receipt of the type of wages (or similar earnings) must be considered when calculating income used to qualify for the Mortgage. The Underwriter must evaluate the income trend and use the amount that is most likely to continue for the next three years.

The stability of income is determined based primarily upon historical earnings, thus a sufficient income history must be established; USDA requires a one year history of the income be received at the time of application.

If needed, a combination of employers or assignments may be used to establish a sufficient employment history.

Trust Income

Obtain a six-month history of receipt. Income must be confirmed to continue for three years (based on Note date).

Annual Income: Include amounts that will be received in the ensuing 12 months.

Trust Income Reported on Form 1041

Form 1041 U.S. Income Tax Return for Estates and Trusts is used to report income earned by a trust or estate. Only the share of income reported on a schedule K-1 and carried over from the 1041 to the borrower's Individual Federal Income Tax Return Form 1040 may be considered as eligible income. Income reported on the 1041 and not reflected as a distribution to the borrower is ineligible.

Union Employee(s)

Members of Trade Unions, such as Carpenters, Plumbers, Masons, or Electricians, may work for several different companies over the course of a year and, as a result, have several W2 forms.

Stability of employment must be supported with a two-year work history along with a three-year evidence of continuance based on the Note date (if there is not a clear indication that the income will cease, it may be presumed that the income will continue).

Rural Development does not specify a sole method (such as using an average) of calculating income. It is the underwriter's responsibility to review the complete income history to accurately calculate the income expected to be received in the ensuing 12 months, as well as making a determination of stable and dependable repayment income. The calculation of repayment income is up to the discretion of the underwriter based upon income history, type of pay structure, etc.

Income must be received at the time of the loan application.

Unreimbursed Employee or Business Expenses

The total amount of unreimbursed expenses may be deducted from annual and adjusted annual income.

Two year history is required. A trend will be presumed to continue unless there is documented evidence the expenses/deductions will cease.

Documentation

- IRS 2106, Schedule A, Schedule C, or equivalent IRS filed form

- 2 years of Federal income tax returns or IRS tax transcripts with all schedules

VA Benefits

VA retirement and VA long-term disability income may be used as qualifying income.

- A letter or distribution form from the VA documenting the payment amount.
- Verification that the income is from either retirement or long-term disability is sufficient to establish a stable source of income without a defined expiration date.
- If the income is not from retirement or long-term disability, verify that the income will continue for at least three years from the application date.

VA Educational benefits for use in meeting the costs of tuition, fees, books, and equipment may be considered by the underwriter on a case by case basis.

Annual Income: Direct compensation payments and the remainder of educational grants, scholarships, or VA benefits available for subsistence after deducting expenses for tuition, fees, books, and equipment must be included in adjusted annual income.

Variable Income

Variable income includes piece rate pay, union work, and other similar types of pay structures. Include amounts that will be received in the ensuing 12 months. Income will be presumed to continue unless there is documented evidence the income will cease.

One year history in the same or similar line of work is required. Underwriters must analyze variable income earnings for the current pay period and YTD earnings. Significant variances (increase or decrease) of 20 percent or greater in income from the previous 12 months must be analyzed and documented (e.g. variances due to seasonal/holiday, etc.) before considering the income stable and dependable.

Documentation

- Paystub(s)/Earning statement(s)
- W-2's
- Written VOE or electronic verifications
- Federal income tax returns or IRS tax transcripts with all schedules

Income Verification

For all loan types, lenders must verify the income for each applicant and adult household member (excluding eligible full- time students age 18 and above) for the previous two years. The income of all adult household members must be documented and verified whether they are applying as a borrower or not. Refer to specific income type(s) for documentation and verification options that are acceptable to support income.

Refer to Chapter 2 | Documentation Standards Lending Guide for Cardinal Financial's Verification of Employment Policy.

Full Income Documentation Non Self-Employed

- W-2 forms for the most recent two tax years, which may be electronically generated or provided in paper format, or IRS Wage and Income transcripts;
- Paycheck stubs or payroll earning statements that report the most recent four weeks of earnings; and
- Prior to loan closing, a Verbal Verification of Employment (VVOE) must be obtained for all applicants within 10 business days of loan closing. This VVOE will be retained in the lender's permanent loan file. Adverse changes to the applicant's employment may render the loan ineligible.

Alternative Income Documentation Non-Self-Employed

- Written Verification of Employment (VOE): Electronically generated verifications from the employer or a verification service utilized by the employer, Form RD 1910-5, *Request for Verification of Employment*, or an equivalent HUD, VA, Fannie Mae, or Freddie Mac form may be utilized to verify the current year-to-date (YTD) and previous year's employment earnings. This verification must confirm base income/wages, bonus, overtime, commissions, and other income sources earned, as applicable;
- Recent paycheck/earnings statement: Lenders must compare a recent paystub that includes YTD earnings and employment information to the VOE to confirm these two documents reasonably agree; and
- Prior to loan closing a VVOE must be obtained for all applicants within 10 business days of the loan closing. This VVOE will be retained in the lender's permanent loan file. Adverse changes to the applicant's employment may render the loan ineligible

Self-Employed Income Documentation

An applicant or household member is considered self-employed when they have a 25 percent or greater ownership interest in a business. If the ownership interest is less than 25 percent, neither the "Business Owner" or "Self-Employed" options should be selected in GUS.

Federal Income Tax Returns for the business will be required when ownership is 25 percent or greater. The lender must analyze the most recent two- year history of the business earnings. Sharp increases or decreases in self-employment income may require the lender to review additional documentation to support their calculation of annual, adjusted annual, and repayment income. Sharp increases or decreases are defined as a 20 percent or greater variance for income earnings from the previous 12 months. The lender's permanent file must contain the following, as applicable:

- Federal Income Tax Returns (filed and signed) for the most recent two consecutive years with all schedules, or IRS transcripts that include all applicable schedules;
- Federal Income Tax Returns for the business (filed and signed) for the most recent two consecutive years with all schedules, or IRS transcripts that include all applicable schedules, if required for the ownership interest/business type;
- Recent profit and loss statement (not required to be audited); and
- Confirmation the business is operational, obtained within 30 days of the loan closing. Documentation may include evidence of a website, additional internet documentation, licensing bureau certification, etc. Adverse changes to the business may render the applicant ineligible.
- Lenders may utilize Fannie Mae Form 1084, Cash Flow Analysis, Fannie Mae Form 1088, Comparative Income Analysis, or a comparable self-employment evaluation form(s) to assist in the calculation of self employment income.

Include zero in annual income for a business loss. However, a business loss must be deducted from repayment income.

A business (full time or part-time) that is closed may be removed from consideration for annual income when the applicant provides a letter of explanation and documentation to the lender which details:

- When the business was closed,
- Why the business was closed,
- How the business was closed, and

- Evidence to support the closure of the business

4506 -C Transcript Processing

IRS transcripts must be obtained for all required household members in addition to the documentation option selected by the lender. Lenders must require each adult household member as applicable to complete and sign the IRS Form 4506-C for the previous two tax years at the time of loan application. The 4506-C must request full transcripts with all schedules. Cardinal requires a completed and signed IRS Form 4506-C for each borrower on the loan before approval. An executed 4506-C is valid for 120 days from the date of the borrower's signature.

Full-time students age 18 and up that are not the applicant, co-applicant, or spouse of an applicant are not required to sign the 4506-C or have transcripts provided.

When transcripts cannot be obtained from the IRS for an applicant or required household member, the lender may document their correspondence to and from the IRS in the permanent loan file to support the omission. Loan closings will not be delayed due to obstacles in obtaining the tax transcripts when the tax returns were filed timely. However, a “failure to file” tax returns by an applicant, when legally required to do so and by the due date established by the IRS, is not an eligible explanation to forego obtaining tax transcripts. The asset statements must be reviewed to ensure no errant deposits are identified that may be attributed to additional income sources. The loan file will be considered complete when the explanation is documented.

Contract for Deed

Loan funds can be used for the conversion of a seller-financed mortgage with an existing dwelling. These contracts are also known as a conversion of contract for deed or land contract. A contract for deed is considered a “purchase” transaction. The dwelling must meet USDA requirements for an existing dwelling.

Escrow Waivers

Escrow waivers are not permitted.

Real Estate Tax Payment

Required Documentation

The calculation of real estate taxes for qualification purposes must be documented using either:

- Copies of current property tax statements, figures provided by the title company/settlement agent, or
- The Property Tax Estimate from CoreLogic located in Octane. The CoreLogic Property Tax Estimate will provide the current and projected tax values for the property based on the occupancy and loan purpose
    - Note: The CoreLogic Property Tax Estimate can be located on the Octane Charges & Credits screen in the Taxes tab. It can also be found in Octane > Documents > Property Tax Estimate.

Projected Tax

The underwriter may (or in some circumstances must) project the real estate taxes (Projected Amount) if they document one of the following:

- The amount of taxes will be reduced based on federal, state, or local jurisdictional requirements (e.g. Military or Senior Exemptions). However, the taxes may not be reduced if an appeal to reduce them is only pending and has not been approved.
- The property jurisdiction requires a transfer of ownership that typically results in a reassessment or revaluation of the property and corresponding increase in the amount of taxes.
- The transaction is New Construction (i.e. One Time Close program, or Proposed, Under Construction or Newly Built Never Occupied).
    - A reasonable estimate of the real estate taxes based on the value of the land and completed improvements must be calculated.
    - Acceptable source documents include:
        - Estimate of taxes from either the title company or the tax assessor's office
        - Property Tax Estimate from CoreLogic

  - Available Exceptions: Reference New Construction | State Specific Tax Calculations for specific states that have flexibilities regarding the tax calculations for new construction properties.

- The borrower **must** be qualified with the Projected Amount
  - Note: A new feature allows the transaction to close with the current amount of taxes but will not impact the Projected Amount used in the qualifying DTI in Underwriting.

Tax Abatements

Tax abatements are a temporary reduction in the actual amount of taxes that the owner(s) of a property must pay. In order for the reduced amount to be used for qualifying purposes, the abatement must remain in place for a minimum of three (3) after closing.

- The tax abatement must be from a governmental authority and not paid by the seller or by any other interested party, and
- Documentation supporting the abatement must be retained in the loan file.
- For example:
  - For a municipality with a 10-year abatement, the borrower may be qualified with the reduced tax amount;
  - For a municipality with a 10-year abatement and with annual real estate tax increases in years 1 through 10, the borrower must qualify with the annual taxes that will be required at the end of the 5th year after the first mortgage payment date

Homestead Property Exemption

When the subject property is not currently owner-occupied, but it is verified that it will be when the mortgage transaction is complete, the verified amount of homestead property taxes may be used in qualification. This amount can be determined by county information that provides a clear description of the property tax amount once the homestead exemption has been applied.

Non-Homestead Property Exemption

When the subject property is not currently owner-occupied, but it is verified that it will be when the mortgage transaction is complete, the verified amount of homestead property taxes may be used in qualification. This amount can be determined by county information that provides a clear description of the property tax amount once the homestead exemption has been applied.

Guarantee and Annual Fees

- 1.00% upfront
- 0.35% annual
- If the upfront Guarantee Fee is financed, please see the guidelines for calculation requirements.

Insurance

All loan files must contain evidence of sufficient hazard, title, and flood insurance policies in accordance with USDA policies.

Cardinal requires minimum coverage equal to the lesser of the replacement costs or the total loan amount.

Refer to Chapter 16 | Insurance | Lending Guide for additional requirements.

Flood Insurance

Existing dwellings located in a SFHA are eligible for the SFHGLP when flood insurance through FEMA's National Flood Insurance Program (NFIP) is available for the community and flood insurance, whether NFIP, "write your own," or private flood insurance, is purchased by the borrower. Lenders are required to accept private flood insurance policies that meet the requirements of 42 U.S.C. 4012a (b) (1)(A) and remain responsible for ensuring private policies continue to meet this requirement.

Insurance must be obtained as a condition of closing and maintained for the life of the loan for existing residential structures when any portion of the structure is determined to be in a SFHA, including decks, carports, etc..

New or proposed homes in a designated flood area are not eligible unless adequate flood insurance is obtained through FEMA's NFIP program *and* FEMA flood elevation certificate confirms the lowest habitable floor (including basement) for dwelling and all related improvements is at or above the 100-year-floodplain elevation.

Refer to Chapter 16 | Insurance | Lending Guide for additional requirements.

Interest Rate

The maximum interest rate cap set by USDA has been eliminated, the lender and borrower are free to negotiate any mutually acceptable fixed interest rate.

The interest rate should be locked by the time of loan settlement. In the event the interest rate is not locked at the time Form RD 3555-18 is issued, and the interest rate increases between the time of issuance of Form RD 3555-18 and loan closing, the lender will note the change when submitting the loan closing package and support the increase in interest rate with modified loan application documents.

Modified loan documents will include at a minimum:

- Updated URLA reflecting data changes due to an interest rate adjustment.
- Underwriting analysis reflecting the updated interest rate and confirming the applicant(s) remain eligible for the SFHGLP.
- Interest rates that have been underwritten with the assistance of GUS will require a resubmission if the locked interest rate adversely affects the eligibility of the loan. The resubmission will be treated as a new request by SFHGLP processing offices.

Interested Party Contributions/Concessions

Seller contributions (or other interested parties) are limited to six percent of the sales price and must represent an eligible loan purpose. Closings costs and/or prepaid items paid by the lender through premium pricing are not included in the seller contribution limitation. Funds provided by the seller for repairs are not included in the interested party contribution limitation. However, seller concessions for repairs must be held in an escrow account.

Seller contributions cannot be used to pay an applicant's personal debt or as an inducement to purchase by including movable articles of personal property such as furniture, cars, boats, electronic equipment, etc. This does not include household appliances that are typically part of the purchase transaction.

Manufactured Homes

Manufactured homes are single-or multi-width units constructed partially off-site and transported to a site to be completed and anchored to a permanent foundation. Manufactured homes are structures built to the Federal Manufactured Home Construction and Safety Standards (FMHCSS) and display a red certification label on the exterior of each transportable section. They are not the same as a modular home.

The Certification Label shall be affixed in a location that is in accordance with an approved design and accommodates any Design Approval Primary Inspection Agency (DAPIA)-approved OnSite Completion of Construction or Alternative Construction letters. The Certification Label must be affixed in a location that will remain visible after all work is completed that is necessary to complete the installation of the home at the home site.

USDA Manufactured Housing Requirements

Cardinal will lend on manufactured homes on purchase and rate & term transactions that comply with applicable requirements detailed below.

New and Existing Manufactured Homes are eligible for financing, however existing manufactured homes are eligible for financing only if the property was constructed in accordance with the USDA Manufactured Housing Pilot program; refer to the Existing Manufactured Homes section below for guidance.

For newly constructed manufactured homes, the property must be considered real property before closing, and all de-titling must be done PTA.

Authorized Loan Purposes

The following are eligible loan purposes for the financing of manufactured homes:

- Site development work that conforms to the standards imposed by the state and local government
- Purchase of an eligible new unit, transportation, and set-up costs. The following criteria outlines an eligible manufactured unit for guarantee with the SFHGLP:
    - Must be a new unit in stock that has never been installed or occupied at any other site or location. Manufactured units may be moved only from the manufacturers or dealer's lot to the site on which the unit will be financed;
    - Must have a floor area of not less than 400 square feet;

- Must be placed on a permanent foundation built to FHA guidelines in effect at the time of certification. Guidelines are presently published in the "Permanent Foundation Guide for Manufactured Housing" (HUD4930.3G) which is found at http://www.huduser.org/portal/publications/destech/permfound.html;
- Must meet or exceed the Federal Manufactured Home Construction and Safety Standard (FMHCSS) Uo Value Zone for the geographic area the unit will be placed. The Uo Value Zone will be indicated on the Comfort Heating and Cooling Certificate. Builder must certify thermal requirements at time of purchase have been met- refer to the Wind Load, Roof Load and Thermal Zone section;
- Must have a manufacture date that is within 12 months of the purchase contract. The manufacture date can be found on the data plate located inside the home.
  - As an alternative to the original HUD Certification Label(s), the lender may obtain a verification letter with the same information contained on the HUD Certification Label(s) from the Institute for Building Technology and Safety (IBTS). A duplicate HUD Data Plate may be available from IBTS or by contacting the In-Plant Primary Inspection Agency (IPIA) of the manufacturer. A list of IPIA and DAPIA offices is posted on HUD's website located at https://www.hud.gov/program_offices/housing/rmra/mhs/csp/mhsid;

- Financing of an existing unit due to a transfer of an existing Section 502 Direct or Guarantee loan or purchase of a Real Estate Owned (REO) property. Repairs associated with these transactions may be included.

Existing Manufactured Homes

To be eligible for financing, existing manufactured homes (including new units which have been on the dealer's lot more than 12 months) must meet the following conditions in addition to all other program requirements:

- The existing manufactured home must be located in a Pilot State as noted below;
- The property must be constructed in accordance with the USDA Manufactured Housing Pilot program; (program extended through November 4, 2024)
- Loans submitted under the Pilot must be manually underwritten; agency staff will need to select "MANUFACTURED (PILOT)" for "Construction Type" in the Property Information section in GLS. This will allow for the proper identification of pilot loans for tracking and monitoring purposes;

- Existing manufactured homes are eligible if the home is not already financed through RD (regulatory restriction requiring the home be financed through RD was waived November 30, 2021);
- The unit must have been constructed on or after January 1, 2006, in conformance with the Federal Manufactured Home Construction and Safety Standards (FMHCSS), as evidenced by an affixed Housing and Urban Development (HUD) Certification Label;
- The unit inspection is required using one of two methods:
    - Form HUD-309, "HUD Manufactured Home Installation Certification and Verification Report" completed in accordance with 24 CFR 3286.511 by a qualified party as follows:
        - A manufactured home or residential building inspector employed by the local authority having jurisdiction over the site of the home provided that the jurisdiction has a residential code enforcement program;
        - A professional engineer;
        - A registered architect;
        - A HUD-accepted Production Inspection Primary Inspection Agency (IPIA) or a Design Approval Primary Inspection Agency (DAPIA); or
        - An International Code Council (ICC) certified inspector
    - Obtain a certification that the foundation design meets HUD Handbook 4930.3, "Permanent Foundations Guide for Manufactured Housing (PFGMH)." The foundation certification must be from a licensed professional engineer, or registered architect, who is licensed/registered in the state where the manufactured home is located and must attest to current guidelines of the PFGMH. The certification must be site-specific and contain the engineer's or registered architect's signature, seal, and state license/certification number. This certification can take the place of Form HUD 309.
- The applicant and property must meet all other applicable criteria

Pilot States

The purchase of an existing unit is limited to the following states: Colorado, Iowa, Louisiana, Michigan, Mississippi, Montana, Nevada, New Hampshire, New York, North Dakota, Ohio, Oregon, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, and Wyoming.

Loan Restrictions

- The purchase of a unit without an eligible site;
- Repairs not associated with a transfer, Real Estate Owned (REO) sale, or unit that is already financed with a Section 502 loan;
- Furniture, including movable articles of personal property such as drapes, beds, bedding, chairs, sofas, divans, lamps, tables, televisions, radios, stereo sets, and other similar items of personal property. Furniture does not include wall-to-wall carpeting, refrigerators, ovens, ranges, washing machines, clothes dryers, heating or cooling equipment, or other similar equipment;
- Additions and modifications on new or existing units are prohibited except for porches, decks, or other structures built to engineered designs and inspected and approved by a local building code official;
- A manufactured home that was installed or occupied previously at any other site or location. The home may only have moved from the manufacturer's or dealer's lot to the current site of the home;
- A manufactured home is not classified and titled as real property at the time of closing;
- Manufactured home units with a manufacture date exceeding 12 months of the purchase agreement contract;
- A unit with a tow hitch or running gear remaining

Wind Load, Roof Load and Thermal Zones

Each manufactured home must be designed according to the Federal Manufactured Home Construction and Safety Standards at 24 CFR 3280, commonly called the HUD Code. The HUD Code stipulates that the home shall be designed and constructed to conform to one of three wind load, roof load and thermal zones.

The appraiser is responsible for verifying the information related to placement of the home in the appropriate zone, however, it is the responsibility of the Underwriter to confirm that the property is in the correct zone for which it was manufactured.

Data Plate/ HUD Compliance Certificate sample displaying the wind load, roof load and thermal zones:

Date of Manufacture HUD label No.(s)

Manufacturer's Serial Numbers) and Model Unit Designation

Design Approval by (D.A.P.I.A.)

This manufactured home is designed to comply with the federal manufactured home construction and safety standards in force at time of manufacture.

________________(For additional information, consult owner's manual.) ________________

The factory installed equipment includes:

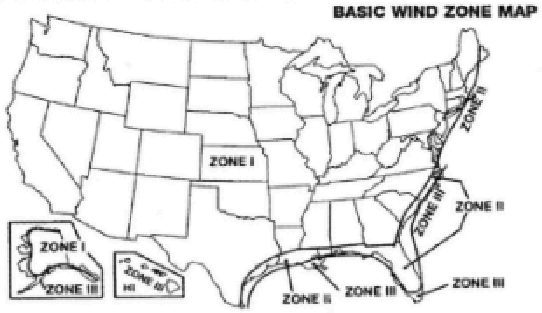
Equipment	Manufacturer	Model Designation
For Heating		
For Cooking		
Refrigerator		
Water Heater		
Washer		
Clothes Dryer		
Dishwasher		
Fireplace		
Microwave		
Air Conditioner		

HOME CONSTRUCTED FOR ___ZONE I ___ZONE II ___ZONE III ___EXP. "D"

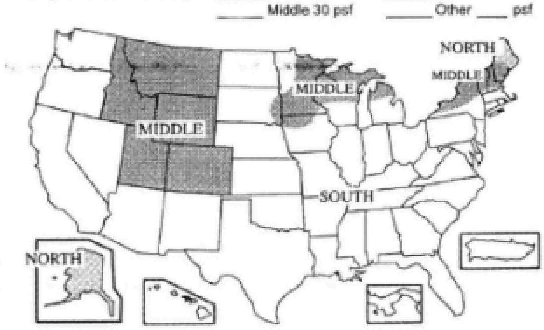
This home has not been designed for the higher wind pressure and anchoring provisions required for ocean/coastal areas and should not be located within 1500' of the coastline in Wind Zones II and III, unless the home and its anchoring and foundation system have been designed for the increased requirements specified for Exposure D in ANSI/ASCE 7 - 88.

This home has ( ) has not ( ) been equipped with storm shutters or other protective coverings for windows and exterior door openings. For homes designed to be located in Wind Zones II and III, which have not been provided with shutters or equivalent covering devices, it is strongly recommended that the home be made ready to be equipped with these devices in accordance with the method recommended in manufacturers printed instructions.

BASIC WIND ZONE MAP



Design roof load zone map: ____North 40 psf ____South 20 psf
____Middle 30 psf ____Other ____ psf



COMFORT HEATING

This manufactured home has been thermally insulated to conform with the requirements of the federal manufactured home construction and safety standards for all locations within Uo value Zone ____________ . (See map at bottom)

Heating equipment manufacturer and model (See list at left).

The listed heating equipment has the capacity to maintain an average 70 degrees Fahrenheit temperature in this home at outdoor temperatures of________ degrees Fahrenheit

To maximize furnace operating economy, and to conserve energy, it is recommended that this home be installed where the outdoor winter design temperature (97 1/2%) is not higher than________ degrees Fahrenheit.

The above information has been calculated assuming a maximum wind velocity of 15 mph at standard atmospheric pressure.

COMFORT COOLING

☐ Air conditioner provided at factory (Alternate I)

Air conditioner manufacturer and model (see list at left).

Certified capacity ________ B.T.U./hour in accordance with the appropriate air conditioning and refrigeration institute standards.

The central air conditioning system provided in this home has been sized assuring an orientation of the front (hitch end) of the home facing. ________ On this basis the system is designed to Maintain an indoor temperature of 75°F when outdoor temperatures are ________°F dry bulb and ________ °F wet bulb.

The temperature to which this home can be cooled will change depending upon the amount of exposure of the windows of this home to the sun's radiant heat. Therefore, the home's heat gains will vary dependent upon its orientation to the sun and any permanent shading provided. Information concerning the calculation of cooling loads at various locations, window exposures and shadings are provided in Chapter 22 of the 1989 edition of the ASHRAE Handbook of Fundamentals.

Information necessary to calculate cooling loads at various locations and orientations is provided in the special comfort cooling information provided with this home.

☐ Air conditioner not provided at factory (Alternate II)

The air distribution system of this home is suitable for the installation of central air conditioning. The supply air distribution system installed in this home is sized for a manufactured home central air conditioning system of up to ________ B.T.U. /hr. rated capacity which are certified in accordance with the appropriate air conditioning and refrigeration institute standards, when the air circulators of such air conditioners are rated at 0.3 inch water column static pressure or greater for the cooling air delivered to the manufactured home supply air duct system.

Information necessary to calculate cooling loads at various locations and orientations is provided in the special comfort cooling information provided with this manufactured home.

To determine the required capacity of equipment to cool a home efficiently and economically, a cooling load (heat gain) calculation is required. The cooling load is dependent on the orientation, location and the structure of the home. Central air conditioners operate most efficiently and provide the greatest comfort when their capacity closely approximates the calculated cooling load. Each home's air conditioner should be sized in accordance with Chapter 22 of the American Society of Heating, Refrigerating and Air Conditioning Engineers (ASHRAE) Handbook of Fundamentals 1989 edition, once the location and orientation are known.

INFORMATION PROVIDED BY THE MANUFACTURER NECESSARY TO CALCULATE SENSIBLE HEAT GAIN

Walls (without windows and doors)........ "U" ________
Ceiling and roofs of light color........ "U" ________
Ceilings and roofs of dark color........ "U" ________
Floors........ "U" ________
Air ducts in floor........ "U" ________
Air ducts in ceiling........ "U" ________
Air ducts installed outside the home........ "U" ________

The following are the duct areas in this home:

Air ducts in floor........ ________sq. ft.
Air ducts in ceiling........ ________sq. ft.
Air ducts outside the home........ ________sq. ft.

U/O VALUE ZONE MAP

Wind Load Zone

The appropriate wind zone used in design is dependent on where the home will be initially installed. Homes designed and constructed to a higher Wind Zone can be installed in a lower Wind Zone (a Wind Zone III home can be installed in a Wind Zone I or II location). However, a Wind Zone I home cannot be installed in either a Wind Zone II or III area.

Roof Load Zone

The appropriate roof load used in design is dependent on where the home will be initially installed. Homes designed and constructed to a higher Roof Load Zone can be installed in a lower Roof Load Zone (a home designed to a North Zone can be installed in a Middle or South Roof Load Zone). However, a South Roof Load Zone home cannot be installed in either a Middle or North Roof Load Zone.

Thermal Zone

The appropriate thermal zone value used in design is dependent on where the home will be initially installed. Homes designed and constructed to a higher Thermal Zone can be installed in a lower Thermal Zone (a home designed to a Thermal Zone 3 can be installed in a Thermal Zone 1 or 2). However, a Thermal Zone 1 home cannot be installed in either a Thermal Zone 2 or 3 area.

Titling a Manufactured Home as Real Property

- All manufactured housing units and land must be classified and taxed as real estate to be eligible.
- The manufactured home loan must be secured by a perfected lien on real property consisting of the manufactured home and land. The manufactured home must be legally classified as real property.
- Evidence must be provided to document that the manufactured home is classified as real property may be through tax certificates or title policy to validate that both land and unit are taxed as one parcel.
- The loan is not eligible if the original chattel deed or title is not purged and the property does not have a marketable real estate title.

- The Preliminary Title Report or Final Title Policy must reflect the commitment or issuance of the appropriate ALTA Endorsement (e.g., ALTA 7.1-16) required to validate that the home is treated as real property.
- The Deed of Trust or Mortgage (security instrument) must include a complete legal description that includes land and manufactured unit details regarding the manufacturer name, model, year, serial number, size, and any other information required by state law to identify a manufactured home.

Contract Requirements and Loan Limitations

A single contract is required with the dealer/contractor using RD Form 1924-6. The contract price must include all site work, including lot cost, well, septic, the home, set up, landscaping, parking, and walks.

- Description of Materials is required with the contract on Form RD 424-2
- The date of the contract must be within one year of the manufactured date displayed on the plate attached to the home

Contract Form RD 1924-6: http://www.rurdev.usda.gov/Supportdocuments/RD1924-6.pdf

Description of Materials Form RD 424-2

http://portal.hud.gov/hudportal/documents/huddoc?id=92005.pdf

- The home must be no more than 12 months old and never occupied.
- Sites cannot be purchased without also financing the unit.
- Homes not meeting FMH CSS and the Agency's Thermal Performance Standards are not eligible.
- Loan funds cannot be used to finance furniture or personal property.
- The amortization period is a maximum of 30 years.

Site Requirements

- The site must be located in a rural area and contiguous to the public street.
- The streets must either be paved or all-weather surfaces.

- The proposed site must not be large enough to subdivide and
- The site must have adequate water and wastewater disposal systems.

Title/Security Requirements

A promissory note and mortgage must be executed at the loan closing for the purchase of the site and unit. Since the home is permanently affixed to real estate and is secured by the mortgage, the home is no longer considered a motor vehicle.

Occupancy

Primary residences only, the borrower is required to occupy the property within 60 days of closing.

Power of Attorney

Cardinal Financial will allow the use of a Power of Attorney ("POA") for the execution of final closing documents for certain loan products with prior approval from the Credit Escalation Committee. In addition, the title insurance provider must agree to permit the use of the Power of Attorney. The closed loan file must retain a complete copy of all documents reviewed during the approval process. Upon review and approval of the proposed Trust vesting, the Credit Committee will indicate the approval within our system of record by designating the Trust Approval fields, which will be displayed for closing and underwriting. This request is made within our system and does not require the remittance of a support ticket. Steps for ensuring the appropriate steps and approval are received are outlined in the Power of Attorney Procedure.

See the Checklist | Power of Attorney for general, closing, and funding requirements.

Allowable Attorneys-in-Fact or Agents for POA

Except as otherwise required by applicable law, or unless they are the borrower's relative*, none of the following persons connected to the transaction shall sign the security instrument or note as the attorney-in-fact or agent under a power of attorney:

- The broker/lender
- Any affiliate of the broker/lender
- Any employee of the broker/lender or any other affiliate of the broker/lender

- The loan originator
- The employer of the loan originator
- Any employee of the employer of the loan originator
- The title insurance company providing the title insurance policy or any affiliate of such title insurance company (including, but not limited to, the title agency closing the loan), or any employee of either such title insurance company or any such affiliate
- Any real estate agent with a financial interest in the transaction or any person affiliated with such real estate agent

*Relative is defined as any of the following:

- Spouse or domestic partner of the Borrower
- Child, parent, or grandparent of the Borrower
  - A child is defined as a son, stepson, daughter, or stepdaughter
  - A parent or grandparent includes a stepparent/grandparent or foster parent/grandparent
- Legally adopted son or daughter of the Borrower
- Foster child of the Borrower
- Brother, stepbrother, sister or stepsister of the Borrower
- Uncle or aunt of the Borrower
- Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the Borrower

Title Requirements

- No changes to the property vesting may be made on a refinance transaction
- The title company must review the POA and issue the title policy with no exceptions pertaining to the POA
- The title company must record the original POA at the time of closing

Qualifying

The borrower's adjusted income may not exceed the USDA limit for the area, which can be found by visiting the GRH Nationwide Eligibility website: http://eligibility.sc.egov.usda.gov. Annual income includes all income from adult household members, regardless of whether they will be on the note for the subject property.

The PITI Ratio

- Applicants are considered to have repayment ability if their proposed monthly housing expense does not exceed 29 percent of their repayment income. Monthly housing expenses include but are not limited to: First Mortgage (P&I);
- Subordinate Lien(s);
- Homeowner's Insurance;
- Supplemental Property Insurance;
- Property Taxes;
- Mortgage Insurance (First Year annual fee monthly amount);
- Association/Project Dues (Condo, Co-Op, PUD); and
- Other

The Total Debt Ratio

Applicants are considered to have repayment ability when their total debts do not exceed 41 percent of their repayment income. The total debt ratio includes monthly housing expense (PITI) plus other monthly credit or debt obligations incurred by the applicants.

The underwriter must document the applicants' debts through various records including, but not limited to, credit reports, direct or third-party verifications, court documents, and verification of deposits. All open debts/accounts (including non-medical collection accounts and judgments) incurred through the closing date must be considered in the total debt calculation and documented in GUS, as well as the loan application, as applicable.

Amounts listed on the credit report will be used unless verification, retained in the permanent loan file, supports an alternate payment amount. If an amount other than that shown on the credit report is used, the lender will provide documentation of the amount utilized. This documentation will be uploaded with the final submission to the Agency.

Adjusted Annual Income Deductions

Dependent Deduction

- $480 deduction per eligible dependent at the time of loan application
- Applicants with shared custody may include their child(ren)

Child care expenses

- Care for children age 12 and under
- Care is necessary to enable a family member to work, seek employment, or attend school.
- Calculate anticipated child care expenses for the ensuing 12 months
- Applicants that have not placed their child into care or have no evidence to support payments, deposits, or registration fees are ineligible for this deduction

Documentation Source Options

- Utilize income tax returns, receipts, or third-party verifications provided by a licensed childcare facility or provider on letterhead that
    - Identifies the child enrolled,
    - Date of enrollment,
    - Payment due, and
    - Payment history
- Relatives or non-licensed private individuals who provide care must also provide evidence of payments made (i.e., canceled checks, money order receipts, bank statements, etc.)
- Child support payments and school tuition (K – 8) are not eligible deductions.
- Calculations must be included on the Income Calculation Worksheet.

Disability Expenses

- Deduction for eligible expenses that exceed three percent of the annual income

- Eligible expenses:
    - allow the disabled individual or another household member to work,
    - are non-reimbursable by insurance or other sources, and
    - do not exceed the income earned by the person who is working due to the care provided
- Examples include but are not limited to: daily living assistance, wheelchairs, ramps, adaptation needs, workplace equipment, etc.
- Utilize documentation to estimate anticipated annual expenses

Documentation Source Options

- Third-party verification for caregivers/agencies for the dates, costs, and fees
- Receipts, itemized income tax returns, and other evidence to support the deductions
- Calculations must be included on the Income Calculation Worksheet.

Elderly Household Deduction

- Applicant or Co-Applicant is age 62 or older
- One $400 deduction allowed

Medical Expenses (Elderly and Disabled Households Only)

- Deduction for eligible expenses that exceed 3 percent of the annual income for the entire family.
- Utilize documentation to estimate anticipated annual expenses.
- Refer to 3555.10 for the definition of elderly family.

Documentation Source Options

- Itemized tax return documents
- Receipts for insurance premiums, prescriptions, dental and eye exams, eyeglasses, medical/health products or apparatus, hearing aids, visiting or live-in care providers.

- Calculations must be included on the Income Calculation Worksheet

Debt Ratio Waiver Request

An applicant's PITI ratio may exceed 29 percent, and the Total Debt ratio may exceed 41 percent if strong compensating factors demonstrate that the household has higher repayment ability. Written approval of a Debt Ratio Waiver request by the Agency is represented if a Conditional Commitment for Loan Note Guarantee is issued.

GUS files that receive an Accept or Accept Full Documentation underwriting recommendation do not require debt ratio waivers.

Purchase Transactions

A Debt Ratio Waiver may be requested provided all of the following conditions are met:

- The maximum PITI ratio cannot exceed 32%, and the maximum TD ratio cannot exceed 44%, *and*
- The credit score of all borrower(s) is 680 or greater, *and*
- At least one acceptable compensating factor, as noted below, is documented.

Acceptable Compensating Factors and Supporting Documentation

Eligible compensating factors must be documented to support a debt ratio waiver.

Assets

- Accumulated savings or cash reserves available post loan closing are equal to or greater than three months of PITI payments.
- A verification of deposit (VOD) or two most recent consecutive bank statements to document the average balance held by the applicant are required.
- Cash on hand is not eligible for consideration as a compensating factor.

Employment

- The applicant(s) (all employed applicants) has been continuously employed with their current primary employer for a minimum of two years. A "Request for Verification of Employment" (VOE) (Form RD 1910-5, comparable HUD/FHA/VA or Fannie Mae form, or other equivalent), or a VOE prepared by an employment verification service (e.g., The Work Number.) must be provided.

- Applicants that have received Social Security benefits or retirement income for two years may utilize this compensating factor with documentation to support the history of receipt of benefits.
- This compensating factor is not applicable for self-employed applicants

Refinance Transactions

GUS files that receive a GUS recommendation of Refer or Refer with Caution are not supported by GUS require debt ratio waivers. Supporting documentation must be submitted to the Agency.

Streamlined-assist refinance loans do not require debt ratio calculations, and therefore no debt ratio waiver.

Debt ratios for refinance loans are not limited to the maximum purchase debt ratio thresholds.

Acceptable Compensating Factors and Supporting Documentation

At least one eligible compensating factor must be documented to support a debt ratio waiver.

- A credit score of 680 or higher for each applicant
- Assets
    - Accumulated savings or cash reserves available post loan closing is equal to or greater than three months of PITI payments.
    - A verification of deposit (VOD) or two most recent consecutive bank statements to document the average balance held by the applicant are required.
    - Cash on hand *is not* eligible for consideration as a compensating factor.
- Employment
    - The applicant(s) (all employed applicants) has been continuously employed with their current primary employer for a minimum of two years. A "Request for Verification of Employment" (VOE) (Form RD 1910-5, comparable HUD/FHA/VA or Fannie Mae form, or other equivalent), or a VOE prepared by an employment verification service (e.g., The Work Number.) must be provided.

- Applicants that have received Social Security benefits or retirement income for two years may utilize this compensating factor with documentation to support the history of receipt of benefits. This compensating factor is not applicable for self-employed applicants.

Debt Ratio Waiver Request and Agency Approval

Debt ratio waivers must be requested and documented by the underwriter when submitting the loan for the Conditional Commitment. Agency concurrence with the debt ratio waiver is requested by submitting a signed underwriting analysis that cites one or more of the acceptable compensating factors. Underwriters may utilize Fannie Mae 1008 / Freddie Mac 1077, "Uniform Underwriting and Transmittal Summary," or similar form. Evidence of the compensating factor, such as a VOR, VOD, or VOE, must be submitted to the Agency for approval.

Refinances

Types of Refinance Transactions

Cardinal offers three types of refinance transactions:

- Rate and Term (Non-Streamlined),
- Streamlined, and
- Streamlined-Assist

Credit qualification of the borrower is required for the Rate and Term and Streamlined. The Streamlined-Assist program does not require credit qualification, but full income verification/documentation per standard guidelines is required in order to assure annual income eligibility requirements have been met per the USDA Handbook §3555.151(a). DTI does NOT need to be calculated on the Streamlined-Assist.

(Refer to Chapter 15 Texas Section 50(a)(6) & (a)(4) for guidance on an Owelty of Partition lien).

Credit Requirements

For Streamlined and Streamlined-Assist Refinances:

- A credit report is required on the Non-Streamlined, and Streamlined refinances for all borrowers, including a non-borrowing spouse, if applicable.
- A mortgage-credit only report or Verification of Mortgage on the underlying mortgage may be utilized on the Streamlined-Assist.

Refer to the Resource | Government Loan Seasoning Requirements for additional credit and loan seasoning requirements.

Net Tangible Benefit

Refer to the Refinance Comparison Matrix for requirements.

Prohibited Loan Purposes

- Payment of points except for low-income borrowers to reduce their interest rate
- Refinancing of debts owed to other lenders
- Payment of fees, charges, or commissions such as finder's fees or placement fees
- Late fees are not eligible to be included in the new loan amount
- Cash-out is not eligible
- However, remaining funds at loan closing that may occur due to final real estate tax or insurance calculations may be returned to the borrower at closing.

Subject Property Mortgage Debt not in Borrower's Name

In some circumstances, a borrower may be on title to the subject property but not on the existing mortgage. In this instance, the loan is ineligible as a refinance and must be underwritten as a purchase transaction.

Property Eligibility

Property must be owner-occupied.

Properties that were eligible at the time of closing the underlying lien that may have become ineligible are still allowed under the refinance programs. The property does not have to be in an eligible rural area.

If the subject property is a manufactured home being refinanced using the Streamline or Streamlined-Assist without an appraisal, evidence of acceptable collateral (from prior RD loan) must be provided to document the property meets manufactured home guidelines. Refer to the USDA Manufactured Housing Requirements section for property requirements.

Property Inspections

Termite, well, and septic inspections are not required for refinances. Flood certificates are required, and flood insurance must be obtained if necessary.

Note: Cardinal may require inspections or repairs as needed to support the appraisal and marketability of the subject property. Expenses related to repairs may not be financed.

Household Income

Households must meet the applicable adjusted annual household limit per USDA guidelines for the area for all three refinance types.

Debt to Income Ratios

- The housing ratio maximum is 29%, and the total debt to income of 41% of the total qualifying income.
- Higher ratios may be considered with strong compensating factors and a completed Debt Ratio Waiver Request (not required with a GUS Accept).
- DTI is not calculated on the Streamlined-Assist program.
- Refer to product snapshots for additional information.

Refinance Comparison Matrix

<table>
<tr><th colspan="4">Refinance Comparison Matrix</th></tr>
<tr><th>Requirement</th><th>Rate and Term Non-Streamlined</th><th>Streamlined</th><th>Streamlined-Assist</th></tr>
<tr><td>Appraisal</td><td>Required</td><td>Not Required</td><td>Not Required</td></tr>
<tr><td>Eligible Borrowers</td><td colspan="3">Must have current USDA Rural Development Guaranteed Loan (Direct loans are ineligible)
Must reside in an eligible rural area or an area that was eligible at the time of the original loan closing</td></tr>
<tr><td>Maximum Loan Amount, eligible loan costs listed</td><td>Cannot exceed new appraised value, except the upfront guarantee fee

May include the following:
Principal and interest owing on the underlying lien
Reasonable and customary closing costs
Funds to establish tax and insurance escrow
Upfront guarantee fee, if financed</td><td>Cannot exceed the original loan amount, except the upfront guarantee fee

May include the following:
Principal and interest owing on the underlying lien
Reconveyance fee
Upfront guarantee fee, if financed</td><td>Cannot exceed the original loan amount, except the upfront guarantee fee

May include the following:
Principal and interest owing on the underlying lien
Closing costs
Funds to establish tax and insurance escrow (prepaids)
Upfront guarantee fee, if financed</td></tr>
<tr><td>Net Tangible Benefit Required?</td><td colspan="2">Loan amount calculations as per guidelines above
Interest rate requirements</td><td>Loan amount calculations as per guidelines above
Interest rate requirements
$50 or greater reduction in a new principal and interest payment (including annual fee) as compared to current principal and interest payment (including annual fee)</td></tr>
<tr><td>Add/Remove Borrowers</td><td colspan="2">Borrowers may be added; and
Existing borrowers may be deleted as long as</td><td>Add borrowers only, Existing</td></tr>
</table>

(one original borrower must remain)	one original borrower remains on the loan.	borrowers on the current mortgage note must remain on the refinanced loan • Only deceased borrowers may be removed
Loan Seasoning	• The existing loan must have closed 12 months before the request of the Conditional Commitment. • Refer to the Resource | Government Loan Seasoning Requirements for additional credit and loan seasoning requirements.	
Credit	• Loan paid as agreed 180 days before the loan request to USDA • All credit requirements noted in this Lending Guide and Chapter 10 of the USDA Handbook 3555	• Loan paid as agreed 12 months before the loan request to USDA
Ratios	• GUS Accept - no debt ratio waiver required • GUS Refer - debt ratio waiver required if exceeds 29/41%	• No ratio calculation is required.
Can GUS be utilized?	Yes	No
Subordinate Existing Second Liens	Yes	
Meet Adjusted Annual Income Limitation	Yes	
Late Mortgage Fees Eligible to be Refinanced	No	
Properties now in Ineligible Rural Areas Continue to be Eligible	Yes	

References

Reference List
Attorney Procedure
Benefit Panner | Income Taxes and your Social Security
Chapter 15 Texas Section 50(a)(6) & (a)(4)
Chapter 16 | Insurance | Lending Guide
Compliance Loan Exception Policy
Form RD 1924-6
GRH Nationwide Eligibility Website
Compliance | Natural Disaster Operations Policy
Checklist | Power of Attorney
Power of Attorney Procedure
Refinance Comparison Matrix
USDA Eligibility

Revision History

Revision History is to be used as a reference only and will only provide a summary of document changes.

Date	Description	Approver
4.5.24	Added guidance under Borrower Eligibility for Acceptable Citizenship or Immigration Status. Additional direction is provided with the retirement of USDA's SAVE application available through GUS This update aligns with USDA and is effective 4.1.24 (date SAVE is no longer available in GUS)	Kristen Bellon
4.3.24	Removed Housing as an Eligible Compensating Factor for a Debt Ratio Waiver request for GUS refer findings This update aligns with USDA and is effective immediately	Kristen Bellon
3.29.24	Added tax year 2023 mileage reimbursement rate Added additional guidance under Business Debt in Borrower's Name outlining the requirements for documenting the business paid debt This is a clarification and effective immediately	Kristen Bellon Ellen Clayson
3.15.24	Added new table and additional guidance for New Property Inspections and Exhibits splitting out requirements for Stick Built and Manufactured Homes New guidance is effective for loans with Conditional Commitments dated on or after 4.1.24	Kristen Bellon
3.14.24	Added guidance for Borrower Relocating with the Same Employer. This change is effective immediately	Kristen Bellon
3.13.24	Effective for loans with Conditional Commitments dated on or after 4.1.24: ● Added Appraisal Photographs section to clarify the photograph requirements for appraisals ● Removed Windmills and Cell Towers from the list of income producing attributes related to the property and added guidance for residential properties that house minimal income producing features ● Extended validity date of the water analysis report from 150 to 180 days	Kristen Bellon

	• Added additional clarification under Accessory Dwelling Units and aligned language with the HB 1-3555 (no changes to policy) • Added additional clarification under Flood Insurance to align language with the HB 1-3555 (no changes to policy)	
2.14.24	Added requirements for Carbon Monoxide and Smoke Detector Standards depending on property construction and appraisal type	Ellen Clayson
2.1.24	Added guidance for Temporary Buydown	Kristen Bellon
1.26.24	Added direction that the Services Systematic Alien Verification for Entitlements (SAVE) application through GUS will no longer be available as of April 1st, 2024	Kristen Bellon
1.23.24	Updated guidance for ineligible income indicating Marijuana / Cannabis Income is an unacceptable type, regardless of state law. This applies to income derived from both W2 and Self-Employment sources	Kristen Bellon
12.28.23	Added minor clarifications to the Balloon and Deferred Payments, PITI Ratio and Total Debt Ratio sections	Kristen Bellon
11.17.23	Added guidance for assets from a Private Savings Club	Kristen Bellon
10.27.23	Added guidance for borrower's employed by family. Added overlay to require require a loan exception review for borrowers employed by family less than six months	Kristen Bellon
10.23.23	Added Obtaining Credit section which outlines the process for certification used to determine applicants do not meet the requirements to obtain a traditional conventional credit loan	Kristen Bellon
10.23.23	Clarified applicants that have been excluded from a non-housing federal program continue to be eligible to participate in the SFHGLP, unless the individual becomes suspended or debarred pursuant to 3 CFR Part 180 and 417. Clarified applicants that are excluded from federal housing programs or excluded from all federal programs are ineligible to participate in SFHGLP. Clarified which individuals are to be checked against the LDP/GSA lists	Kristen Bellon
10.9. 23	Added additional guidance under Housing History for Gus Refer, Refer with Caution findings. Added guidance for All Guaranteed Loans outlining the underwriter's responsibility to evaluate applicants who will pay a higher proposed mortgage payment in comparison to the current housing	Kristen Bellon

10.9.23	Added guidance for a Deficiency Balance under the Foreclosure or Repossession section. Added clarification that the seasoning period for a foreclosure or repossession begins on the date in which the title transferred from the applicant	Kristen Bellon
10.9.23	Added guidance that a Previous USDA loss which resulted in a loss paid by the Federal government within seven years is considered significant derogatory credit and requires submission to the Agency	Kristen Bellon
10.9.23	Under the Federal Taxes section, added guidance for when the borrower has more than one repayment plan with the IRS	Kristen Bellon
10.9.23	Added language to Chapter 11, 12 or 13 Bankruptcy section to clarify that for GUS Refer, Refer with Caution, and manually underwritten files with plans dismissed less than 12 months, a credit exception is required. Added additional guidance under Plan in Progress GUS Accept Files/Accept with Full Documentation	Kristen Bellon
10.9.23	Added guidance for Overdraft fees to the Non-Sufficient Funds (NSFs) section	Kristen Bellon
10.9.23	Added section Credit Inquiries, Recent Debts and Undisclosed Debts. Added guidance that for undisclosed debts not listed on the loan application but discovered during the mortgage loan application process must be manually entered into GUS	Kristen Bellon
10.9.23	Updated guidance for "Business Accounts" and "Depository Accounts" to state that lenders must use the balance as reflected on the most current bank statement or Verification of Deposit (VOD), if the date on the VOD is after the bank statement, for reserves	Kristen Bellon
10.9.23	Added Reserves section	Kristen Bellon
10.9.23	Added clarification under the Social Security Income section that benefits paid on behalf of an individual who is not the borrower must be documented to continue for three years	Kristen Bellon
10.3.23	Added additional guidance under Net Family Assets section that if applicants own a business, the lender needs to verify that assets are not transferred from a personal account to a business account and vice versa	Kristen Bellon
10.3.23	Updated 4506-C Transcript Processing section removing guidance that any adult household members that do not have a Social Security Number, I-TIN number, or other identification to confirm	Kristen Bellon

	they are legal U.S. residents to enable the lender to submit a 4506-C request may render the application ineligible	
10.3.23	Added GUS Instructions section under rental income; Unless manually overwritten, GUS auto-calculates net rental income by employing a 25% vacancy factor	Kristen Bellon
10.2.23	Updated Gift Funds Documentation section to clarify that Gift funds may not be contributed from any source that has an interest in the sale of the property (seller, builder, real estate agent, etc.)	Kristen Bellon
9.28.23	Added Eligibility guidance for the new Eligibility Area Maps available on the USDA Income and Property Eligibility site effective October 1st, 2023	Kristen Bellon
9.4.23	Removed requirement for a lien search for a non-borrowing spouse with no Social Security number	Ellen Clayson
8.24.23	Defined Relative in the Power of Attorney section	Ellen Clayson
7.26.23	Expanded definition of Manufactured Homes	Kristen Bellon
7.26.23	Updated several topics within the Manufactured Home section; replaced Building Requirements topic with Authorized Loan Purposes, added manufactured homes with a manufactured date exceeding 12 months of the purchase agreement contract are ineligible, added information on how to obtain an alternative to the original HUD Certification Label	Kristen Bellon
7.26.23	Added clarification that lenders are not authorized to close loans prior to the issuance of the Conditional Commitment	Kristen Bellon
7.10.23	Added Undisclosed Obligation section to define, identify sources where the obligation may be found, and what documentation is required	Ellen Clayson
6.5.23	Added clarification under Appraisal Transfer when the property is subject to repairs or additional inspections and requires a 1004D	Kristen Bellon
5.30.23	Added Short-Term Debt Obligations section which provides guidance for buy now/pay later accounts such as Klarna, Affirm and Afterpay	Kristen Bellon
4.11.23	Added clarification that funds provided by the seller for repairs are not included in the interested party contribution limitation	Kristen Bellon
4.11.23	Added clarification for Streamlined-Assist refinance that existing borrowers on the current mortgage note must remain on the refinanced loan	Kristen Bellon
4.5.23	Added Documentation Requirements under Sale Proceeds section outlining allowable documentation when utilizing estimated proceeds or evidencing the exclusion of a mortgage liability	Kristen Bellon

3.23.23	Updated Homeowner's Association Dues section with additional verification method when documenting association dues	Kristen Bellon
3.22.23	Added additional guidance for documenting property taxes on other real estate owned	Kristen Bellon
3.16.23	Added guidance for non-borrowing spouse without a SSN	Kristen Bellon
3.7.23	Added tax year 2022 mileage reimbursement rate	Kristen Bellon
3.7.23	Revised calculation for property tax calculations for new construction properties in Texas and New Mexico	Ellen Clayson
2.24.23	Updated Real Estate Tax section for new construction using new functionality for projected taxes in qualifying, but allows current taxes to be used for closing if the borrower requests	Ellen Clayson
2.8.23	Updated Community Debt Inclusion Exception > Texas to allow revolving debt to be excluded	Ellen Clayson
1.18.23	Added the following updates related to PN 573 • Verification Requirements section • Added properties generating boarder income as ineligible • Added guidance for IDA asset type • Added guidance for Life Insurance asset type • Added Lump Sum Additions section • Added guidance for Personal Property Sold • Added guidance for Retirement: 401k, IRA, etc. as asset type • Updated guidance for Owning an Existing Dwelling to reflect guidance for properties owned more than and less than 24 months • Added additional guidance under Calculation of Annual Income • Added clarification under Alimony or Separate Maintenance • Added Child Support section • Added clarification under Automobile Allowance and Expense Allowance to include the full monthly debt in the total debt ratio • Added additional guidance under Bonus income • Added Employee Fringe Benefits section • Added guidance for Guardianship/Conservatorship Income • Removed requirement for a copy of the W4 under MCC section • Added guidance for Overtime income under its own section • Added guidance for Pension income • Added guidance for Retirement income • Added guidance for Secondary Employment • Added guidance for Unreimbursed Employee or Business Expenses • Added guidance for Variable income	Kristen Bellon

	• Added section for Income Verification • Added guidance for Large Deposits	
1.18.23	Updated guidance for income received from IHSS	Kristen Bellon
1.8.23	Added exception handling for property tax calculations for new construction properties in Texas and New Mexico	Ellen Clayson
12.19.22	Updated Location of Employer section specifying requirement is applicable to purchase transactions only	Kristen Bellon
12.13.22	Clarified documentation allowed to document revolving debt balance that is being paid off to qualify	Ellen Clayson
12.5.22	Updated Multiple Parcel section with additional guidance	Kristen Bellon
12.5.22	Updated New Property and Inspection requirements for Newly Constructed Properties	Kristen Bellon
12.5.22	Added additional guidance under Repair Escrows for Existing and New Dwellings	Kristen Bellon
12.5.22	Added additional guidance and clarification under Accessory Dwelling Units (ADU)	Kristen Bellon
12.5.22	Added Condominiums and Planned Unit Developments section	Kristen Bellon
12.5.22	Updated guidance for Delinquent Child Support	Kristen Bellon
12.5.22	Clarified under several areas of Credit Analysis when a Credit Exception is required	Kristen Bellon
12.5.22	Updated Appraisal Validity date period	Kristen Bellon
7.29.22	Clarified that credit committee approval is required for Contract or Employment Offer	Kristen Bellon
6.30.22	Added single-wide eligibility for manufactured homes	Ellen Clayson
6.27.22	Added clarification to require foreign assets be deposited to a US financial institution prior to closing	Kristen Bellon
6.6.22	Added guidance for the Conditional Commitment and Required Closing Time Frames	Kristen Bellon
5.23.22	Clarified that proposed tax amounts on new construction transactions will be derived from the CoreLogic Property Tax Estimate if a Tax Certificate cannot be obtained from the taxing authority.	Ellen Clayson
5.20.22	Added guidance under Eligible Borrowers for non-U.S. Citizens	Kristen Bellon
3.22.22	Added clarification under Newly Employed Borrowers that guidelines may not apply for Seasonal and Union Member workers.	Ellen Clayson
2.14.22	Added tax year 2021 mileage reimbursement rate	Kristen Bellon

1.27.22	Added Site Requirement section	Kristen Bellon
1.27.22	Added Traveling Nurse section	Kristen Bellon
1.24.22	Clarified Verification of Rent (VOR) requirements for a GUS Refer or Refer with Caution recommendation	Kristen Bellon
1.12.22	Added Appraisal Requirements section	Kristen Bellon
12.17.21	Immaterial changes. Corrected grammar and formatting to align with company standards	N/A
10.26.21	Added additional clarification under Non-Fixed Payment Student Loans for determining a monthly payment amount	Kristen Bellon
10.26.21	Added additional clarification for including monthly payments on Installment and Revolving Accounts. Added 30-Day Accounts section	Kristen Bellon
10.26.21	Added Obligations not Included in Debt to Income Ratios section	Kristen Bellon
9.20.21	Added Timeshare Monthly Maintenance Fees section providing clarification that associated maintenance fees should be included in the borrower's DTI	Kristen Bellon
9.1.21	Clarified three year continuance of certain income types is based off of the Note date	Kristen Bellon
8.20.21	Updated Large Deposit section revising language surrounding when a deposit must be addressed	Kristen Bellon
7.30.21	Updated guidance for income received from In Home Supportive Services (IHSS)	Kristen Bellon
6.16.21	Added guidance for Mortgage Credit Certificates as eligible repayment income type	Kristen Bellon
4.12.21	Added guidance for foreclosure on vacant land	Kristen Bellon
4.5.21	Added guidance for borrowers employed by a Trade Union	Kristen Bellon
3.30.21	Added guidance for mileage reimbursement	Kristen Bellon
3.13.21	Added Net Family Assets section	Kristen Bellon
3.1.21	Added guidance for Chapter 11 and 12 Bankruptcies	Kristen Bellon
3.1.21	Added guidance for completion of form 3555-21	Kristen Bellon
3.1.21	Clarified that the lesser of the current balance or previous month's ending balance will be input on the "Assets and Liabilities" page of GUS if utilized in the underwriting decision	Kristen Bellon

3.1.21	Added clarification for refinance transactions; verification of an alien's eligibility status is required when a new borrower, who is not a U.S. Citizen, is added to the loan	Kristen Bellon
3.1.21	Added Corporations and Partnerships as ineligible applicant types	Kristen Bellon
3.1.21	Added guidance for Boarder Income. Note; may not be considered towards Repayment Income	Kristen Bellon
3.1.21	Clarified- Source options and required documentation for the following: "Capital Gains", "Depreciation/Depletion", "Dividends", "Employment Related Account", "Government Benefits", "Interest", "Mortgage Differential Payment", "Notes Receivable", "Per Diem", "Rental Income", "Royalty Payments", "Section 8 Housing Vouchers", "Separate Maintenance/Alimony", "Trust Income", and "Workman's Compensation".	Kristen Bellon
3.1.21	Provided additional guidance for Commission income	Kristen Bellon
3.1.21	Updated required history from one year to two years for Unemployment Income	Kristen Bellon
3.1.21	Provided additional guidance for use of Gift Funds	Kristen Bellon
3.1.21	Added Temporary Leave Income guidance	Kristen Bellon
3.1.21	Clarified requirements for Consumer Credit Counseling	Kristen Bellon
2.19.21	Added Foreign Deposits section	Kristen Bellon
2.16.21	Added guidance surrounding Continuance of Child Support income	Kristen Bellon
2.12.21	Clarified Loan Seasoning requirements for Refinance Transactions that the existing loan must have closed 12 months prior to the request of the Conditional Commitment	Kristen Bellon
2.8.21	Added guidance for Mixed-Use Properties	Kristen Bellon
1.25.21	Added requirements for Separate Maintenance income	Kristen Bellon
11.19.20	Added Location of Employer section providing guidance for commuting distance and for when a borrower is working remotely	Kristen Bellon
9.30.20	Added clarification that the borrower may not receive cash back at closing in excess of the amount paid out of pocket for costs such as a deposit, earnest money, appraisal, or other allowable items	Kristen Bellon
9.4.20	Provided additional clarification for when an exception request through credit committee is required for a Newly Employed Borrower	Kristen Bellon
8.4.20	Updated Paycheck Protection Program (PPP) section to state that the loan requires consideration for repayment in calculating debt ratio for qualification	Kristen Bellon

7.27.20	Added guidance for income reported on Form 1041 U.S. Income Tax Return for Estates and Trusts	Kristen Bellon
6.25.20	Added guidance for income from marijuana-based business	Ellen Clayson
6.10.20	Provided clarification for Contingent Liabilities that in the case of forbearance or deferment, if a payment has been deferred within the most recent 12 months, the obligation must be included in the borrower's DTI	Ellen Clayson
6.9.20	Added guidance for using income from state sponsored programs such as IHSS	Ellen Clayson
6.5.20	Added guidance for using income from gambling winnings	Kristen Bellon
6.4.20	Added Contract/Employment Offer section	Ellen Clayson
6.2.20	Added Payment Shock section	Ellen Clayson
5.15.20	Added Property Flipping section	Kristen Bellon
5.12.20	• Removed requirement that no borrower may currently own a dwelling which is in the local commuting area defined as 100 miles; that is structurally sound, functionally adequate and large enough to accommodate the needs of the borrower's household • Updated Debt Ratio Waiver section breaking out requirements for Purchase and Refinance transactions. Updated acceptable compensating factors requirements • Added to Rental Income section. Clarified if the credit report reflects late mortgage payments on the rental dwelling in the 12 months prior to loan application, the full mortgage liability must be included in the monthly debts • Added guidance for previous mortgage(s) to include those with No Release of Liability and those included in a Divorce • Added auto, energy, and additional lease payments must have the payment included in the monthly debt regardless of months remaining to pay on the contract • Added that court ordered debts and tax repayment plans with ten or less payments remaining may be excluded if the payment does not exceed 5% of the monthly repayment income • Added guidance for Multiple Parcels • Removed individual sewage systems may be acceptable when the cost to connect to a public or community sewage system is not reasonable • Added requirements for Individual Water Systems in Hawaii and the Western Pacific Region • Added Owning an Existing Dwelling section which provides guidance for when the borrower retains ownership in their departing residence	Ellen Clayson

	• Added additional guidance for use of homestead property taxes in qualification	
5.8.20	Provided requirements to allow the subject transaction to proceed when an active forbearance is canceled	Ellen Clayson
5.7.20	Added guidance for a Paycheck Protection Program (PPP) loan issued by the SBA and clarified a payment does not need to be included in the qualifying ratios	Ellen Clayson
5.5.20	Added guidance that if the subject mortgage, or any mortgage tied to other Real Estate Owned by the borrower, is in a forbearance status, the loan is ineligible for financing	Erica Price
5.4.20	• Added guidance for Undisclosed Debts and Validating the Credit Score • Added guidance for Short Sales • Added Garnishments section • Added guidance for Deed-in-Lieu, Foreclosure and Repossession. Added clarification that loss of a timeshare is not considered a foreclosure and will reflect in the credit score • Added Federal Taxes section which provides guidance on Repayment Plans, Extensions and Failure to File • Added clarification to Delinquent Federal Non-Tax Debt • Renamed Credit Waiver section to Credit Exception section and added guidance for exception requests • Added guidance for Charge-Off accounts • Added additional guidance and clarification for Chapter 7 and Chapter 13 bankruptcies • Added guidance for child support that is presently delinquent • Added requirement that frozen credit must be available from all repositories • Added additional guidance for CAIVRS response • Added guidance for Joint Applicants	Kristen Bellon
4.21.20	• Added guidance for balloon, deferred payments and payments coming due within the next 24 months • Updated guidance on short-term obligations with payments of less than 10 months	Ellen Clayson
4.16.20	Clarified that funds from commission earnings may come from the occupying borrower only	Kristen Bellon
4.3.20	Added requirement for when the current year's tax returns reflect federal taxes due, evidence of payment must be documented	Ellen Clayson
4.2.20	Added section, Exemptions for Seniors, Veterans, Disabled Veterans or Others	Erica Price

3.26.20	Added Texas Section 50(a)(6) loan as an ineligible transaction type	Kristen Bellon
3.17.20	Updated the Refinance Comparison Matrix with loan seasoning and credit requirements for all refinance transactions	Erica Price
3.11.20	Provided guidance for Overdraft Protection Withdrawals	Erica Price
2.6.20	Provided clarification when including an installment debt with payments less than 10 months remaining, the Months Left field in the Credit > Liabilities screen must be manually changed to greater than 10 months	Ellen Clayson
1.31.20	Added Loan Modification section	Ellen Clayson
1.24.20	Added Borrower Living Rent Free section	Ellen Clayson
1.19.20	Added clarification that CAIVRS screening is required for borrowers utilizing Streamline and Streamlined-Assist Refinance loans	Ellen Clayson
1.9.20	Added Income Trending section to provide guidance on calculations for an increase or decrease in income	Kristen Bellon
1.3.20	Added requirements for resubmission to GUS when certain attributes of the loan change	Erica Price
12.23.19	Updated Rental Income section to include Required Documentation and Annual Income Calculation. Removed requirement for three months PITIA reserves	Ellen Clayson
12.22.19	• Added Tax Abatement section • Provided guidance on acceptable documentation permitted to verify monthly HOA dues	Ellen Clayson
12.12.19	Added section Difference Between a Solar Lease and a Solar Power Purchase Agreement	Kristen Bellon
12.4.19	Added Solar Panel section	Ellen Clayson
12.2.19	Added Newly Employed Borrower section and provided requirements for borrowers who have recently started employment with a new employer and have been on the new job less than 6 months	Ellen Clayson
11.27.19	Clarified under Tradeline Requirements that if there is more than one applicant, only one applicant is required to have a valid score	Ellen Clayson
11.13.19	• Provided requirements for manufactured homes under the Streamline and Streamlined-Assist Refinance Property Eligibility section • Clarified 401(k) loans reflected on paystubs do not need to be counted in qualifying ratios and additional documentation does not need to be provided	Ellen Clayson
11.11.19	Added Chapter 12 Bankruptcy section	Ellen Clayson

11.8.19	• Added Real Estate Commission section outlining requirements for borrowers using real estate commissions earned from the subject transaction towards down payment and closing costs. • Updated manufactured home section to permit financing on existing homes not currently held by RD and constructed on or after January 1st, 2006. Property must be located in one of the Pilot States.	Ellen Clayson
11.5.19	Added Idaho as an eligible state for Spousal Debt Exception	Ellen Clayson
10.28.19	• Significant changes made to Adjusted Annual Income Deduction section • Updated 4506-T Transcript Processing Section • Updated Employment/Income Verification section. Added guidance for increase/decrease in income, Automobile Allowance, Seasonal Employment, Government Benefits, Retirement/Pension Income, Social Security Benefits, Tip Income and Trust Income • Added borrower on title to the subject property, but not on the existing mortgage is ineligible as a refinance and must be underwritten as a purchase transaction • Updated Power of Attorney section	Ellen Clayson
10.23.19	• Updated Non-Traditional Credit and Tradeline requirements • Updated Appraisal section with guidance on Condition and Quality ratings	Ellen Clayson
10.17.19	• Removed Interest Rate Cap limitation • Added section, Repair Escrows for Existing and New Dwellings • Added information on Flood Insurance deductibles • Updated Student Loan section • Added section, Tolerance Threshold in Credit and Obligations • Updated Thermal Requirements section • Updated Evidence of Construction Inspection requirements • Added section, Water and Wastewater Disposal Systems • Clarified that assets from a 529C College Savings Plan are ineligible	Ellen Clayson
10.8.19	Added section Custodial Accounts for Children or Others	Ellen Clayson
9.25.19	Revised eligible states under the Manufactured Home Pilot Program	Kristen Bellon
9.24.19	Added Clarification for Community Property Debt Inclusion Exceptions for Remaining States	Ellen Clayson
9.2.19	• Clarified that the most recent and accurate credit report	Ellen Clayson

	must be used in the loan decision; added requirements for borrowers converting from 1099 to W-2 wage earner with same employer • Revised Age of Appraisal to 150 days and Clarified Appraisal Update Guidelines for an Additional 90 days - Total of 240 days.	
8.30.19	Added link for Natural Disaster Operations Policy	Ellen Clayson
8.21.19	Clarified that Cardinal does not offer the 502 Direct program. Only the 502 Guaranteed program is available.	Ellen Clayson
6.12.19	Added Process for 1004D as a PTF Condition	Ellen Clayson
5.23.19	Clarified Joint Accounts do not require Access Letters from Other Parties	Ellen Clayson
5.20.19	Added Nevada to Community Property Debt Exception	Ellen Clayson
5.16.19	Debt Ratio Waiver	Ellen Clayson
5.10.19	Added Community Property Debt Inclusion Exception for Texas	Ellen Clayson
4.22.19	Added Streamlined-Assist Refinance	Erica Price
4.11.19	Added Streamline Refinance	Erica Price
4.8.19	Removed manual UW requires min 620 FICO	Erica Price
3.21.19	Updated Septic Inspection Requirements	Erica Price
3.2019	Borrowers with DACA Status	Erica Price
2.2019	Hazard Insurance Deductible	Shannon Ames
12.2018	Manufactured Home Pilot States	Shannon Ames
12.2018	Minimum Credit Score	Shannon Ames
9.2018	Clarification to Manufactured Home requirements and USDA Property Standards.	Erica Price
3.2018	Non Traditional Credit	Erica Price
1.2018	Tax Transcripts	Erica Price
10.2017	Initial Approval	Erica Price