

USDA Rural Development Single Family Guaranteed Rural Housing Program Purchase and Non-Streamlined Refinance

Fixed Rate

| Primary Residence ^{4,5} | | | |
|---|--------------|------------------------------|---------------------|
| Full Documentation | | | |
| Transaction Type | Units | LTV/CLTV ³ | Credit Score |
| Purchase | 1 | 100% ^{1,2} | 580 ⁶ |
| Limited Cash-Out | 1 | 100%/100% ^{1,2} | 580 ⁶ |

Footnotes:

1. The maximum loan amount is 100% of the appraised value. Refer to the [Loan Amount](#) topic for specifics on what may and may not be included in the loan amount
2. 100% LTV may **only** be exceeded when financing the upfront guarantee fee
3. Existing subordinate financing must be re-subordinated; **no new** subordinate financing
4. Loan being refinanced must be a USDA Guaranteed or Direct loan; conventional, FHA or VA loans **cannot** be refinanced under this program. Refer to the [Refinance Transactions](#) topic for additional requirements and restrictions.
5. Minimum loan amount \$60,000
6. New York transactions **ONLY**: Minimum 600 credit score required

In addition to USDA Rural Development GRH purchase and non-streamlined programs Homebridge offers the USDA Rural Development Streamlined Refinance and the Streamlined-Assist Refinance programs. Refer to the applicable matrix for guidelines specific to those USDA programs.

Complete USDA Guaranteed Rural Housing guidelines, USDA HB 1-3555, revised January 5, 2024, can be accessed at: RD.USDA.gov

USDA Guaranteed Rural Housing (GRH) Program Highlights

- The Guaranteed Rural Housing program offers 100% financing for low to moderate income buyers in rural areas subject to availability of funds from USDA.
- Income must be ≤ 115% of the area median.
- No maximum purchase price
- Not limited to first time homebuyers
- No down payment required
- No reserves required
- Gift funds are eligible for closing costs, guarantee fee or voluntary down payment.

To view **USDA 2024 income limits**: [USDA Single Family Housing Guaranteed Loan Program](#)

Fees

Upfront Guarantee Fee (purchase and refinance transactions):

- 1.00% of the total loan amount

Annual Fee:

- 0.35% - applicable for the life of the loan



| Topic | Guideline |
|-------------------------|--|
| 4506 | <ul style="list-style-type: none"> Signed 4506 required prior to loan closing for both personal and business tax returns (if applicable) for all adult (18 years and older) household members (excluding full-time students). NOTE: A borrower's failure to file their tax returns by the legally required due date is not an eligible reason to not obtain tax transcripts Tax transcripts are processed for the previous 2 years 4506 results must be validated against the income documentation prior to requesting the Conditional Commitment NOTE: If transcripts cannot be obtained from the IRS, they may follow post-closing on a case-by-case basis subject to Homebridge management approval. All documentation from the IRS must be included in the loan file Broker provided processed 4506 results are eligible when ordered through Fraud Technology (link available on the Homebridge website on the "Broker Resources" page under "Express 4506") |
| Age of Documents | <ul style="list-style-type: none"> All credit, income and asset documentation must be ≤ 120 days from the Note date The appraisal is valid for 150 days from the effective date and must be valid at time of Conditional Commitment request. |
| Appraisals | <ul style="list-style-type: none"> Appraisals may be ordered from a Homebridge approved AMC and the appraiser must be an FHA roster appraiser. Appraisal photos (color photographs or electronic images) must be taken of the front and rear of the property, at opposite angles, to show all sides of the subject property and clearly characterize the property condition and quality. Photos must clearly represent the improvements, any physical deterioration of the property, amenities, conditions, and external influences that would have a material effect on the market value or marketability of the subject property. The street scene photo must include a portion of the subject property. <ul style="list-style-type: none"> - If the subject property is proposed construction and the improvements have not been started, the photos must include the grade of the vacant lot. - Condominium projects should include additional photographs of the common areas and shared amenities. Interior photos must include, at minimum: <ul style="list-style-type: none"> - The kitchen, main living area, bathroom(s), bedrooms, - Any other rooms that represent overall condition, recent updates, such as restoration, remodeling, and renovation, - Basement (including all finished and unfinished rooms) - Attic, and/or crawl space (if applicable) if it can be safely accessed without disturbing or moving items that obstruct access or visibility Additional photos are required for any improvements with contributory value that are not captured in the front and rear photos. All properties must have proper ingress/egress. Properties with a shared driveway must have a permanently recorded easement and the easement must be binding to successors and title. Private streets must be hard surfaced or all-weather surfaced and require a permanently recorded easement or be owned and maintained by a Homeowner's Association. |

Appraisals (cont.)

- A minimum of 3 closed comparable sales are required. The source of the closed comparable sales used in the appraisal must be from one of the following or a desk review will be required:
 - [MLS](#), or
 - [Comps Inc.](#), or
 - [GeoData Plus](#) (NY only), or
 - [PropertyShark](#) (NY only), or
 - [StreetEasy](#) (NY only)
- **NOTE:** Comparables from a public independent source are **only eligible** in rural areas of Maine, New Hampshire, and Vermont where MLS is **not** common
- The comparable photos must include the front view of each comparable sale used. Use of MLS photos to exhibit comparable condition at the time of sale are acceptable, however, the appraiser must include their own photos to document compliance with the Score of Work which requires the appraiser to inspect each comparable sale from the street.
- The appraiser must certify that an existing property meets HUD Handbook 4000.1 requirements. USDA defines “existing” as a property that has been completed for 12 months or more or has been completed < 12 months but has been previously occupied.
- All appraisals must be completed using the sales comparison approach (fair market value); the cost approach to value is **not required**.
- The economic life of the property must meet or exceed the term of proposed loan
- Appraisal must identify and address properties located within a declining market. When the property is located in a declining market, the appraiser is required to:
 - Provide, at minimum, two comparable sales that closed within 90 days of the subject property appraisal.
 - The comparables must be as similar to the subject property as possible.
 - The appraisal must include, at minimum, two active listings or pending sales.
- Modular/prefabricated homes: The appraiser must address the marketability of the property
- Homebridge requires properties to be, at minimum, in average condition. The following also applies:
 - A conventional heat source with the ability to maintain a temperature of 50° in areas of the property where there is plumbing
 - Any broken glass that is a health hazard must be removed and the opening closed.
- **Zoning:** If the property does not comply with current zoning ordinances but is accepted by the local zoning authority, the appraiser must report the property as legal non-conforming. The appraisal must address any adverse effect of the legal non-conforming use on the value and marketability of the property.
- **Appraisal Update (FNMA Form 1004D):** An update to the appraisal is eligible subject to the following:
 - The appraisal update must be no greater than one year from the effective date of the initial appraisal report at loan closing
 - The update must include a completed Market Conditions Addendum (FNMA Form 1044 MC) for the subject property that is reflective of market conditions as of the effective date of the appraisal update
 - The update must meet USPAP requirements
- REO appraisals are not eligible
- Properties located in a FEMA Disaster Declaration area will be subject to additional appraisal review.
- Appraisal transfers are considered on a case-by-case basis subject to Homebridge management review and approval. If approved, a Desk Review obtained by the Homebridge Appraisal Review Dept. is required

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| Appraisal Management Companies (AMC) | <p>The following is a list of Homebridge approved AMCs:</p> <ul style="list-style-type: none"> ACT Appraisal Management AMC Settlement Services Axis Management Solutions Class Valuation Fastapp Appraisal Management Golden State AMC Nadlan Valuation Nationwide Appraisal Network Nationwide Property & Appraisal Services |
| Assets | <ul style="list-style-type: none"> Borrowers must lack sufficient assets to obtain uninsured conventional financing (borrower has < 20% down payment for a purchase transactions). Cash reserves are not required after closing however cash reserves are considered in the underwriting decision by GUS. Borrowers must disclose all assets. Assets include checking/savings accounts, gift funds, sale proceeds from currently owned property, 401K/retirement accounts, and stocks/bonds Assets must be documented as follows on all purchase and refinance transactions: <ul style="list-style-type: none"> - 2 months most recent bank statements (dated within 45 days of the initial loan application date). The lesser of the two (2) month average balance or the actual balance, as reported on the most recent statement will be used in the underwriting decision - Stocks and bonds require the most recent statement monthly or quarterly statement Large Deposits: If the bank statement indicate any large, unusual deposits that are inconsistent with the borrower’s previous deposit history a letter of explanation (LOE) is required from the borrower. The LOE must provide an explanation of the source of funds and documentation to substantiate the explanation is required Joint Access Letter: A joint access letter is not required on joint personal or business accounts unless access to the funds is restricted without one. Cash on hand and unsecured funds are ineligible sources for assets Retirement funds that allow for immediate withdrawal are eligible at 60% of the vested account balance to allow for withdrawal penalties Retirement accounts that restrict withdrawals to retirement, employment separation, etc. cannot be considered for cash reserves Lump sum amounts received (inheritance, IRS refunds, lotter winnings, withdrawals from retirement accounts, etc.) are eligible for funds to close and reserves Unverified funds are not an acceptable source of funds for down payment, closing costs, etc. Foreign assets are eligible for funds to close and to satisfy reserve requirements subject to the following: <ul style="list-style-type: none"> - Documentation verifying assets have been exchanged to U.S. dollars and held in a federal or state regulated financial institution prior to closing - Homebridge must verify funds availability and accompanying documentation that has been converted to English, or provide a translation attached to each document, and ensure the translation is complete and accurate |
| Assumptions | Not allowed |
| AUS | <ul style="list-style-type: none"> All loans are submitted to the Guaranteed Underwriting System (GUS). “Accept/Eligible”, “Refer” or “Refer with Caution” findings are eligible however “Refer” findings must be downgraded to a manual underwrite. “Ineligible” findings from GUS are not allowed. |
| Available Markets | <ul style="list-style-type: none"> All 50 states Guam, Puerto Rico and the Virgin Islands are ineligible Property must be located in a rural area as defined by Rural Development. Refer to the Properties - Eligible topic for a link to the Rural Development Property Eligibility website. |

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| <p>Borrowers – Adding/Deleting</p> | <p>Borrowers may be added or deleted on a refinance transaction as long as one original borrower remains on the loan.</p> |
| <p>Borrowers – Eligible</p> | <p>Borrowers who do not qualify for conventional credit and whose income does not exceed the maximum limit set by the USDA for the applicable area are eligible for a USDA GRH loan.</p> <ul style="list-style-type: none"> • The borrower is considered unable to qualify for conventional credit when the following applies: <ul style="list-style-type: none"> - The borrower does not have verifiable available liquid assets of at least 20% (non-retirement) for a down payment and/or the funds to pay all closing costs, and - The borrower’s qualifying ratio exceeds 28%/36%, and - The borrower cannot qualify for a conventional loan with a 30 year fixed rate without obtaining mortgage insurance • The Underwriter must document the borrower’s inability to qualify for conventional credit, based on the criteria above, and include the documentation in the loan file <p>Additionally, borrowers must also be:</p> <ul style="list-style-type: none"> • A U.S. citizen, or • A permanent resident alien with an unexpired “Green Card” issued by the U.S. Citizenship and Immigration Services (USCIS). A copy of both the front and back of the card is required • Active duty military borrowers are eligible subject to the following: <ul style="list-style-type: none"> - Must occupy the property as a primary residence and express intent to meet the occupancy requirement upon discharge from the service - A service person currently on active duty who cannot physically reside in the property will have met the occupancy requirement if the service person’s family will continue to occupy the property as their primary residence - (EAD) issued by the United States Citizenship and Immigration Services (USCIS) • All borrowers are required to have a social security number; an ITIN is not acceptable. • Non-Borrowing/Non Purchasing Spouse: <ul style="list-style-type: none"> - Generally have no ownership interest in the property and are not liable for the debt. In community property/marital rights states the non-borrowing spouse does have an interest in the property and is required to execute the security instrument and all applicable documents as determined by state law. - A full credit report will be required for a non-purchasing spouse in community property states* and the debt obligations (except as excluded by applicable state law) must be entered on the 1003 in the “Asset and Liabilities” section and their debts must be included in the borrower’s debt ratio (see Louisiana Non-Borrowing/Non-Purchasing Spouse topic below) <p>*Community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. The non-purchasing spouse’s credit history is not a reason to deny the loan application.</p> • Louisiana Non-Borrowing/Non-Purchasing Spouse: The debts of the non-borrowing/non-purchasing spouse may be excluded subject to the following: <ul style="list-style-type: none"> - An Intervention Affidavit, signed by the non-borrowing/purchasing spouse, is required. The Affidavit must be notarized and recorded with the mortgage, and - The title company and the settlement agent must agree to allow the Affidavit |

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| <p>Borrowers – Ineligible</p> | <ul style="list-style-type: none"> • Foreign Nationals • Borrowers with diplomatic immunity • Borrowers without a social security number • Non-permanent resident borrowers • Non-U.S. citizens with no lawful residency in the U.S. • Borrowers with a Deferred Action for Childhood Arrivals (DACA) status • Non-occupant co-borrowers • Co-Signers • Borrowers with conventional credit are defined as: <ul style="list-style-type: none"> - The borrower has verifiable available liquid assets of at least 20% (non-retirement) for a down payment and/or the funds to pay all closing costs, and - The borrower's qualifying ratio do not exceed 28%/36%, and - The borrower qualifies for a conventional loan with a 30 year fixed rate without obtaining mortgage insurance • Borrowers previously convicted of mortgage fraud |
| <p>CAIVRS/LDP/GSA and Mortgage Fraud</p> | <p><u>CAIVRS</u></p> <ul style="list-style-type: none"> • All borrowers must be checked against the Credit Alert Interactive Voice Response System (CAIVRS) to determine if they have delinquent federal debt. A clear CAIVRS is required and must be maintained in the loan file • All federal debt and judgments must be paid in full or otherwise resolved and have supporting documentation. Refer to the <u>Derogatory Credit</u> topic for specific requirements • CAIVERS Claims: The borrower must provide official documentation that the delinquency has been paid in full or otherwise resolved prior to loan processing. <p><u>LDP / GSA</u></p> <ul style="list-style-type: none"> • All of the following parties to the transaction, as applicable, must be checked against HUD's Limited Denial of Participation list and the General Service Administration's Excluded Parties List System. <ul style="list-style-type: none"> - Borrower(s) and Borrower(s) AKA name (if applicable) - Seller(s), - Real Estate Listing and Selling Agent(s), - Appraiser, - Appraisal Company (not the AMC) - Broker - Loan Officer, Loan Officer Assistant - Loan Processor, - Underwriter, - Account Manager, - Closing/Settlement Agent, - Title/Settlement Company, and - 203(k) Consultant <p>Mortgage Fraud</p> <p>Any transaction where any of the interested parties to the transaction have been convicted of mortgage fraud will require review and approval by Homebridge management.</p> |

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| <p>Cash Back to Borrower</p> | <p>The borrower cannot receive any cash back from the transaction with the exception of out-of-pocket money (with supporting documentation) as follows:</p> <ul style="list-style-type: none"> • Earnest money deposit • First year of homeowner's insurance paid • Loan application fees • Appraisal/inspection fees • Paid repairs <p>Tax credits, excess loan funds, excess seller concessions, and items paid with credit cards cannot be refunded to the borrower; a principal reduction is required.</p> <p>NOTE: Any excess gift funds at closing may be returned to the borrower</p> |
| <p>Contingent Liabilities</p> | <p>A contingent liability exists when an individual is responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment.</p> <ul style="list-style-type: none"> • Co-Signed Debt <ul style="list-style-type: none"> - Co-signed debt is not required to be included in the borrower's DTI calculation if all of the following applies: <ul style="list-style-type: none"> - The credit report indicates no late payments on the account, and - 12 months most recent consecutive cancelled checks are provided documenting the primary party obligated on the debt has been making the payments (the checks cannot be from an account co-owned with the borrower). <p style="margin-left: 40px;">NOTE: If the borrower can provide conclusive evidence from the debt holder that there is no possibility they will pursue debt collection against the borrower should the other party default, the 12 month history is not required</p> - Co-signed debt must be included in the borrower's DTI calculation if: <ul style="list-style-type: none"> - It cannot be properly documented that the primary party obligated on the loan is making the payments, or - A 12 month pay history, by the primary party, cannot be established, or - The credit report indicates there have been late payments on the debt, or - Another party is making the payments but the borrower is the only party responsible for the debt. • Business Debt <ul style="list-style-type: none"> - Exclude business debts listed on personal credit reports if evidence of payment of the most recent 12 months payments have been made by the business. - Acceptable evidence includes 12 months cancelled checks or bank statements from the business account - Payments made by the business must be included on the cash flow analysis and/or P&L, when applicable • Previous Mortgage <ul style="list-style-type: none"> - If the borrower sold, traded or transferred a previous mortgage without a release of liability, the mortgage payment must be included in the DTI calculation unless documentation is provided that the remaining party/new owner has made the payment for the 12 months prior to loan application. Acceptable documentation, as applicable, includes: <ul style="list-style-type: none"> - A copy of the divorce decree ordering the spouse to make payments, or - A copy of the assumption agreement and deed showing transfer of title out of the borrower's name, and - Evidence the remaining party/new owner has made all payments on time (0x30) for the previous 12 months (credit report or verification from loan servicer) <p style="margin-left: 40px;">NOTE: If there are any delinquent payments in the previous 12 months the payment must be included in the DTI calculation.</p> |

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| <p>Credit Exceptions</p> | <p>Credit exceptions may be granted by Homebridge in the following situations:</p> <ul style="list-style-type: none"> The credit issues were caused by extenuating circumstances that were temporary in nature and beyond the borrower's control. The circumstance must have been removed/resolved for a minimum of 12 months prior to the loan application. Examples of acceptable temporary extenuating circumstances include a temporary job loss, illness, delay or reduction in benefits, dispute over payment for defective goods or services, etc. <p>NOTE: The inability to sell the property due to a job transfer or relocation or a divorce are not considered an extenuating circumstance. However, a borrower whose loan was current at the time of a divorce in which the ex-spouse received the property and the loan was later foreclosed may qualify for an exception.</p> <ul style="list-style-type: none"> The new loan will significantly reduce the borrower's housing expenses (50% or greater) resulting in improved debt repayment ability. <p>The underwriter will review the borrower's overall credit and must thoroughly document reason for exception. The following applies to credit exceptions:</p> <ul style="list-style-type: none"> The borrower must provide written, detailed explanation as to the nature of the credit issue, its causes and indicate it is not likely to happen again. The borrower must provide all documentation that supports the circumstances that caused the credit issue. All supporting documentation used to grant the exception must be included in the loan file. A credit exception cannot be granted when the borrower is delinquent on a federal debt |
| <p>Credit Report/Scores</p> | <ul style="list-style-type: none"> A minimum credit score of 580 is required <p>NOTE: New York transactions ONLY: Minimum 600 credit score required</p> <ul style="list-style-type: none"> The underwriter is required to validate the credit score for manually underwritten loans or GUS loans that receive a "Refer" or "Refer with Caution" finding; A GUS "Accept" finding does not require validation of the credit score A loan that received an "Accept" finding from GUS must be downgraded to a manual underwrite when any of the following apply: <ul style="list-style-type: none"> Disputed accounts that do not meet the requirements under the "Disputed Accounts" topic An authorized user account that does not meet the requirements under the "Authorized User" topic Derogatory or contradictory information that is not considered in the GUS findings or it determined there was erroneous information submitted to GUS A tri-merged credit report is required for all borrowers Non-traditional credit may be used if the borrower does not have a credit score or the credit score cannot be validated. Refer to the Non-Traditional Credit topic for requirements <p>NOTE: Loans that do not meet the non-traditional credit requirements are ineligible</p> <ul style="list-style-type: none"> A full credit report is required when the borrower lives in a community property state and there is a non-purchasing spouse. Community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. <p><u>Validating the Credit Score: GUS "Accept" Loans:</u> Validating the credit score not required</p> <p><u>Validating the Credit Score (Manual Underwrite or GUS loans with a "Refer" or "Refer with Caution" ONLY):</u> The credit score is considered valid when the following is documented:</p> <ul style="list-style-type: none"> At least one borrower, whose income and assets were used for loan qualification, has a minimum of two (2) tradelines that have a 12 month history. The tradelines can be open, closed, or paid in full when a payment history is reflected on the credit report. Eligible tradelines include: <ul style="list-style-type: none"> Secured or unsecured loan, Revolving/installment accounts, Credit card, Collection or charge-off <p>(cont. on next page)</p> |

Credit Report/Scores
(cont.)

Validating the Credit Score (Manual Underwrite or GUS loans with a “Refer” or “Refer with Caution” ONLY) (cont.)

- An authorized user account is also an eligible tradeline **as long as there is a 12 month history of the borrower making the payments.** Refer to the [Authorized user tradelines](#) topic for complete details
- Ineligible tradelines include:
 - Bankruptcies, tax liens, and judgments that appear on the credit report,
 - Disputed accounts
- If the credit report cannot establish the required number of eligible tradelines to validate the credit score, non-traditional credit may be used to establish a payment history.
 - A combination of eligible traditional tradelines reported on the credit report and eligible non-traditional tradelines may be used to establish the minimal number of tradelines required to validate the credit score. Refer to the [Non-Traditional Credit](#) topic for details.

NOTE: Non-traditional credit **cannot** be used to enhance poor payment records or low credit scores

Representative Credit Score

- The representative credit score is determined as follows for loans run through GUS and manual underwrites:
 - If there are three (3) valid scores, the middle score is used. If two of the three scores are a duplicate, the duplicate score is used.
 - If there are two (2) valid scores, the lower of the two is used
 - If there is one (1) valid score, that score is used (**excludes** manual underwrite; manual underwrite will require a non-traditional credit profile be developed if the borrower only as one credit score. Refer to the [Non-Traditional Credit](#) topic for details)
- The borrower(s) must address **all** credit inquiries indicated on the credit report within the previous 90 days, specifically **stating the name of the creditor(s)** and the result of the inquiry/inquiries (i.e. was new credit obtained or not). Examples of acceptable/ unacceptable responses below:
 - **Acceptable Response:** “The inquiry/inquiries by Bank of America, Wells Fargo, etc. did not result in additional credit”
 - **Unacceptable Response:** “We did not obtain any additional credit as a result of the credit inquiry/inquiries listed on our credit report” (unacceptable since name of creditors **not** listed)
- Any new debt not reflected on the credit report in GUS must be manually entered (downgrade to manual underwrite **not** required) so it is included in the debt ratio and considered in the final recommendation issued by GUS

NOTE: New debt (debt not included on the initial credit report) must be included on a new credit report and the loan must be re-submitted to GUS; a credit supplement is **not** acceptable.

- Any loan related charges (application fee/closing costs/appraisal) paid for by the borrower with a credit card that is not reflected on the credit report must be added to the card balance shown on the credit report and included in the debt ratio calculations.

Authorized User Accounts

- Authorized user tradelines require underwriter review to ensure the trade lines are an accurate reflection of the borrower’s credit history for both loans through GUS and manual underwrites. Closed or terminated authorized user accounts are not considered. When there is an open account(s) evidence and the loan is run through GUS of one of the following is required:
 - The tradeline belongs to another borrower on the loan application, **or**
 - The owner of the tradeline is the spouse of one of the borrowers, **or**
 - The borrower has been making the payments on the tradeline for the past 12 months, **or**,
 - The borrower has two or more other tradelines identified on the credit report, which are not authorized user accounts, with a minimum 12 months payment history

If none of the above can be documented the loan would require a downgrade to manual underwrite.

Credit Report/Scores
(cont.)

Disputed Accounts – Non-Derogatory

- **GUS “Accept” Findings:** GUS “Accept” findings are eligible subject to the following:
 - The account(s) has a zero balance,
 - The account(s) state “paid in full” or “resolved”,
 - The account(s) is more than 24 months old,
 - The account(s) is current and paid as agreed,
 - The payment, as stated on the credit report or, if a payment is not included on the credit report, 5% of the outstanding balance or a payment provided by the creditor is included in the borrower’s DTI

If any of the above do not apply, the loan must be downgraded to a manual underwrite

- **Manual Underwrite:** The following applies:
 - The borrower is required to provide a letter of explanation and provide supporting documentation for all disputed accounts with outstanding balances/payments. Each account must include a minimum monthly payment using:
 - The payment on the credit report, or
 - 5% of the outstanding balance, or
 - A lesser amount if documented by the creditor
 - Homebridge must determine the impact of the disputed account on the borrower’s ability to make the loan payment including the impact to the DTI

Disputed Accounts - Derogatory

- Non-medical collection accounts and accounts with late payments within the previous 24 months must be considered.
- Disputed medical accounts/collections, charged off accounts, disputed accounts that are the result of identity theft, credit card theft, etc. that are documented with a police report, creditor statement or attorney letter, and accounts from a non-purchasing spouse in a community property state **may be excluded**.
- **GUS “Accept” Findings:** GUS “Accept” findings are eligible subject to:
 - The cumulative total of the disputed derogatory account(s) is < \$2,000. Each account must include a minimum monthly payment using:
 - The payment on the credit report, or
 - 5% of the outstanding balance or
 - A lesser amount if documented from the creditor
 - Homebridge must determine the impact of the disputed account on the borrower’s ability to make the loan payment including the impact to the DTI
 - The loan must be downgraded to a manual underwrite if the cumulative derogatory disputed account balances is ≥ \$2,000 in the previous 24 months
- **Manual Underwrite**
 - Each account must include a minimum monthly payment using:
 - The payment on the credit report, or
 - 5% of the outstanding balance or
 - A lesser amount if documented from the creditor will be used.
 - Homebridge underwriter must determine the impact of the disputed account on the borrower’s ability to make the loan payment including the impact to the DTI

Non-Traditional Credit

At least one borrower must have a credit history. DTI ratio waivers are **not** eligible. Borrowers without traditional credit may be eligible subject to meeting the non-traditional credit requirements detailed below and all other USDA underwriting requirements:

- **Borrowers With a 12 Month Rental History:**
 - A minimum of two (2) non-traditional tradelines are acceptable when one of the tradelines is for rental payments (verification of payment is required). The other tradeline must be from the list of acceptable tradelines below and have a 12 month history

NOTE: Multiple verifications of rent may be combined to make up the 12 month history requirement as long as there are no gaps during the 12 month period

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Credit Report/Scores
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- **Borrowers With No Rental History:**
 - A minimum of three (3) non-traditional tradelines. An eligible non-traditional tradeline must have a 12 month history and cannot have been closed more than 6 months prior to the loan application date. Acceptable non-traditional tradelines include:
 - Utility payments (gas, electric, water, cable, etc.)
 - Insurance payments (**cannot** be paid as an automatic deduction from payroll) including medical, car, life, renter's insurance etc.)
 - Payments to childcare providers (business providing service)
 - School tuition
 - Payments to local stores (department, furniture, appliance and specialty stores)
 - Internet/cell phone services
 - Automobile lease payments
 - Payments for a personal loan (**cannot** be to a relative). Must be documented in writing with repayment terms and supported by cancelled checks/money orders
 - Monthly subscription service, gym membership, etc. if they can be adequately documented
 - Twelve months of savings history with regular deposits (non-payroll deductions made at least quarterly with no NSF's) resulting in three (3) months of the proposed mortgage payments (PITI) as post loan closing reserves
 - Additional sources may be considered at underwriter discretion
 - Acceptable documentation of the above includes:
 - Cancelled checks,
 - Third-party verifications,
 - Non-traditional credit report for the above credit resources that include the creditor's name, date the account was opened, the account balance, monthly payment due and the payment history in 0x30, 0x60, 0x90 format.
 - NOTE:** Subjective statements such as "satisfactory" or "acceptable" are **not** an acceptable format for repayment history confirmation
 - The following obligatory debt (credit **was not** extended to the borrower) **are not** eligible as non-traditional credit tradelines:
 - Child support/alimony payments
 - Garnishments,
 - Court ordered debts

Derogatory Credit – GUS “Accept” Finding
(See also [“Derogatory Credit – Manual Underwrite”](#) topic if applicable)

Chapter 7 Bankruptcy

Eligibility determined by GUS “Accept” findings. No additional documentation required with “Accept” finding.

Chapter 13 Bankruptcy – In Repayment

Borrower must have 12 months history with paid as agreed and permission from the bankruptcy court is required. The payment must be included in the borrower’s DTI calculation.

Chapter 13 Bankruptcy Discharged

Eligibility determined by GUS “Accept” findings. No additional documentation required with “Accept” finding.

Foreclosure/Deed-in-Lieu

- A foreclosure must be dismissed a minimum of 36 months from the application date.
- If the foreclosure/deed-in-lieu was due to extenuating circumstance an exception may be granted. Refer to the [Credit Exceptions](#) topic for details
- Borrowers with a previous foreclosure on a Rural Development loan are **ineligible**

Short Sale

Borrowers who pursued a short sale agreement on their primary residence to take advantage of declining market conditions and purchased a similar or superior property within a reasonable commuting distance at a reduced price are **ineligible**.

• **Borrower Current at Time of Short Sale**

- The borrower is eligible if the mortgage payments paid on the prior mortgage were made within the month due for the 12 months preceding the short sale, and
 - Installment debt payments for the same time period were also made with the month due
- NOTE: The above also applies in cases of divorce and the borrower was current at time of divorce

• **Borrower in Default at Time of Short Sale**

- Ineligible for a new loan until a minimum of 36 months from the date of the sale to application date
- Exceptions may be granted on a case-by-case basis subject to the requirements detailed in the [Credit Exceptions](#) topic.

- A borrower with a previous USDA Single Family Housing Direct or Guaranteed loan that resulted in a loss paid by the Federal government within 7 years prior to the date the new loan is submitted to USDA is considered derogatory credit and the following is required:

Delinquent Child Support

Administrative Offset Collection Applies: Borrowers who are currently delinquent on court ordered child support payments **that are subject to collection by an administrative offset** (federal payments, such as federal tax refunds, are intercepted to collect past-due child support) are **ineligible** unless:

- The borrower has brought the payments current,
- The debt is paid in full or otherwise satisfied by a documented release of liability

Administrative Offset Collection Does Not Apply: Borrowers who are currently delinquent of court ordered child support payments **that are not subject to collection by an administrative offset** are ineligible unless:

- The borrower is in an approved repayment plan and has made a minimum of 3 on-time payments prior to loan closing, or
- The arrearage if paid in full prior to loan closing or a release of liability is documented

**Derogatory Credit –
GUS “Accept”
Finding (cont.)**

Delinquent Child Support (cont.)

Consumer Credit Counseling/Debt Management Plans

- One year of payout under the plan has elapsed
- All payments have been made on time. The payment must be included in the borrower’s DTI calculation.
- The Counseling Agency has provided written permission for the borrower to enter into a mortgage transaction
- If an “Accept” Finding is received from GUS, no explanation or additional documentation is required from the borrower.

Charge-Off Accounts

- Charge-off accounts are not required to be included in the debt ratios unless the borrower has entered into a repayment plan with the creditor.
- Payments made to a repayment plan must be included in the DTI.
- Eligibility determined by GUS; no additional documentation required

Collections

The Homebridge underwriter is responsible to review all collection accounts to determine if the borrower is an acceptable credit risk, regardless of the GUS recommendation

- All open accounts require the payment to be included on the Asset and Liabilities page.
- Collection accounts of the non-purchasing spouse must be included in the cumulative total in community property states unless excluded by applicable state law.
 - NOTE:** Medical collections and **any** charge-off accounts (not just medical) may be excluded in the cumulative account totals
- **Collection Accounts Cumulative Balance > \$2,000**
 - Requires payment in full prior to or at closing, **or**
 - Verification of payment arrangement with creditor(s) and include monthly payment amount in DTI ratios, **or**
 - Use 5% of each collection account balance in the debt ratio.
- **Collection Accounts Cumulative ≤ \$2,000**
 - Payment in full is at underwriter discretion. The underwriter must document the reasons for approving the loan when allowing the collection account(s) to remain unpaid

Delinquent Federal Non-Tax Debt

- Borrowers with unresolved delinquent federal non-tax debt(s) are **ineligible**
- Borrowers with a previous USDA Single Family Guaranteed Housing Loan which resulted in foreclosure or a loss to USDA are ineligible

Delinquent Federal Tax Debt

- Borrowers with delinquent federal tax debt are **ineligible**
- Borrowers with a tax lien(s) may be eligible if:
 - The borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments. A copy of the repayment agreement is required
 - The borrower must have made a minimum of three (3) scheduled payments on time. Documentation of payments is required. The borrower **cannot** prepay the scheduled payments in order to meet the required minimum three (3) months payment history.
 - The payment must be included in the borrower’s DTI calculation

Judgments

Federal Judgments – Non-Tax Debt

- Requires payment in full, **no exceptions**. Documentation of sufficient funds to satisfy the obligation(s) is required.

**Derogatory Credit –
GUS “Accept”
Finding (cont.)**

- **Federal Judgments – Tax Debt**

- Borrowers with IRS tax debt are ineligible **unless** currently in a payment plan. The following applies if the borrower is in a payment plan:
 - Documentation of the payment agreement with the IRS is required.
 - The borrower must have made a minimum of 3 months of on-time payments prior to the loan application as evidenced by cancelled checks or bank statement. The borrower **cannot** prepay the payments to meet the 3 month payment requirement.
- NOTE:** If there are any delinquencies during the repayment period the loan is ineligible
- The payment must be included in the DTI calculation

- **Non-federal Judgments:**

- Non-federal open judgments **must** be paid off at or before loan closing **OR** the borrower must currently be in a payment plan
 - Borrowers in a payment plan are eligible subject to the following:
 - A copy of the payment agreement is required
 - A minimum of 3 months of on-time payments have been made prior to the loan application as evidenced by cancelled checks or bank statement
- NOTE:** The borrower cannot prepay the payments to meet the 3 month payment requirement
- The payment must be included in the DTI calculation
 - Payment in full is required if a minimum of 3 months of payments cannot be documented.
 - Non-federal judgment accounts, in an established repayment plan with a history of consistent repayment, with 10 months or less remaining payments, the payment may be excluded from the DTI, at underwriter discretion, if **the debt does not have significant impact on the borrower’s repayment ability**

- **Overdraft/Non-Sufficient Funds:**

- Multiple overdraft or NSF fees are not considered significant derogatory credit
- Recurring overdraft/NSF fees will be evaluated by the underwriter to determine if the fees and the overdrafts could have a negative impact on the borrower’s ability to repay

**Derogatory Credit –
Manual Underwrite**

Chapter 7 Bankruptcy

- Discharged ≥ 3 years eligible if the borrower has re-established good credit or chosen not to incur new credit obligations
- Discharged < 3 years but > 1 year may be considered if the bankruptcy was due to extenuating circumstances beyond the borrower's control and documentation is provided that the circumstances leading to the bankruptcy are not likely to recur; refer to the [Credit Exceptions](#) topic for details
- Discharged < 1 year **ineligible**

Chapter 13 Bankruptcy Discharged

- Plan completed and borrower has demonstrated a willingness to meet obligations for the 12 months prior to loan application, no additional requirements.

Chapter 13 Bankruptcy – In Repayment

Borrower currently in repayment.

- Borrower has completed 1 year of the payout period, **and**
 - Borrower has made all required payment on time, **and**
 - The borrower has received written permission from the bankruptcy court to enter into a mortgage transaction, **and**
 - The transaction meets one of the exceptions detailed in the [Credit Exceptions](#) topic
- NOTE:** Repayment plans completed > 12 months do not require a credit exception

Foreclosure/Pre-Foreclosure/Short Sale

- A foreclosure must be dismissed a minimum of 36 months from the application date
- If the foreclosure/deed-in-lieu was due to extenuating circumstance an exception may be granted. Refer to the [Credit Exceptions](#) topic for requirements
- Borrowers with a previous foreclosure on a Rural Development loan are **ineligible**

Short Sale

Borrowers who pursued a short sale agreement on their primary residence to take advantage of declining market conditions and purchased a similar or superior property within a reasonable commuting distance at a reduced price are **ineligible**.

• ***Borrower Current at Time of Short Sale***

- The borrower is eligible if the mortgage payments paid on the prior mortgage were made within the month due for the 12 months preceding the short sale, and
 - Installment debt payments for the same time period were also made with the month due
- NOTE:** The above also applies in cases of divorce and the borrower was current at time of divorce

• ***Borrower in Default at Time of Short Sale***

- Ineligible for a new loan until a minimum of 36 months from the date of the sale to application date
- Exceptions may be granted on a case-by-case basis subject to the requirements detailed in the [Credit Exceptions](#) topic

Delinquent Child Support

- **Administrative Offset Collection Applies:** Borrowers with delinquent child support **and are subject** to an Administrative Offset Program (e.g. federal tax refunds are intercepted to collect past-due child support) are **not eligible unless** the child support is paid current, paid in full, or otherwise satisfied by a documented release of liability
- **Administrative Offset Collection Does Not Apply:** Borrowers with delinquent child support **and are not** subject to an Administrative Offset Program (i.e. federal funds are not being intercepted) are **not eligible unless** they are in an approved payment plan and have made a minimum of three (3) timely payments prior to loan closing, the money owed is paid in full prior to closing, or otherwise satisfied by a documented release of liability

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**Derogatory Credit –
Manual Underwrite
(cont.)**

Consumer Credit Counseling

- One year of payout under the plan has elapsed
- All payments have been made on time. The payment must be included in the borrower's DTI calculation.
- The Counseling Agency has provided written permission for the borrower to enter into a mortgage transaction

Charge-Off Accounts

The underwriter must document the reason for approving the loan when charge-off accounts are present.

- Charge-off accounts are not required to be included in the debt ratios unless the borrower has entered into a repayment plan with the creditor
- Payments made to a repayment plan must be included in the DTI

Collections

- Collection accounts require satisfactory arrangements for payment. All open accounts require the payment to be included on the Asset and Liabilities page.
- Collection accounts of the non-purchasing spouse must be included in the cumulative total in community property states unless excluded by applicable state law.
- A letter of explanation and documentation supporting the explanation is required for each collection account and the underwrite must document the reasons for approving the loan when the borrower has collection accounts.

NOTE: Medical collections and **any** charge-off accounts (not just medical) may be excluded in the cumulative account totals

- **Collection Accounts Cumulative Balance > \$2,000**

- Requires payment in full prior to or at closing, **or**
- Verification of payment arrangement with creditor(s) and include monthly payment amount in DTI ratios, **or**
- Use 5% of each collection account balance in the debt ratio.

- **Collection Accounts Cumulative ≤ \$2,000**

- Payment in full is at underwriter discretion.

Delinquent Federal Non-Tax Debt

- Borrowers with unresolved delinquent federal non-tax debt(s) are **ineligible**
- Borrowers with a previous USDA Single Family Guaranteed Housing Loan which resulted in foreclosure or a loss to USDA are **ineligible**

Delinquent Federal Tax Debt

- Borrowers with delinquent federal taxes debt are **ineligible**
- Borrowers with a tax lien(s) may be eligible if:
 - The borrower has entered into a valid repayment agreement with the federal agency owed to make regular payments. A copy of the repayment agreement is required
 - The borrower must have made a minimum of three (3) scheduled payments on time. Documentation of payments is required.
 - The payment must be included in the borrower's DTI calculation

NOTE: The borrower cannot prepay the scheduled payments in order to meet the required minimum three (3) months payment history

**Derogatory Credit –
Manual Underwrite
(cont.)**

Judgments

• **Federal Judgments – Non-Tax Debt**

- Requires payment in full, **no exceptions**. Documentation of sufficient funds to satisfy the obligation(s) is required.

• **Federal Judgments – Tax Debt**

- Borrowers with IRS tax debt are ineligible **unless** currently in a payment plan. The following applies if the borrower is in a payment plan:
 - Documentation of the payment agreement with the IRS is required
 - The borrower must have made a minimum of 3 months of on-time payments prior to the loan application as evidenced by cancelled checks or bank statement.
NOTE: The borrower cannot prepay the payments to meet the 3 month payment requirement.
 - The payment must be included in the DTI calculation

• **Non-Federal Judgments:**

- Non-federal open judgments **must** be paid off at or before loan closing **OR** the borrower must currently be in a payment plan
- Borrowers in a payment plan are eligible subject to the following:
 - A copy of the payment agreement is required
 - A minimum of 3 months of on-time payments have been made prior to the loan application as evidenced by cancelled checks or bank statement.
NOTE: The borrower cannot prepay the payments to meet the 3 month payment requirement
 - The payment must be included in the DTI calculation
 - Payment in full is required if a minimum of 3 months of payments cannot be documented.
 - Non-federal judgment accounts, in an established repayment plan with a history of consistent repayment, with 10 months or less remaining payments, the payment may be excluded from the DTI, at underwriter discretion, if **the debt does not have significant impact on the borrower's repayment ability**

• **Overdraft/Non-Sufficient Funds:**

- Multiple overdraft or NSF fees are not considered significant derogatory credit
- Recurring overdraft/NSF fees will be evaluated by the underwriter to determine if the fees and the overdrafts could have a negative impact on the borrower's ability to repay

DTI

- Maximum 45% with **GUS “Accept”**. Homebridge may grant an exception to DTI exceeding 45% on a case-by-case basis (cannot exceed 50%).
- Maximum 34%/41% with manual underwrite, no exceptions
- Debts with 10 months or more payments remaining must be included to ensure accurate debt ratio. Refer to [Contingent Liabilities](#) and [Liabilities](#) topics for additional details
- Monthly housing expense which includes all of the following, as applicable:
 - Principal and interest payment on the mortgage,
 - Subordinate lien(s),
 - Hazard insurance premiums (escrowed or non-escrowed),
 - Property taxes (escrowed or non-escrowed),
 - Supplemental property insurance,
 - Monthly escrow required for annual fee,
 - Mortgage insurance (first year annual fee and monthly amount),
 - HOA dues,
 - Flood insurance premiums, and
 - Special assessments
- Non-purchasing spouse debts (unless specifically excluded by state law)

NOTE: At underwriter discretion, debts with < 10 months remaining may also be included in the DTI calculation if the underwriter determines the debt has a significant impact on the borrower’s repayment ability. Federal tax lien must be included regardless of the number of payments remaining.
- When there is a tax abatement/exemption/homestead on the subject property, the following applies:
 - Documentation the borrower qualifies for the abatement/exemption/homestead must be provided, **and**
 - The tax abatement/exemption/homestead must continue a minimum of 3 years after the Note date for the lower amount to be used for qualifying

NOTE: If the property is subject to a permanent abatement (e.g. a homestead exemption) documentation of the duration of the abatement is not required

Not Included when Calculating the DTI

- Medical collections and medical payments,
- Federal, state, and local taxes (unless borrower is in repayment plan),
- Collateralized loans secured by depository accounts,
- Utilities,
- Union dues,
- Open accounts with zero balances,
- Childcare
- Voluntary deductions
- FICA contributions
- Other retirement contributions to 401k accounts including the repayment of loans secured by 401k funds
- Automatic deductions to savings accounts, CDs, mutual funds, etc. including repayment of loans secured by such funds
- Insurance other than property insurance,
- Commuting costs

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| Down Payment | Not required |
| Down Payment Assistance | Not eligible |
| Employment | <ul style="list-style-type: none"> A two year employment history is required A verbal verification of employment (VVOE) is required within 10 business days prior to the Note date for wage earners and within 30 business days prior to the Note date for self-employed borrowers. <p>Self-Employed Borrowers</p> <ul style="list-style-type: none"> Self-employed borrowers are individuals who have 25% or greater ownership interest in a business Self-employed borrower's business requires verification of the business by a third party source (e.g. CPA, or Federal Tax ID Certificate, or Business License, etc.). The borrower must have been self-employed for a minimum of 2-years for the income to be considered stable and eligible for repayment income <p>NOTE: < 2 year of income from self-employment is not considered repayment income</p> <ul style="list-style-type: none"> Annual earnings that are stable or increasing are acceptable, while businesses that show a significant decline in income over the analysis period are not acceptable, even if the current income and debt ratios meet guidelines. Any sharp increases or decreases (defined as $\geq 20\%$ variance from income earned over previous 12 month) in self-employment income, requires additional documentation to support the circumstances of the increase/decrease. The underwriter must provide an explanation in the loan file for the use or non-use of the income Depreciation and/or depletion may be added back The annual income calculation for a business with a loss is zero Negative income (loss) for a business is deducted from repayment income prior to calculating the DTI; it is not counted as recurring debt Signed and dated individual tax returns, with all applicable tax schedules, for the most recent two years are required Corporations, S-Corporation or partnership are required to provide signed copies of Federal Business income tax returns for the last 2 years with all applicable tax schedules A year-to-day P&L and balance sheet (audited not required) <p>Employed by Family Business</p> <ul style="list-style-type: none"> In addition to normal employment verification, a borrower employed by a family owned business is required to provide evidence that they are not the owner of the business. Acceptable evidence includes; <ul style="list-style-type: none"> - Copies of signed personal tax returns, or - Current paystub or payroll ledger signed by the business accountant/payroll administrator, or - Signed copies of the corporate tax returns showing ownership percentage <p>Gaps in Employment</p> <ul style="list-style-type: none"> If the borrower has any gaps in employment that are > 30 days, within the 2-year period prior to the loan application, a letter of explanation from the borrower will be required unless employment is clearly seasonal. |

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| <p>Employment (cont.)</p> | <p>Re-Entering the Workforce</p> <ul style="list-style-type: none"> • Borrowers re-entering the workforce after caring for family member or minor child, extended illness, etc. with < 2 year history of employment and income history, may use the income towards repayment income, if the borrower: <ul style="list-style-type: none"> - Has been employed at the current job for 6 months or longer, and - Can document evidence of previous work history, prior to the absence (copies of W-2s, paystubs, etc. are acceptable evidence) <p>Newly Employed/Starting New Employment</p> <ul style="list-style-type: none"> • Borrowers with less than a 2-year employment history will be allowed to use their current income for repayment income if documentation is provided the borrower was attending school, in a training program, or in the military immediately prior to their current position. Acceptable documentation includes college transcripts, discharge papers, etc. • Borrowers scheduled to start a new job may use the proposed income for qualifying and repayment income subject to Homebridge management approval and the following: <ul style="list-style-type: none"> - The borrower must be scheduled to begin employment within 60 days of loan closing, and - A copy of the offer or contract for employment is provided and the salary information is included, and - The borrower must have sufficient other income or cash reserves to pay the mortgage and all other obligations from loan closing to the start of the new job, and - A letter, signed by the borrower(s) is required, certifying that a paystub or other acceptable documentation to validate the borrower has started the employment, will be provided as soon as received by the borrower |
| <p>Escrow Holdback</p> | <p>Not allowed</p> |
| <p>Escrow/Impound Account</p> | <p>Required on all loans, no exceptions.</p> |
| <p>First Time Homebuyer</p> | <p>First time homebuyers may be required to complete homebuyer education at the discretion of Rural Development</p> |

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| Gift Funds | <ul style="list-style-type: none"> • Gift funds are eligible for closing costs, voluntary down payment or may be applied to guarantee fee. There must be no expected or implied repayment requirement of the gift funds. • Gift funds may not be used for cash reserves as a compensating factor • Any excess gift funds at closing may be returned to the borrower. • A gift is acceptable if the donor is: <ul style="list-style-type: none"> - A relative of the borrower, - The borrower's employer or credit union, - A close friend with a clearly defined and documented interest in the borrower, - A charitable organization, - A government agency or public entity that has a program providing home ownership assistance to low and moderate income families or first-time homebuyers • The gift funds donor cannot be affiliated with the builder, developer, real estate agent, broker, or any other interested party to the transaction. • Gift funds must be evidenced by a gift letter that is signed and dated by the donor and borrower. The gift letter must include: <ul style="list-style-type: none"> - The amount of the gift, and - The donor's name, address, and telephone number, and - The donor's relationship to the borrower, and - A statement that the gift funds do not have to be repaid <p style="margin-left: 40px;">NOTE: Cash on hand is not an acceptable explanation for the source of funds</p> • Gift fund availability and transfer of the funds must be documented. Verification of transfer of funds must be documented as follows: <ul style="list-style-type: none"> - Evidence of borrower's deposit, or - A copy of the check/electronic transfer to evidence transfer of the donor's funds to the closing agent, or - A copy of the Closing Disclosure showing receipt of the donor's funds |
| Gift of Equity | <ul style="list-style-type: none"> • A gift of equity must be applied as a reduction to the purchase price of the property • The appraiser must be advised so the appraiser completes the appraisal, noting the reduction, and support the value compared to the purchase price • The borrower cannot receive cash back at loan closing |

Income

The borrower's adjusted household income cannot exceed the limit set by Rural Development for the state/county where the property is located. To view the GRH income limits by state click here: [Rural Development Single Family Housing Guaranteed Loan Income Limits](#)

To determine income eligibility, complete the Homebridge USDA Rural Development Borrower Questionnaire and Income Eligibility Worksheet and enter the information on the [Rural Development Income Eligibility](#) page

NOTE: The Rural Development system will indicate eligible/ineligible for both the Guaranteed Rural Housing Loan Program **and** the Direct Rural Housing Loan Program. Homebridge **only** offers the **Guaranteed Rural Housing** program. A screenshot of the Income Eligibility Determination Summary is required.

Rural Development has three separate required income calculations; annual, adjusted, and repayment income, which are detailed below.

Annual Income

The total income and assets of **all** adult household members, **including borrower(s) and non-applicants 18 years old and older**.

Refer to USDA [HB-1-3555 Chapter 9 – Attachment 9-A](#) for complete details and documentation requirements and for any income type not addressed below.

Included in Annual Income

The following is considered in annual income:

- The gross amount (prior to any payroll deductions) of wages, salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, and any other compensation for personal services of all adult members of the household must be included. This is **projected** income for the upcoming 12 months, not an average of previous years' income.
- If a cost of living allowance or a proposed increase in income is estimated to occur on or before loan approval it must be included in the annual income calculation when determining household eligibility.
- All regular and special pay and allowances for a member of the armed forces, (excludes pay received for exposure to hostile fire) who is the borrower or spouse is included whether or not the family member lives in the home.
- The income of a borrower's spouse is included unless the spouse has been living apart from the borrower for a minimum of three (3) months (other than military or work assignment) or court proceedings for divorce/legal separation have begun.
- Annual income also includes any interest, dividend, social security, unemployment, disability, retirement fund, pension, public assistance income, rental income, or alimony/child support (unless payments are not received and a reasonable effort has been made to collect).
- Full time students, who are temporarily absent from the home but who will reside at the property at any time during the coming year and the property is listed as the student's permanent address, only the first \$480 of their income is considered.
- The net income from the operation of a farm, business or profession is included subject to the following:
 - Expenditures for business/farm expansion, capital improvements, or payments of principal on capital indebtedness are not used in determining income. A deduction is allowed, subject to IRS regulations, for interest paid in amortizing capital indebtedness only.
 - Farm and non-farm business losses are considered "0" in determining annual income; losses cannot be used to offset other family income.
 - A deduction based on straight line depreciations is allowed subject to IRS regulations. The deduction must be based on an itemized schedule showing the amount of straight-line depreciation.
- Any withdrawal of cash or assets from the operation of a farm, business or profession or salaries or other amounts distributed to family members from the farm, business or profession, is included in the annual income unless the withdrawal was for the reimbursement of cash or assets invested in the operation by a member of the household.
- Tax exempt income should **not** be grossed up when calculating annual income
- Rental income must be considered regardless of his duration. Any positive net rental income reported on the borrower's Schedule E for the previous 12 months. Negative net rental is treated as zero calculating annual income

Income (cont.)

Annual Income (cont.)

- Income must be calculated on any net family assets in excess of \$50,000. Net family assets include the value of equity in real property, savings, IRAs, market value of stocks, bonds and other forms of capital investments. The most recent asset information, provided by the borrower, for all household members, at the time of application is reviewed by the underwriter. The greater of the actual income derived from all net family assets, or a percentage of value of assets based on the current passbook savings rate is used
- Borrowers who own a business or are self-employed, income cannot be transferred between business and personal accounts (or vice versa)
 - In the event the borrower does not maintain separate business and personal accounts, the co-mingled funds will be included in the calculation of net family assets
- The withdrawal of cash or assets from an investment (unless withdrawal is reimbursement of cash or assets invested by the household member)
- Any income received from distribution from a trust fund
- Social security and disability income require a 3 year continuance documented with an award letter. Unless the documentation specifically state the benefits will expire, it is assumed they will continue.
- Alimony and child support income must continue for 3 years and have a minimum 12 month history documented with bank statements.
- If an adult member of the household is currently unemployed but there is recent history of employment that person's income must be considered unless the borrower and the adult unemployed person sign a statement that the person is not presently employed and does not intend to become employed again in the foreseeable future.
- If an income source will not be received for the entire year (e.g. child support, alimony/maintenance, social security, etc.) the amount anticipated to be received in the upcoming 12 months must be included in the annual income calculation (unless the income type is excluded from annual income calculation requirements (see topic below))
- Housing related expenses for the subject property (i.e. mortgage interest, real estate taxes, and insurance) which may be claimed as a business expense deduction for home-based business operations (e.g. childcare, etc.) may **not** be deducted from the annual income calculation.
- Unreimbursed employee expenses may be **deducted** from both annual and adjusted income

Excluded from Annual Income Calculation

The following are **not included** in the annual income calculations:

- Earned income tax credits,
- Earned income of a minor,
- Adoption assistance/subsidy in excess of \$480 per adopted child,
- Earnings of full time students, ≥ 18 years that is > \$480 (unless spouse or head of household),
- Employer provided fringe benefit packages unless reported as taxable income
- Deferred periodic payments of supplemental social security income and benefits received in a lump sum amount or in prospective monthly amounts,
- Supplemental Nutrition Assistance program (SNAP) payments
- Lump sum payments (e.g. inheritances, capital gains, settlements, social security benefits received in a lump sum, etc.)
- Monies received for reimbursement of medical costs,
- Income received by live-in aides. Family members cannot be considered live-in aids unless they are being paid by a health agency and have an address, other than a post office box, elsewhere
- Amounts paid by a state agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home,
- Refunds/rebates for property taxes paid on the property,
- The amount of any student financial aid received by any household member,
- Temporary, non-recurring, or sporadic income,
- Gifts
- The amount of Section 8 housing vouchers

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Income (cont.)

Excluded from Annual Income Calculation (cont.)

- Payments received on a reverse mortgage (considered a drawdown on borrower assets)
- Any monies received by any family member from participation in programs under the Workforce Investment Act of 1998
- Compensation received through the Victims of Crime Act
- Reparation payments paid by a foreign government arising out of the Holocaust

Adjusted Income

The household's annual income (as described above) minus eligible deductions equals the adjusted income. The adjusted income determines GRH program eligibility.

- Eligible deductions include:
 - Dependents - \$480 per person
 - Elderly (head of household or spouse is 62 years of age and older and a borrower on the loan) - \$400 (one time deduction: **not** per person)
 - Disability expenses (Unreimbursed expenses in excess of 3% of annual income)
 - Medical expenses exceeding 3% of gross annual for elderly households only
 - Childcare expenses for children 12 years old and under, and
 - Attendant care expenses for disabled members.

Repayment Income

The following applies to repayment income:

- The income used for repayment income must be determined to be stable and dependable and is based on the income of the **borrowers only** (parties who will be on the Note.)
- Repayment income is the qualifying income and is used to calculate DTI.
- A **two (2) year history** of receiving the income is generally required and there must be a reasonable expectation of continued receipt for three (3) years, **unless noted below**.
- Time in school may be counted toward the 2-year history of receipt if the borrower recently completed college, technical school, or a career-based certificate from high school (e.g. health, public safety careers) A standard high school diploma is **not** eligible for this exception
- Generally, self-employment income is considered stable/dependable if the borrower has been self-employed for 2 or more years supported by income tax returns.
- Any loss incurred by a self-employed borrower's business (full or part-time) that has closed may be removed from consideration when the borrower provides a letter of explanation and documentation that 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

Documentation to verify receipt and continuance as required by USDA is required. Refer to USDA [HB-1-3555 Chapter 9 – Attachment 9-A](#) for complete details and documentation requirements and for any income type not addressed below.

Eligible Repayment Income

The following income types are eligible for repayment income calculations:

- Salary, wages
- Bonus, commission, overtime, is eligible with a 1-year history of receipt in the same or similar line of work and may be presumed to continue unless evidence indicates it will not. If significant variances are evident (increase or decrease) of 20% or greater in the previous 12 months requires documentation to explain variance to consider the income as stable.
- Part-time income is eligible if borrower has been employed in the position uninterrupted for the prior 1-year and may be presumed to continue unless evidence indicates it will not
- Seasonal income eligible with 2 years history of receipt in the same line of work and is evidenced on the borrower's tax returns. If the borrower is not currently earning the income the employer must provide verification the borrower is still an employee and include an anticipated return to work date. Income may be presumed to continue unless there is evidence it will cease
- Secondary employment income eligible if one year history of working primary and secondary employment concurrently and evidenced on the borrower's tax return. Income may be presumed to continue unless there is evidence it will cease

Income (cont.)

Eligible Repayment Income (cont.)

- Income derived from self-employment (refer to the [Employment](#) topic for details on self-employment income)
- Tax exempt income may be grossed up 25%
- Military income with documented one year history of receipt including housing/clothing allowance, flight and hazard pay. Income may be presumed to continue unless there is evidence it will cease
- Retirement and social security income
- Alimony, or maintenance income
- Child support:
 - Court ordered payments: 6 months history of receipt required
 - Voluntary payments: One year history of receipt required
- Adoption assistance/subsidy: Borrower must currently be receiving but no history of receipt required
- Guardian/Conservatorship income (does **not** apply to foster care income): History of receipt not required but documentation of current receipt and amount received must be provided. The income may be presumed to continue unless there is evidence it will cease
- Interest and dividends
- VA benefits: History of receipt not required, but documentation of current receipt and the amount received must be provided
- Net rental income that has been received \geq 24 months and can be documented with 2 years most recent tax returns, including Schedule E, and a copy of the current signed lease agreement. A two (2) year average of depreciation and depletion may be added back to the net income shown on Schedule E less any monetary obligations associated with the property not captured in Schedule E (i.e. monthly principal payment).
 - If the credit report reflects any late mortgage payments on the rental property in the previous 12 months the full PITIA payment **must be included** in the DTI calculation

NOTE: A downgrade to manual underwrite is required if the net monthly rental income is **negative unless** a GUS "Accept" recommendation is received
- IRA distributions/Pension income: History of receipt not required, but documentation of current receipt and the amount received is required. The income may be presumed to continue unless there is evidence it will cease
- Trust income eligible with documented 6 month history of receipt. A copy of the trust documents that include the trust balance, monthly payments, term of payments,
- Tips, with documented one year history of receipt and may be presumed to continue unless evidence indicates it will not. If significant variances are evident (increase or decrease) of 20% or greater in the previous 12 months requires documentation to explain variance to consider the income as stable.
- Projected income (cost of living adjustments, performance raises, bonuses that are by verified by the employer **that will begin within 60 days of loan closing are eligible**). Refer to the [Newly Employed/Starting New Employment](#) topic for detailed requirements.
- Government benefits: History of receipt not required, but documentation of current receipt and the amount received must be provided
- Unemployment income eligible with 2 years history of receipt and is evidenced on the borrower's tax returns. The income may be presumed to continue unless there is evidence it will cease. Borrowers with a sole source of unemployment income are ineligible
- Worker's comp eligible with documented 6 months history of receipt. An award letter or settlement statement that includes the amount and duration of payments required
- Section 8 Homeownership assistance payments when the subsidy is paid directly to the borrower; the subsidy may be grossed up 25%
- Unreimbursed employee expenses with documented 2-year history of receipt

Ineligible Repayment Income

The following income types are ineligible for repayment calculations:

- Income from household members who are not a party to the Note
- Projected income (cost of living adjustments, performance raises, bonuses, etc.) that cannot be verified by the employer or that will **not begin** within 60 days of loan closing
- Financial aid received by a student for tuition, fees, books, etc.

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| <p>Income (cont.)</p> | <ul style="list-style-type: none"> • Money received for reimbursement of the cost of medical expenses/costs, • Temporary, nonrecurring, or sporadic income, • Gifts, • Payment received for foster children or adults • Supplemental Nutrition Assistance Program (SNAP) payments • Lump sum payments (e.g. inheritances, capital gains, settlements, social security benefits received in a lump sum, etc.) |
| <p>Income Documentation</p> | <p>Income must be documented for the previous 2 years for all adult household members.</p> <p>Salaried Borrowers</p> <ul style="list-style-type: none"> • Current paystubs, dated no earlier than 30 days prior to the initial loan application, with YTD income • W-2s for prior 2 years • Written VOE (commission, OT, bonus income, etc.) <p>Self-Employed Borrowers</p> <ul style="list-style-type: none"> • 2 years signed individual tax returns including all schedules, or • 2- years signed business tax returns, including all schedules if the business is an “S” corp. or LLC • YTD P&L (audited or unaudited) with balance sheet <p>Self-Employment Income Analysis</p> <ul style="list-style-type: none"> • If the borrower provides quarterly tax returns the income analysis can include income through the period covered by the tax filings • If the borrower is not subject to quarterly tax filing the income shown on the P&L may be included in the income analysis provided the income stream based on the P&L is consistent with the previous years’ earnings • If the P&L submitted for the current year show an income stream considerably greater than what is supported by the previous years’ tax returns, the income analysis will be based solely on the income verified using the tax returns |
| <p>Inspections</p> | <ul style="list-style-type: none"> • Public water and waste disposal/septic systems are presumed to meet state and local requirements with no additional documentation or inspections • Water systems for existing or new construction, that require continuous or repetitive treatment to be safe bacterially or chemically are not acceptable. Additionally, individual dwelling water purification units are not an acceptable alternative; however, they 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. <p>Private Water Systems</p> <p>Private wells that meet HUD requirements or meet the requirements of local and/or state health authority do not require additional inspections other than the water purity tests detailed below. Water purity inspections are required on purchase transactions only; not required on refinance transactions</p> <ul style="list-style-type: none"> • Individual Privately Owned water systems are acceptable when the cost to connect to the public/community is not reasonable/feasible. Water quality tests subject to: <ul style="list-style-type: none"> - The water quality must meet state or local authority. If the state or local authority do not have guidelines then the maximum contaminant levels established by the EPA apply. - The water analysis must be completed by a local health authority or state certified laboratory. <p>NOTE: The Safe Water Drinking Act does not apply to private wells.</p> <ul style="list-style-type: none"> - The well location must be measured to establish the distance from the septic system and the distance must comply with the local and/or state health authority or standards set by HUD. - The water system/well should be located on the subject property site. If located adjacent, evidence of water rights and recorded maintenance agreement must be provided. - The water analysis report must be dated ≤ 180 days from the Note date. If there are any recent environmental impacts that render the previous analysis invalid (e.g. chemical spill, natural disasters, etc.) a new report may be required - Cisterns or holding tanks used in conjunction with water purchased and hauled to the site must meet local and/or state health authority codes or the requirements stated in the HUD Handbook 4000.1 |

Inspections (cont.)

- **Individual Privately Owned Shared** are acceptable if it can be determined the private system will provide a continuous and adequate supply of safe and potable water and the property cannot reasonably/feasibly be connect to an acceptable public or community water supply system. The following is also required:
 - The shared well must have a valve on each dwelling,
 - The water supply must be adequate for all dwellings served
 - The shared well service cannot provide water to more than 4 homes or properties,
 - The water quality must meet state or local authority. If the state or local authority do not have guidelines, then the maximum contaminant levels established by the EPA apply.
 - There must be a well agreement that meets all of 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, and
 - Provides provisions for maintenance and repair of the system and the sharing of the costs to do so. Must include a permanent easement that allows access for maintenance and repair
- **Community Owned**, a water system operated by a private corporation or nonprofit property owner's association, are acceptable subject to the following:
 - 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

Private Wastewater/Septic Systems

Wastewater/septic inspections are **not** required if the appraiser indicates the system meets the requirements of the HUD handbook. If the appraiser notes any indication the system does not meet HUD requirements **or** has observable evidence of failure a septic evaluation, completed by a HUD roster appraiser, licensed septic system professional, or qualified home inspector will be required.

- **Individual Privately Owned** are acceptable when the cost to connect to a public or community sewage system is not reasonable subject to the following:
 - A septic evaluation is required performed by one of the following:
 - An FHA roster appraiser (must certify the property meets HUD requirements)
 - A government health authority,
 - A licensed septic system professional,
 - A qualified home inspector,
 - The separation distance between the well, septic tank and the property line should comply with HUD guidelines or state codes,
 - The septic system must be free of observable evidence of failure
 - The system must meet applicable state or local health authority requirements,
 - The system should be located entirely on the property. If any part of the system is located on an adjacent property (e.g. leach lines), evidence such as a perpetual encroachment easement must be recorded to establish the rights of the property owner's permitted use,
 - The system must be operating property and have the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health.
- **Community Owned** wastewater systems, operated by a private corporation or nonprofit property owner's association, are acceptable subject to the following:
 - The system meets any applicable state or local health authority requirements,
 - The system 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 Inspection

Termite inspections are only required when the purchase contract requires one, or the appraiser indicates there is evidence of active infestation.

Liabilities

All debts are entered in GUS to ensure accurate GUS Findings. Debts with 10 months or more payments remaining must be included to ensure accurate debt ratio.

401K Loans

Not counted in debt ratios

Alimony/Child Support/Garnishments

Not required to be included in the debt ratio if 10 months or less remaining.

Installment Debt

Not required to be included in the debt ratio if 10 months or less remaining as reported on the credit report used for underwriting. Installment debt may be paid down to less than 10 months to exclude from the DTI, unless the payment will have significant impact on the borrower's ability to repay the debt. USDA defines a "significant impact" as the payment is $\geq 5\%$ of the borrower's gross monthly income.

Revolving Debt

- Revolving debt must be included if there is a balance indicated on the credit report. If the monthly payment is not included in the credit report the underwriter will calculate the payment using the greater of \$10.00 or 5% of the outstanding balance as reported on the credit report.
- If the actual dollar amount is documented by the creditor or a current monthly statement, that amount may be used for qualifying.
- Revolving accounts with no outstanding balance do **not** require an estimated/projected payment be included in the debt ratio or to be closed to exclude a payment

30-Day Accounts

30-day accounts that are paid in full every month for the previous 12 months are not included in the DTI calculation. If the credit report indicates **any** late payments in the last 12 months the payment must be included in the DTI. Calculate as 5% of the outstanding balance as stated on the credit report

Lease Payments

Any lease payment (e.g. car, solar, etc.) **must be** included in the DTI regardless of the months remaining

Student Loans

Student loan payments are included in the DTI as follows:

- **Fixed Payment** – If the borrower has a documented fixed rate, fixed payment and the repayment term is fixed the documented amortized fixed payment amount is used
- **Non-Fixed Payment** – includes Income Based Repayment (IBR), Income Contingent (IC), graduated, adjustable, interest only and deferred payments which are **not fixed**:
 - **When the payment amount is above zero (\$0)**, the payment amount on the credit report **or** the actual documented payment is used
 - **When the payment amount is zero (\$0)**, .50% of the outstanding loan balance as documented on the credit report or with student loan creditor is used
 - Student loans in a forgiveness plan require the applicable payment to be included in the DTI unless documentation is provided that the borrower has been released of liability from the creditor

NOTE: Refer to the [Co-Signed Debt](#) topic for co-signed student loan obligation requirements

Balloon/Deferred Debt Including Personal Loans (does not include student loans)

Deferred and balloon debt that will require payment in full upon their due date must have the payment **included** in the borrower's DTI. If the actual payment is not known, obtain documentation from the creditor **OR** use 5% of the outstanding balance to calculate payment amount.

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| <p>Liabilities (cont.)</p> | <p>Automobile Allowances/Expense Account Payments</p> <ul style="list-style-type: none"> • Eligible if received for the previous 2 years, and • Employer verification the payments will continue is required. • The amount of expenses that exceed the allowance must be considered recurring debt and included in the borrower’s DTI. • The borrower’s monthly car payment must be treated as recurring debt regardless of any car allowance received. • If the borrower uses the standard per-mile rate, as opposed to the actual cost method, the portion that the IRS considers depreciation may be added back to the income for repayment purposes <p>Tax Repayment Agreements Federal and/or state tax repayment plan payments must be included in the borrower’s DTI calculation unless:</p> <ul style="list-style-type: none"> • There are ten (10) months or less remaining in the repayment plan, AND • The payment does not exceed 5% of the monthly repayment income <p>Rents Received If the net amount of rent received is negative the negative amount will be included in the DTI calculation</p> |
| <p>Loan Amount</p> | <p>Purchase Transactions: Loan amount may include eligible closing costs, lender fees, funds to establish an escrow/impound account up to 100% of the appraised value. 100% LTV may be exceeded only when the upfront guarantee fee is financed</p> <p>Non-Streamlined Refinance Transaction: Principal and interest of the existing loan, reasonable and customary closing costs, up-front guarantee fee and funds needed to establish a new tax and insurance escrow account not to exceed the new appraised value. If upfront guarantee fee financed the appraised value may be exceeded only by the amount of the guarantee fee.</p> <p>NOTE: If the borrower received subsidy payments on the existing loan the subsidy recapture due must be paid from separate funds or subordinate to the new loan; subsidy recapture payment cannot be included in the new loan amount.</p> |
| <p>Manual Underwrite</p> | <p>Loans that receive a “Refer” or “Refer with Caution” from GUS require a downgrade to manual underwriting. Manually underwritten loans require specific documentation for the underwriter to justify an approval.</p> <p>Indicators of Unacceptable Credit USDA considers the following as “indicators” of unacceptable credit:</p> <ul style="list-style-type: none"> • Foreclosure/pre-foreclosure/short sale in the previous 3 years. • Chapter 7 Bankruptcy in the previous 3 years • Chapter 13 Bankruptcy – In Repayment or Completed in < 12 Months • Mortgage/Rental Late Payment: 1x30 in the previous 12 months of any mortgage or rental payment <p>Refer to the Derogatory Credit – Manual Underwrite topic for requirements and eligibility when any of the above apply and additional requirements for derogatory credit events when a manual underwrite is required.</p> |

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| <p>Mortgage/Rental History</p> | <p>Purchase Transactions</p> <ul style="list-style-type: none"> • GUS “Accept” finding: No documentation required • Manual Underwrite: Loans that are downgraded to a manual underwrite require verification of rent only when the borrower’s credit score is < 680 (≥ 680 credit score verification not required) The following applies: <ul style="list-style-type: none"> - Documentation of 12 months rental history with 0x30 required. Acceptable documentation includes credit report, a VOR, or copies of cancelled checks - Borrowers without a 12 month history or living rent free may be considered on a case-by-case basis and will be subject to additional credit review <p>NOTE: Mortgage/rental payments must be entered on the “current housing expense” on the Combined Monthly Housing Expense section of the Income and Expenses page of GUS to ensure accurate GUS findings</p> <p>Non-Streamlined Refinance</p> <ul style="list-style-type: none"> • The existing mortgage must have closed 180 days prior to the Homebridge request for the Conditional Commitment with, and • 0x30 payment history in the most recent 180 days required <p>Forbearance Plan Policy</p> <p>The policy below applies to the subject property and to any other real estate mortgage loan where the borrower is in a forbearance plan,</p> <p><u>Subject Property Lien (Loan being Refinanced) and is Current</u></p> <ul style="list-style-type: none"> • If the borrower is current and has not missed a payment, the loan is eligible <p><u>Other REO OR Subordinating Second Lien and is Current</u></p> <ul style="list-style-type: none"> • The loan is eligible if the borrower is current and has never missed a payment, and • Written evidence, provided directly from the servicer, confirming the forbearance plan has been withdrawn, closed or cancelled prior to the closing of the new subject loan required. <p>NOTE: Documentation must be obtained for loans in a forbearance plan and for loans where borrower inquired about forbearance and the servicer flags the inquiry</p> <p><u>Subject Property AND/OR Other REO NOT Current/Missed Payment</u></p> <ul style="list-style-type: none"> • The loan is ineligible |
| <p>Non-ARMs Length/Identity of Interest</p> | <p>Non-Arm’s Length</p> <ul style="list-style-type: none"> • A non-arm’s length transaction is a purchase transaction where there is a relationship or business affiliation between the buyer and seller of the property • Non-arm’s length transactions are eligible for re-sale properties <p>Identity of Interest</p> <ul style="list-style-type: none"> • An identity of interest transaction involves parties who are not related and do not have close personal ties, however they have a strong interest in the transaction (i.e. broker acting for both buyer and seller, broker is both realtor and mortgage broker, realtor is selling own property, etc.). • Identity of interest transactions are eligible on owner-occupied transactions, however additional review will be required to ensure validity of the transaction, value, etc. Additional documentation and/or a desk review or second appraisal may be required at underwriter discretion |
| <p>Non-Purchasing Spouse</p> | <p>The debts of the non-purchasing spouse must be included in the borrower’s qualifying ratios, unless specifically excluded by state law, if:</p> <ul style="list-style-type: none"> • The borrowers reside in a community property state, or • The property being purchased is located in a community property state <p>NOTE: The credit history of the non-purchasing spouse is not considered a reason to deny a loan, however, their obligations must be considered in the DTI unless excluded by state law. A full credit report for the non-purchasing spouse must be obtained to determine if the obligations should be included in the DTI.</p> <p>Community property states include Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.</p> |

USDA Program Guidelines Purchase and Non-Streamlined Refinance

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| Occupancy | <ul style="list-style-type: none"> • Owner-occupied 1-unit primary residence • Borrowers must occupy the property within 60 days of signing the security instruments. <p>NOTE: Active duty military borrowers are considered to have met the occupancy requirement if:</p> <ul style="list-style-type: none"> - The borrower indicates their intent to occupy the property upon discharge, - If the borrower is on active duty the serviceperson's family will continue to occupy the property as their primary residence |
| Other Real Estate Owned – Retaining Current Residence | <p>Borrowers retaining their current home are eligible subject to all of the following:</p> <ul style="list-style-type: none"> • The current residence is not financed by a USDA RD guaranteed, Direct 502/504 or active grant • The current residence is owner-occupied but no longer adequately meets the borrower's need due to significant change in borrower's circumstances. The underwriter must provide an explanation of the significant change and the reason, beyond convenience to the borrower, why the new home purchase must be completed prior to the sale of the existing property. <p>Examples include, but are not limited to:</p> <ul style="list-style-type: none"> - Severe overcrowding (more than 1.5 household members per total rooms). Documentation that the overcrowding has existed for a minimum of 90 days and will continue for a minimum of another 9 months) <p>NOTE: USDA includes living, dining, bedrooms, kitchen den and recreation rooms in the room count. Bathrooms and entry halls/foyers are not included.</p> <ul style="list-style-type: none"> - The home requires significant retrofitting to accommodate the disability/limited mobility of a permanent household member. Documentation of the existing property deficiencies and the suitability of the new property is required. - The borrower is relocating with a new employer or being transferred by a current employer to an area not within reasonable commuting distance <ul style="list-style-type: none"> • The borrower must be financially qualified to own more than one property and must qualify including both mortgages (the borrower is limited to one additional property other than the one associated with the new loan) • The borrower will occupy the new property (with the guaranteed loan) as their primary residence throughout the term of the loan. • Purchase transactions: Rental income cannot be used for qualification of the new loan as receipt of rental income of 24 months is required to use for repayment income. • Refinance transactions: Rental income that has been received \geq 24 months and can be documented with 2-years most recent tax returns, including Schedule E, and a copy of the current signed lease agreement is eligible. A 25% vacancy factor is applied. Negative net rental income is included in the DTI and is not deducted from repayment income. |

| Power of Attorney | <p>A durable Power of Attorney (POA), that complies with the applicable state law, is allowed on a case-by-case basis for loan closing documents subject to all of the following:</p> <ul style="list-style-type: none"> Must be specific to the transaction Must include the borrower name, property address and loan amount The POA must be fully executed and notarized A letter of explanation required from the borrower to document reason for using a POA The POA must meet all applicable state laws Homebridge to review and approve prior to loan closing The POA must be recorded along with the mortgage Additionally, the following applies for military personnel and incapacitated borrowers: <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 10px;"> <thead> <tr style="background-color: #00AEEF; color: white;"> <th style="width: 50%;">Eligible Individuals for POA</th> <th style="width: 50%;">Requirements</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;"> Military Personnel (POA eligible for initial or final application but not both) </td> <td style="padding: 5px;"> A POA only allowed for one application (initial or final), but not both when the following applies: <ul style="list-style-type: none"> The service member is on overseas duty or on an unaccompanied tour, and The service member's signature cannot be obtained on the application by mail or fax, and The POA is a durable POA that provides the attorney-in-fact specific authority to obligate the borrower on a mortgage </td> </tr> <tr> <td style="padding: 5px;"> Incapacitated Borrower (POA eligible for both initial and final) </td> <td style="padding: 5px;"> <ul style="list-style-type: none"> The borrower is incapacitated and unable to sign the mortgage application, and The borrower will occupy the property, and The POA is a durable POA that gives the attorney-in-fact the authority to encumber the property and to obligate the borrower on the mortgage. </td> </tr> </tbody> </table> | Eligible Individuals for POA | Requirements | Military Personnel (POA eligible for initial or final application but not both) | A POA only allowed for one application (initial or final), but not both when the following applies: <ul style="list-style-type: none"> The service member is on overseas duty or on an unaccompanied tour, and The service member's signature cannot be obtained on the application by mail or fax, and The POA is a durable POA that provides the attorney-in-fact specific authority to obligate the borrower on a mortgage | Incapacitated Borrower (POA eligible for both initial and final) | <ul style="list-style-type: none"> The borrower is incapacitated and unable to sign the mortgage application, and The borrower will occupy the property, and The POA is a durable POA that gives the attorney-in-fact the authority to encumber the property and to obligate the borrower on the mortgage. |
|---|---|------------------------------|--------------|---|--|---|---|
| Eligible Individuals for POA | Requirements | | | | | | |
| Military Personnel (POA eligible for initial or final application but not both) | A POA only allowed for one application (initial or final), but not both when the following applies: <ul style="list-style-type: none"> The service member is on overseas duty or on an unaccompanied tour, and The service member's signature cannot be obtained on the application by mail or fax, and The POA is a durable POA that provides the attorney-in-fact specific authority to obligate the borrower on a mortgage | | | | | | |
| Incapacitated Borrower (POA eligible for both initial and final) | <ul style="list-style-type: none"> The borrower is incapacitated and unable to sign the mortgage application, and The borrower will occupy the property, and The POA is a durable POA that gives the attorney-in-fact the authority to encumber the property and to obligate the borrower on the mortgage. | | | | | | |
| Prepayment Penalty | Not permitted | | | | | | |
| Product | 30 year fixed rate only | | | | | | |
| Property Purchased at Auction | If the subject property is purchased at auction, the buyer's premium cannot be included in the calculation of the final sales price | | | | | | |

Properties – Eligible

The property must be located in an eligible rural area as determined by the USDA Rural Development department on purchase transactions and must be predominately residential in use, character and appearance

NOTE: Refinance Transactions: The property is **not** required to still be in a USDA defined rural area

To check eligibility click here: [Rural Housing Property Eligibility](#), select “**Single Family Housing Guaranteed**”, then enter the property address in the “**Find Your Address**” field located directly under the “**Property Eligibility**” header in the menu. A screenshot showing that property is located in an eligible area is required.

The following property types are eligible:

- Single family 1-unit properties
- PUDs (attached/detached)
- Condominiums (If Fannie Mae, FHA or VA approved no action required. If currently not approved, a Fannie Mae Full Review will be required on purchase transactions; a Limited Review is **not** allowed).
- Site condos are eligible subject to the following:
 - The unit must be completely detached with no shared garage or other attached buildings (e.g. archway, breezeway, etc.)
 - The unit consists of the entire structure, site and air space that are not considered to be common areas or limited common areas.

NOTE: Site condos not meeting the above criteria are **ineligible**.

- Modular/prefabricated properties. Factory built but **not** built on a permanent chassis; built on-site similar to stick-built homes; permanently affixed to the foundation; must conform to local building codes. Property is legally classified as real property and assumes characteristics of stick-built such as permanent connections to water, electrical and waste disposal systems
- Newly constructed (completed) properties
- Properties with ADU type features (kitchenette or additional attached living area) that are designed to support household members (e.g. multigenerational households) are acceptable provided they do not have a separate address, separate utilities, etc.
- **Multiple Parcels:** Properties with multiple parcels are eligible subject to the following:
 - The loan must provide for a valid first lien for each parcel, and
 - Each parcel must be conveyed in its entirety and have the same basic zoning, and
 - Only one residential property allowed. Additional non-residential, non-income producing buildings are acceptable (e.g. garage, barn, etc.), and
 - An improvement that has been built across lot lines is acceptable (e.g. the home is built across both parcels where the lot line runs under the home)
 - Parcels divided by a road, that would otherwise be contiguous, are acceptable
- **Leasehold Estates:** Properties subject to a leasehold are eligible subject to the following:
 - The mortgage must cover both property improvements and the leasehold interest in the land,
 - The leasehold must constitute real property, be subject to the mortgage lien, and be insured by a title policy
 - The leasehold term runs 15 or more years beyond the maturity date of the loan closing
 - The leasehold must be assignable or transferable
 - The lease cannot be terminated except for non-payment of lease rents
 - The lease must:
 - Provide for lender notification of any default by the borrower and the for the option to cure the default, and
 - Provide that the borrower will pay taxes, insurance, and HOA dues (if applicable) on the land and retain voting rights in the association, and
 - Provide that the leasehold can be transferred, mortgaged, and sublet without restriction, and
 - State rental increases in exact dollar amounts, and
 - Be recorded and constitute an interest in real estate, and
 - Permit mortgaging of the leasehold, and
 - Provide for written notice of default, and
 - Provide renewal options for the leasehold mortgagee

USDA Program Guidelines Purchase and Non-Streamlined Refinance

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| Properties – Ineligible | <ul style="list-style-type: none"> Properties not located in a rural area as defined by USDA Rural Development. Condominium projects not approved with Fannie Mae (or not eligible with Full Review) FHA or VA Cooperative projects 2-4 units Properties with an ADU that are designed to generate a potential income stream (separate utilities, address, entry, etc.) Investment property Second/vacation homes Manufactured/mobile homes. Manufactured housing is defined as any dwelling built on a permanent chassis. Manufactured homes are ineligible even if the towing hitch, wheels and axles have been removed. Condo Hotels (projects managed or operated as hotel/motel, hotel/motel conversions) Unique properties Commercial property Farms, orchards, ranches New (proposed) construction utilizing single-close/construction-to-perm financing Properties identified by Rural Development as “remote” rural Income producing properties (vacant land, properties used primarily for agricultural, farming, commercial purposes, etc.). <p>NOTE: If there is a feature that provides minimal income (e.g. windmill, billboard, cell phone tower, etc.) that is acceptable to USDA. The income generated is considered when calculating the annual household income.</p> <ul style="list-style-type: none"> Properties with large farm service building or with buildings/equipment for specific income producing purposes. Out buildings used for storage are acceptable Properties in Hawaii in lava zones 1 and 2, Properties where the economic life does not exceed the term of the loan Properties that do not comply with the applicable zoning laws. If the property does not comply with current zoning ordinances but is accepted by the local zoning authority, the appraiser must report the property as legal non-conforming. The appraisal must address any adverse effect of the legal non-conforming use on the value and marketability of the property. |
| Property Flips | <p>Eligible. The property value must be strongly supported when there is a significant increase between sales.</p> |

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| <p>Property with Solar Panels</p> | <p>A property with solar panels is eligible and the following applies:</p> <ul style="list-style-type: none"> • If the property 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 • If the property has solar panels that are subject to a lease agreement, power purchase agreement (PPA), or similar type of agreement, the transaction will be considered on a case-by-case basis subject to the following: <ul style="list-style-type: none"> - All terms of the agreement have been met, and - Homebridge must have first lien position, and - The property must maintain access to an alternative source of electric/gas power that meets community standards, and - The company providing the power cannot have the ability to block any foreclosure and/or servicing actions, and - The lease agreement/PPA must indicate the owner of the solar panels is responsible for any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the panels, and - The agreement/PPA cannot be a loss payee on the homeowner's insurance policy, and - Any payment for the equipment must be included in the borrower's DTI calculation, and - Leased solar panels are considered personal property and are not included in the appraised value <p>NOTE: If the agreement/PPA restricts the transfer of the property the loan the transaction is ineligible</p> |
| <p>Refinance Transactions</p> | <p>USDA Rural Development offers 3 types of refinance transactions; Non-Streamlined Refinance, Streamlined Refinance, and Streamlined-Assist. The Non-Streamlined refinance guidelines are below. Refer to the Streamlined Refinance and Streamlined-Assist guidelines on the Homebridge website Products and Guidelines page for detailed guidelines for those specific programs.</p> <p>Non-Streamlined Refinance</p> <ul style="list-style-type: none"> • Appraisal required • Credit report required • Maximum loan amount cannot exceed the current appraised value except when exceeded due to the borrower financing the guarantee fee. Unpaid fees, past-due interest, and/or late fees/penalties due the servicer cannot be included in the new loan amount • Refer to the Loan Amount topic for what can and cannot be included in the new loan amount • The existing mortgage must have closed 180 days prior to the Homebridge request for the Conditional Commitment • 0x30 payment history in the prior 180 days required • Subordinate financing cannot be included in the new loan amount. Any existing secondary financing must subordinate to the new first lien • Borrowers may receive reimbursement from loan proceeds at settlement for eligible closing costs paid from the borrower's personal funds. The borrower may also receive a refund at settlement that represents prepaid interest or overage from the borrower's escrow account. • Continuity of obligation requires that at least one of the borrowers on the refinance transaction is currently on the title of the property being refinanced • Rural Development loan being refinanced may be a Section 502 Direct or Guaranteed loan • Properties that are now outside of a rural area as previously defined by Rural Development are eligible • Income eligibility must be met • Property must remain primary residence • Properties now located in a flood zone with require flood insurance (elevation certificate not eligible) • Properties that were listed for sale in the previous 12 months must be taken off the market prior to the application date |

USDA Program Guidelines Purchase and Non-Streamlined Refinance

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| Reserves | Not required |
| Restrictions on Resale Price | <p>Restrictions on the resale price of the property or recapture of equity is permitted subject to the following:</p> <ul style="list-style-type: none"> • The borrower must be permitted to recover at least the original purchase price, sales commission, and cost of capital improvements when the borrower sells the property, and • If the program permits the borrower to sell the property at market value but recaptures part of the equity, USDA considers a reasonable share of the appreciation to be at least 50%. A sliding scale of the borrower's share of appreciation that begins at zero is acceptable to USDA provided that within 2-years the borrower would be permitted to retain 50% of the appreciation, and • The borrower must be permitted to recover a reasonable amount of appreciation (the difference between the original purchase price and the price the property is resold), as determined by Homebridge, and • If the program sets a maximum sales price restriction, the borrower must be allowed to retain 100% of the appreciation <p>Right of First Refusal</p> <p>If the restriction includes a right of refusal provision that can be exercised when the borrower proposes to sell the home to a purchaser not eligible for the program benefits, USDA allows this provision subject to the following:</p> <ul style="list-style-type: none"> • The right must be held only by a governmental body or eligible nonprofit organization and exercised by them, or someone they have identified as an eligible purchaser, and • Any right must be exercised within 45 days after the holder of these rights may exercise them (e.g. the rights are often triggered by a notice of sale from the borrower), and • Any option price must allow the borrowers to recover their investment plus reasonable shares of appreciation |
| Seller/Interested Party Contributions | <p>Contributions made by the seller or interested party (i.e. real estate agent, builder, developer) towards the borrower's closing costs, prepaid expenses, discount points and/or other financing concessions are eligible subject to the following.</p> <p>Maximum contribution is 6% of the lesser of:</p> <ul style="list-style-type: none"> • The property sales price, or • The appraised value. <p>The 6% limit also includes:</p> <ul style="list-style-type: none"> • The payment of mortgage interest, and • Payment of the one-time guarantee fee <p>NOTE: Contributions that exceed 6% are considered inducements to purchase</p> <p>The following are not included in the 6% limitation:</p> <ul style="list-style-type: none"> • Fees paid towards the borrower's cost to close such as real estate commission or other typical fees paid by the seller or other interested party under local, state law or local custom • Closing costs and/or prepaid items paid by Homebridge by premium pricing |
| Subordinate Financing | <ul style="list-style-type: none"> • Not applicable on purchase. Down payment assistance programs and mortgage credit certificates (MCCs) are not eligible • New subordinate financing on refinance transactions not allowed. • Any existing subordinate financing must be resubordinated except for PACE/HERO loans which cannot be resubordinated; the loan must be paid off or the transaction is ineligible for a USDA loan |

USDA Program Guidelines Purchase and Non-Streamlined Refinance

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| Temporary Buydowns | <p>Buydowns are permitted subject to the following:</p> <ul style="list-style-type: none"> • The loan is qualified at the Note rate, • Buydowns may be funded by one of the following: <ul style="list-style-type: none"> - Seller, - Realtor – Selling Agent or Listing Agent, or - Lender <p>NOTE: Buydowns may only be funded by one party; funding of the buydown cannot be split between parties</p> <ul style="list-style-type: none"> • The buydown cannot reduce the interest rate more than 2% below the full Note rate, • The rate cannot increase no more than 1% annually, • The buydown must be fully funded at origination, • 1/0, 1/1, 1/1/1, or 2/1 buydown available • Buydown funds are deposited into an escrow account and the Servicer will disburse funds from the escrow account each month to make the full mortgage payment. The borrower is required to acknowledge they agree with this in writing and a copy retained in the loan file • A copy of the escrow agreement, signed by the borrower and the provider of the funds, must be retained in the loan file |
| Transactions – Ineligible | <ul style="list-style-type: none"> • Cash-out • Rural Housing Direct Loan (purchase transactions) • Refinance of any loan that is not a current Rural Development loan • Construction-to-perm/single-close transactions • Properties located in a Special Flood Hazard Area and flood insurance through the National Flood Insurance Program or private flood insurance (acceptable to Homebridge) is not available. • New construction in an SFHA • Transactions involving the payoff of subordinate financing including PACE/HERO program subordinate financing • Transactions where the property securing the loan is subject to a private transfer fee covenant • Land trust/community land trust • Construction to perm or rehabilitation/repair transactions • Transaction on Native American restricted land • Transactions involving income derived marijuana/cannabis sales (income is illegal based on federal law) |
| USDA Forms and Links | <p>USDA Rural Development forms are available at: Reginfo.gov ; select the applicable form.</p> <ul style="list-style-type: none"> • Request for Single Family Housing Loan Guarantee (RD Form 3555-21) is used to request a loan guarantee from Rural Development. Must be completed at time of origination and signed by the borrower(s). <p>NOTE: Any increase in the loan amount or interest rate from what was indicated on the initial Form 3555-21 will require a new Form 3555-21 be submitted to USDA by Homebridge which will delay the loan process. Loans cannot be closed with a higher loan amount/interest rates than noted on the Conditional Commitment; a new Commitment will be required.</p> <ul style="list-style-type: none"> • Conditional Commitment for Single Family Housing Loan Guarantee (RD Form 3555-18) is issued by Rural Development to indicate the loan appears to be eligible for a GRH loan. The Conditional Commitment is valid for 60 days from issuance. |