

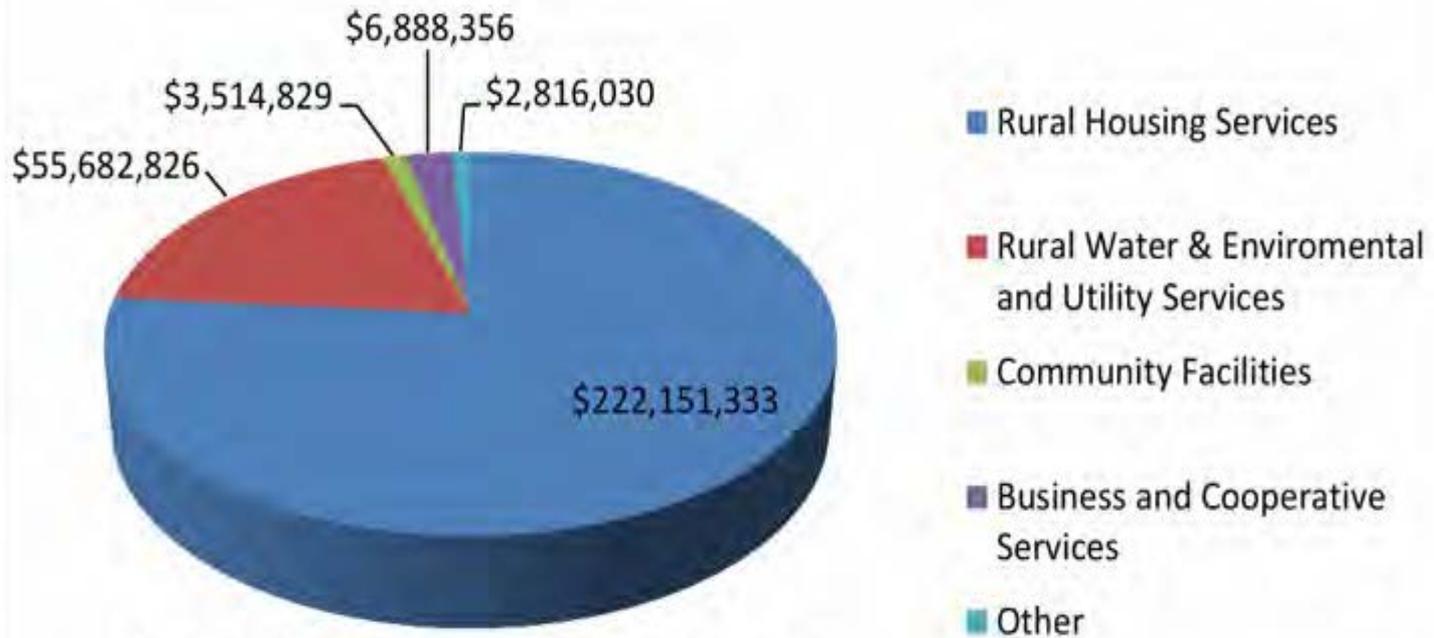
# MONTANA HOUSING PARTNERSHIP CONFERENCE

JUNE 9-11, 2015



**United States  
Department of  
Agriculture**

# **RURAL DEVELOPMENT**



**\$291,053,374 in FY 2014**

# Guarantee Program

- ▶ Nationally we have obligated 73,000 loans for 10B as of the end of April
- ▶ Projected to spend 20B by fiscal year end
- ▶ In Montana we have obligated 580 loans for just over 99M as of the end of April
- ▶ FY14 Montana obligated 1329 loans for just over \$218.6M

# USDA RURAL DEVELOPMENT

## SIGNIFICANT CHANGES MADE TO THE GUARANTEE PROGRAM

- ✓ 10/1/14 – Agency expects that all lenders will submit loan closing transactions electronically
- ✓ 12/1/14 – New 7 CFR Part 3555 regulation goes into effect
- ✓ 12/1/14 – Next phase of automated system – LNG's issued electronically
- ✓ 3/28/15 – Streamline issuance of the Conditional Commitment implemented

# Electronic Issuance of Conditional Commitment

- ▶ Lenders upload the required loan submission documents into GUS
- ▶ Rural Development reviews file
- ▶ Lender received emailed notification from system that Conditional Commitment has been issued

# Automated Lender Loan Closings

- ▶ Lenders electronically submit the upfront Guarantee Fee to the Agency via pay.gov
- ▶ Electronically upload loan closing documentation via a secure environment (e.g. Promissory Note, HUD-1, etc.)
- ▶ View, download, print, and/or save the LNG immediately upon issuance by the Agency

# Getting Set Up – LLC

- ▶ Lenders must complete a Lender Loan Closing User Agreement
- ▶ Lender Loan Closing users must obtain a Level 2 e-Authentication account to access the system  
<https://identitymanager.eems.usda.gov/registration/index.aspx>
- ▶ Make an appointment with a Local Registration Authority (LRA) at a USDA Service Center near you.
- ▶ Once your e-Auth ID is activated to a Level 2 e-Auth account, your organization's Lender Loan Closing Security Administrator can assign you access to the LLC system.
- ▶ [RD.DCFO.GLB@stl.usda.gov](mailto:RD.DCFO.GLB@stl.usda.gov) for questions

# 7 CFR Part 3555 Regulation Highlights

# Rural Refi Pilot Program

- ▶ Must meet income requirements
  - ▶ Must reside in the property
- ▶ Have made timely mortgage pmts for the previous 12 months
  - ▶ Must be an existing RD guarantee or direct
- ▶ Interest rate must be a minimum 100 basis points below the current interest rate (**revising**)
  - ▶ Borrowers can be added but not removed
- ▶ No appraisal, credit report, inspections required
  - ▶ Can include principal, interest, closing costs, guarantee fee

# Chapter 12: Property

## Site Requirements:

- ▶ Site = Typical for the area
- ▶ Income-producing buildings or land are ineligible

# Chapter 12: Property

## Escrow Holdbacks

When development work is planned and cannot be completed because of inclement weather, material shortages, or other acceptable reasons, an escrow account may be established. The Agency may issue a LNG prior to the completion of repairs provided the following conditions are met:

# Escrow Holdbacks

- ▶ **The cost of any remaining work, exterior or interior, is not greater than 10% of the final loan amount**
- ▶ **The livability of the dwelling is not affected**
- ▶ **A signed contract between the borrower and the contractor is in effect for the proposed work and the funds to be escrowed are not less than the contract**
- ▶ **The HUD-1 reflects the holdback**
- ▶ **The development will be complete within 180 days of closing**
- ▶ **The escrow account is established in a federally supervised financial institution**
- ▶ **Certification of completion is required to verify the work was completed and must: be completed by the appraiser, completed per original appraisal report, accompanied by photos and signed by appraiser who performed the final inspection**

# Chapter 12:

## Single Close Construction Loans

### Combination Construction Permanent Loans

A combination construction permanent loan can be offered to eligible applicants by approved lenders with appropriate construction lending experience and adequate

controls for interim construction cost disbursements.

- ▶ Provides funds during the construction period and then converts to a permanent loan
- ▶ Considered a purchase transaction
- ▶ Closing occurs prior to the start of construction with funds disbursed at closing to cover land
- ▶ Interest rate cannot float beyond closing
- ▶ **The LNG may be issued once the interim construction loan is closed**

# Chapter 12: Property

- ▶ Cisterns – MT AN458
- ▶ Septic – Lender is required to obtain a septic evaluation. This can be performed by a FHA roster appraiser, government health authority, a licensed septic system professional or a qualified home inspector. For existing dwellings a HUD roster appraiser who has indicated the dwelling meets the required HUD handbooks does not require further septic certification

# Chapter 12: Property

## Flood Zones – Existing Property

- ▶ Existing dwellings are eligible only if 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, as approved by the lender, is purchased by the borrower.
- ▶ Must be maintained for the life of the loan for existing residential structures when any portion of the structure is determined to be located in a Special Flood Hazard Area. Not required for any additional structures that are located on the property but are detached from the primary residential structure.

# Flood Zones – New Construction

- ▶ Ineligible unless:
- ▶ A final LOMA or LOMR removes the property for the Special Flood Hazard Area or;
- ▶ Obtain a FEMA NFIP Elevation Certificate (FEMA Form 086-0-33). Must document that the lowest floor (including the basement) of the residential building, and all related improvements/equipment essential to the value of the property, are built at or above the 100-year flood elevation in compliance with NFIP criteria. Prepared by a licensed engineer or surveyor.

# Appraisals

- ▶ The regulation does not require that the Agency be listed by the lender's appraiser as an "intended user".
- ▶ The cost approach is not required for the Guaranteed Loan Program

# Chapter 10: Credit

## Establishing the Applicant's Reputation

**At least one applicant** whose income or assets are used for qualifications must have at least 3 historical (any account that is open and active with repayment underway or any account that has been open, but may now be closed) trade line payment references that have existed for at least 12 months

# Chapter 5: Origination & Underwriting

## Is There A Maximum Asset Limit?

Can the borrower pass the conventional credit test?

- 20% down (non-retirement liquid assets)
- Pay all closing costs
- No more than 28/36 ratios (w/ 20% down)
- Qualifying credit (2 open trade lines/pd as agreed)
- 30-year fixed rate loan w/o condition to obtain PMI

# Chapter 7:

## Loan Terms & Conditions

### Interest Rate

The lender and borrower negotiate a fixed interest rate as long as it does not exceed the interest rate cap established by the Agency. This cap is 100 basis points over the current Fannie Mae yield for 90-day delivery for 30-year fixed rate conventional loans, rounded up to the nearest one-quarter of 1 percent.

<https://www.efanniemae.com/sf/refmaterials/hzny/index.jsp>

# Chapter 8:

# Applicant Characteristics

## Owning a Dwelling [7 CFR 3555.151 (e)]

An applicant who owns a dwelling to which they will retain ownership is eligible for a guaranteed loan to purchase another home if:

- ▶ The homeowner's current dwelling is not financed by a Rural Development guaranteed or direct Section 502 or 504 loan or active grant (the 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 owned no longer adequately meets the applicants' need. 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 lender must obtain verification that overcrowding has existed for more than 90 days and will persist for at least nine (9) months into the future.

# Chapter 8: (con't)

## **Owning a Dwelling [7 CFR 3555.151 (e)]**

- o 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 stair lift, or extra-wide doors and hallways. Lender must obtain verification of the change in status, the existing property deficiencies, and the suitability of the new property.
- o The applicant is relocating with a new employer, or being transferred by the current employer to an area not within reasonable and locally recognized commuting distance.

# Chapter 9: Income

## Re-Entering the Workforce:

Applicants who re-enter the workforce after an absence to care for a family member or minor child, extended medical illness, or other circumstances reasonable to the lender and have less than a two-year employment and income history, this type of income source may be considered as repayment income if the applicant has been at the current employer for a minimum of six months and there is evidence of a previous employment history.

## Significant increases or decreases in income level:

When an applicant has experienced a significant decrease in income, the previous higher income level cannot be averaged for repayment purposes unless there is documentation of a one-time occurrence (e.g. injury) that prevented the applicant from working or earning full income for a period of time and proof that the applicant is back to the income amount that they previously earned. Focus on the most recent earnings and income that it is likely to be received at the level used for qualifying.

When an applicant has experienced a significant increase in income and the lender proposes to qualify the applicant at the higher amount, sufficient documentation to confirm the increased income is stable and likely to continue at the level used for qualifying must be part of the lender's written analysis of income.

# Chapter 11: Ratio Analysis

## Student Loans

- ▶ Student loans. Lenders must include the greater of one percent of the outstanding loan balance or the verified fixed payment as reflected on the credit report.

Exception: Monthly payment amounts listed on the credit report, which are less than one percent of the outstanding balance may be used when evidence from the loan servicer is obtained indicating; 1) the applicant is on a fixed repayment plan not subject to change under the terms of the current agreement and 2) and the monthly payment amount due. Fixed payments have a monthly amount that is not subject to change through the fixed repayment time frame.

**Income Based Repayment (IBR) plans, graduated plans, adjustable rates, interest only and deferred plans are examples of repayment plans that are subject to change and do not qualify for the exception.**

# 502 Direct Program

- ▶ Low or very-low income applicants
- ▶ Payment Assistance
- ▶ Income and loan limits
- ▶ 100% financing
- ▶ Funded annually
- ▶ 33 year-term up to 38 year
- ▶ Apply directly to Rural Development

# Housekeeping

- ▶ We receive a significant number of emails/phone calls per day with regulation questions or scenarios. This requires a lot of time. Please run these questions by your underwriter first. If she doesn't have an answer then we would be happy to hear from them (the underwriter).
- ▶ Uploading of documents. Until the documents have been uploaded into the system, we will not assign the file
- ▶ Please do not set a closing date without giving RD ample time to review the file and issue the conditional commitment
- ▶ Please do not upload documents that are not necessary. Please review the checklist to determine what is required.
- ▶ Please do not upload the same document(s) multiple times. This will fill up our repository quickly
- ▶ Yes they are working on a FAQ. Will be similar to the matrix
- ▶ To subscribe to ListServ: <http://www.rdlist.sc.egov.usda.gov>

# QUESTIONS?