

USDA Rural Development Single Family Guaranteed Rural Housing Program Streamlined Refinance

Fixed Rate

| Primary Residence Full Documentation | | | |
|---|-------|-----------------------|------------------|
| Transaction Type | Units | LTV/CLTV ¹ | Credit Score |
| Streamlined Refinance ² | 1 | 100%/100% | 580 ³ |

Footnotes:

1. Loan being refinanced must be a USDA Section 502 **Guaranteed** loan or Section 502 **Direct** loan. Conventional, FHA, or VA loans **cannot** be refinanced under this program.
2. Minimum loan amount \$60,000
3. New York transactions **ONLY**: Minimum 600 credit score required

In addition to the USDA Rural Development GRH Streamlined program Homebridge offers the USDA Rural Development Purchase and Non-Streamlined and the USDA 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](https://www.rd.usda.gov)

USDA Guaranteed Rural Housing (GRH) Streamlined Program Highlights

A Streamlined Refinance is a credit qualifying loan. Borrowers must meet all USDA income and credit requirements. Highlights include:

- Income must be \leq 115% of the area median.
- No reserves required
- No appraisal
- Gift funds are eligible for closing costs or the upfront guarantee fee

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

Fees

Upfront Guarantee Fee

- 1.00% of the total loan amount

Annual Fee:

- 0.35% - applicable for the life of the loan



| Topic | Guideline |
|------------------|--|
| 4506-C | <ul style="list-style-type: none"> Signed 4506-C 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) <p>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</p> Tax transcripts are processed for the previous 2 years 4506-C results must be validated against the income documentation prior to requesting the Conditional Commitment <p>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</p> Broker provided processed 4506-C 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 | All credit, income and asset documentation must be ≤ 120 days from the Note date. |
| Appraisal | Not required |
| Assets | <ul style="list-style-type: none"> Asset verification is required when funds are needed to close 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 transactions: <ul style="list-style-type: none"> - 2 months most recent bank statements (dated within 45 days of the initial loan application date). The bank statements must cover a full 30 day period - 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 monthly or quarterly statement Large Deposits: USDA defines a large deposit as any deposit that is ≥ \$1,000. <ul style="list-style-type: none"> - All deposits that are \$1,000 and greater must be sourced. Documentation that confirms the source of the funds is required. - Deposits ≥ \$1,000 that were transferred from a Zelle, PayPal, Venmo, etc. account will require a statement from the applicable account be provided 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 | 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. |

| | |
|--|---|
| Available Markets | <ul style="list-style-type: none"> • All 50 states • Guam, Puerto Rico and the Virgin Islands are ineligible. • Properties do not have to be located in an area currently identified as an eligible rural area. If the property was eligible at origination a refinance is allowed even if area not currently defined as rural by USDA Rural Development. |
| Borrowers – Adding or Deleting | Borrower(s) may be added or deleted as long as one original borrower remains on the loan. |
| Borrowers – Eligible | <ul style="list-style-type: none"> • U.S. citizens • Permanent resident borrowers |
| CAIVRS/LDP/GSA and Mortgage Fraud | <ul style="list-style-type: none"> • CAIVRS <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. - All federal debt and judgments must be paid in full or otherwise resolved and have supporting documentation. - CAIVRS claims: The borrower must provide official documentation that the delinquency has been paid in full or otherwise resolved prior to loan processing. - Borrowers previously convicted of mortgage fraud are ineligible • LDP / GSA <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 • 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. |
| Cash Back to Borrower | <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"> • First year of homeowner’s insurance paid • Loan application fees • 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> |

| | |
|-------------------------------|---|
| Contingent Liabilities | <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>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. • Previous Mortgage <ul style="list-style-type: none"> - If the borrower sold, traded or transferred a previous mortgage without the 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>NOTE: If there are any delinquent payments in the previous 12 months the payment must be included in the DTI calculation.</p> |
|-------------------------------|---|

| | |
|-----------------------------|---|
| Credit Exceptions | <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 |
| Credit History | <p>The borrower’s credit history must indicate the borrower has a reasonable ability and willingness to pay their obligations.</p> <ul style="list-style-type: none"> • Any of the following are indicators of an unacceptable credit history per Rural Development: <ul style="list-style-type: none"> - More than one 30 day late within the past 12 months (including more than one late payment on a single account) - Bankruptcy or foreclosure that occurred within the past 3 years - Outstanding tax liens or delinquent government debt with no satisfactory arrangements for payments, regardless of age if they are currently delinquent or due and payable. - Outstanding judgments within the past 12 months. - Two or more rent payments 30 days or more late within the past 3 years. - Any account converted to a collection account in the past 12 months (utility bills, medical bills, etc.) - Outstanding collections accounts with no satisfactory arrangements for payments, regardless of age if they are currently delinquent or due and payable. - Any debt written off within the last 3 years (charge-offs) • Borrowers with a foreclosure on a previous Rural Development loan are ineligible. |
| Credit Report/Scores | <ul style="list-style-type: none"> • A minimum credit score of 580 is required, no exceptions NOTE: New York transactions require a minimum 600 credit score • 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 |

Credit Report/Scores (cont.)

- A tri-merged credit report is required for all borrowers.
 - The primary borrower (the borrower with the highest income) must meet the minimum credit score requirement.
- Validating the Credit Score: GUS “Accept” Loans:** Validating the credit score **not** required
- Validating the Credit Score (Manual Underwrite or GUS loans with a “Refer” or “Refer with Caution” ONLY):** The credit score is considered valid when the following is documented
- At least one borrower, whose income and assets were used for loan qualification, must have a minimum of two (2) tradelines that have a 12 month history. The tradelines can be open, closed, disputed, or paid in full
 - Eligible tradelines include:
 - Secured or unsecured loan,
 - Revolving/installment accounts,
 - Credit card,
 - Collection or charge-off
 - 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 in the [USDA Purchase and Non-Streamlined Program](#) guidelines, located under **USDA Loan Products**, 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 has one credit score. Refer to the **Non-Traditional Credit** topic in the [USDA Purchase and Non-Streamlined Program](#) guidelines, located under **USDA Loan Products**, for details).
 - When the borrower lives in a community property state and there is a non-purchasing spouse a full credit report must be obtained for the non-purchasing spouse and their debts must be included in the borrower’s debt ratio (except as excluded by applicable state law) (See Louisiana Non-Borrowing/Non-Purchasing Spouse topic below for exception)

Community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.
 - **Louisiana Non-Borrowing/Non-Purchasing Spouse:** The debts of the non-borrowing/ non-purchasing spouse may be excluded subject to the following:
 - 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

Credit Report/Scores (cont.)

- 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.

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

| | |
|---|--|
| Credit Report/Scores (cont.) | <p>Disputed Accounts - Derogatory</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> - The cumulative total of the disputed derogatory account(s) is < \$2,000. Each account must include a minimum monthly payment using: <ul style="list-style-type: none"> - 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 <ul style="list-style-type: none"> - Each account must include a minimum monthly payment using: <ul style="list-style-type: none"> - 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 |
| Derogatory Credit GUS “Accept” Finding (See also “Derogatory Credit – Manual Underwrite” topic if applicable) | <p>Chapter 7 Bankruptcy Eligibility determined by GUS “Accept” findings. No additional documentation required with “Accept” finding.</p> <p>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.</p> <p>Chapter 13 Bankruptcy Discharged Eligibility determined by GUS “Accept” findings. No additional documentation required with “Accept” finding.</p> <p>Foreclosure/Deed-in-Lieu</p> <ul style="list-style-type: none"> • 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 <p>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.</p> <ul style="list-style-type: none"> • Borrower Current at Time of Short Sale <ul style="list-style-type: none"> - 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 <ul style="list-style-type: none"> - 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. |

Derogatory Credit - GUS "Accept" Finding (cont.)

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

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

| | |
|---|---|
| Derogatory Credit - GUS "Accept" Finding (cont.) | <p>Delinquent Federal Tax Debt</p> <ul style="list-style-type: none"> • Borrowers with delinquent federal tax debt are ineligible • Borrowers with a tax lien(s) may be eligible if: <ul style="list-style-type: none"> - 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. <p style="margin-left: 40px;">NOTE: The borrower cannot prepay the scheduled payments in order to meet the required minimum three (3) months payment history.</p> <ul style="list-style-type: none"> - The payment must be included in the borrower's DTI calculation <p>Judgments</p> <ul style="list-style-type: none"> • Federal Judgments – Non-Tax Debt <ul style="list-style-type: none"> - Requires payment in full, no exceptions. Documentation of sufficient funds to satisfy the obligation(s) is required. • Federal Judgments – Tax Debt <ul style="list-style-type: none"> - Borrowers with IRS tax debt are ineligible unless currently in a payment plan. The following applies if the borrower is in a payment plan: <ul style="list-style-type: none"> - 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. <p style="margin-left: 40px;">NOTE: The borrower cannot prepay the payments to meet the 3 month payment requirement.</p> <ul style="list-style-type: none"> - The payment must be included in the DTI calculation • Non-federal Judgments: <ul style="list-style-type: none"> - 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: <ul style="list-style-type: none"> - 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. <p style="margin-left: 40px;">NOTE: The borrower cannot prepay the payments to meet the 3 month payment requirement</p> <ul style="list-style-type: none"> - 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: <ul style="list-style-type: none"> - 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 | <p>Chapter 7 Bankruptcy</p> <ul style="list-style-type: none"> • 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 <p>Chapter 13 Bankruptcy Discharged</p> <ul style="list-style-type: none"> • Plan completed and borrower has demonstrated a willingness to meet obligations for the 12 months prior to loan application, no additional requirements. <p>(cont. on next page)</p> |

Derogatory Credit – Manual Underwrite

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

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
- The transaction meets one of the exceptions detailed in the [Credit Exceptions](#) topic

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

Derogatory Credit – Manual Underwrite (cont.)

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.
- Accounts converted to collections within the previous 12 months indicate unacceptable credit risk.

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.

NOTE: 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.

- **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

- **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 (cont.) | <ul style="list-style-type: none"> • Non-federal Judgments: <ul style="list-style-type: none"> - 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: <ul style="list-style-type: none"> - 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. <p style="margin-left: 20px;">NOTE: The borrower cannot prepay the payments to meet the 3 month payment requirement</p> <ul style="list-style-type: none"> - 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 |
| DTI | <ul style="list-style-type: none"> • Maximum 29%/41% with GUS “Accept”. Homebridge may grant an exception to total debt DTI exceeding 41% on a case-by-case basis with strong compensating factors • Manual Underwrite: When a loan submitted to GUS requires a loan to be downgraded to a manual underwrite the maximum DTI is subject to the above guidance above. There are no exceptions to the maximum DTI for manually underwritten loans. • All debts with 10 months or more payments remaining must be included in the DTI calculation <p style="margin-left: 20px;">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.</p> • Non-purchasing spouse debts must be included in the borrower’s debt ratio. • When there is a tax abatement/exemption/homestead on the subject property, the following applies: <ul style="list-style-type: none"> - 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 <p style="margin-left: 20px;">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</p> <p>Not Included when Calculating the DTI</p> <ul style="list-style-type: none"> • 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 |

Employment

- 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.
- Self-employed Borrowers**
- 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).
 - 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
NOTE: < 2 year of income from self-employment is **not** considered repayment income
 - 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)
- Employed by Family Business**
- 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;
 - Copies of signed personal tax returns, or
 - Signed copies of the corporate tax returns showing ownership percentage
- Gaps in Employment**
- 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.
- Re-Entering the Workforce**
- 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:
 - 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)
 - 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:
 - 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

| | |
|-------------------------------|--|
| Escrow/Impound Account | Required on all loans, no exceptions. |
| 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. • The gift funds donor cannot be affiliated with the builder, developer, real estate agent, broker, or any other interested party to the transaction. • Regardless of when gift funds are made available to the borrower the following is required: <ul style="list-style-type: none"> - A gift letter stating: <ul style="list-style-type: none"> - The donor's name, - The amount of the gift, and - The gift funds do not have to be repaid <p>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 noted below: <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 |

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](#) website.

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 income calculations that are required.

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
- Any income received from distribution from a trust fund
- Unreimbursed employee expenses may be deducted from the 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 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
- 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 business 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 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,
- 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.)
- 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,
- Income that is received as a "special-purpose payment" (payments provided to defray specific expenses of an unusual nature which would be discontinued if the specific purpose was discontinued)
- Temporary, non-recurring or sporadic income, including gifts
- The amount of Section 8 housing vouchers
- Payments received on a reverse mortgage (considered a drawdown on borrower assets)
- Any monies received from participation in programs under the Workforce Investment Act of 1998
- Compensation received through the Victims of Crime Act and reparation payments received from a foreign government arising out of the Holocaust

Income (cont.)

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 type are eligible or 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 derived from self-employment (refer to the [Employment](#) topic for details on self-employment income)
- Tax exempt income may be grossed up 25%

NOTE: Tax deductible income (e.g. tip income, overtime, childcare credit income, etc.) **is not considered tax-exempt and may not be grossed up**

| | |
|-----------------------|---|
| Income (cont.) | <p>Eligible Repayment Income (cont.)</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> - 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). <ul style="list-style-type: none"> - 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 <p style="margin-left: 40px;">NOTE: A downgrade to manual underwrite is required if the net monthly rental income is negative unless a GUS "Accept" recommendation is received</p> • 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 <p>Ineligible Repayment Income</p> <p>The following income types are ineligible for repayment calculations:</p> <ul style="list-style-type: none"> • 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. |
|-----------------------|---|

| | |
|-----------------------------|---|
| Income (cont.) | <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.) |
| Income Documentation | <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 <p>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 | Not required |
| Liabilities | <p>Debts with 10 months or more payments remaining must be included to ensure accurate debt ratio.</p> <p>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</p> <p>401K Loans Not counted in debt ratios.</p> <p>Alimony/Child Support/Garnishments Not required to be included in the debt ratio if 10 months or less remaining</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>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.</p> |

Liabilities (cont.)

Buy Now/Pay Later Accounts

Buy Now, Pay Later accounts offer short-term financing that allows consumers to pay over time on purchases, often interest-free for a period of time

- Companies offering Buy Now, Pay Later include, but are not limited to:
 - Affirm,
 - Klarna,
 - Afterpay,
 - Sezzle,
 - Zip
- In addition to the above companies, many airlines, retail establishments, medical/dental providers offer Buy Now, Pay Later options.
- Buy Now, Pay Later accounts are subject to the following requirements:
 - If the debt is identified on any asset statement or is otherwise disclosed in the loan file but **not** on the credit report, the debt is treated the same as other debt. This includes:
 - Undisclosed debt
 - Deferred debt
 - Debt paid by others
 - Consideration of installment loans and revolving accounts to DTI
 - If the debt is **not excluded**, no additional documentation required and the debt is included in the DTI
 - If the debt is **excluded**, standard documentation is required to verify terms and conditions used to support the exclusion
 - A credit supplement is **not required** however it may be obtained to verify terms and conditions provided the creditor will provide the information

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.

Lease Payments

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

Rents Received

If the net amount of rent received is negative the negative amount will be included in the DTI calculation

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

| | |
|----------------------------|--|
| Liabilities (cont.) | <p>Student Loans</p> <p>Student loan payments are included in the DTI as follows:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> - 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 <p>NOTE: Refer to the Co-Signed Debt topic for co-signed student loan obligation requirements</p> <p>Tax Repayment Agreements</p> <p>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 |
| Loan Amount | <ul style="list-style-type: none"> • The loan amount is limited to 100% of the appraised value plus the upfront guarantee fee (if financed) • The maximum loan amount cannot exceed the original amount of the loan being refinanced. The loan amount may include the principal and interest balance of the existing loan and reasonable common/customary closing costs, including any financed portion of the up-front guarantee fee • Unpaid fees, past-due interest, and late fees/penalties cannot be included in the new loan amount • 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. |
| Manual Underwrite | <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</p> <p>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> |

| Mortgage History/Seasoning | <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 | | | | | | |
|---|--|------------------------------|--------------|---|--|---|---|
| Occupancy | Owner-occupied 1-unit primary residence | | | | | | |
| Other Real Estate Owned | <ul style="list-style-type: none"> Borrower may own one additional property. Borrower must be financially qualified to own more than one property and must qualify including both mortgages Rental income that has been received ≥ 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 | | | | | | |
| 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;"> <thead> <tr> <th style="background-color: #ADD8E6;">Eligible Individuals for POA</th> <th style="background-color: #ADD8E6;">Requirements</th> </tr> </thead> <tbody> <tr> <td style="background-color: #D3D3D3;"> Military Personnel (POA eligible for initial or final application but not both) </td> <td> 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="background-color: #D3D3D3;"> Incapacitated Borrower (POA eligible for both initial and final) </td> <td> <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 | <ul style="list-style-type: none"> • 30 year fixed rate • The interest rate of the new loan cannot exceed the interest rate of the original loan being refinanced |
| Reserves | Not required |
| Streamlined Refinance General Requirements | <ul style="list-style-type: none"> • The interest rate of the new loan must not exceed the interest rate of the existing loan that is being refinanced. • A tri-merged credit report is required • The new maximum loan amount may include the principal and interest balance of the existing loan and reasonable common/customary closing costs, including any financed portion of the up-front guarantee fee, Unpaid fees, past-due interest, and late fees/penalties cannot be included in the new loan amount • Subordinate financing cannot be included in the new loan amount. Any existing secondary financing must subordinate to the new first lien excluding PACE/HERO financing which cannot be re-subordinated; PACE/HERO financing must be paid off • 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 • 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 must be a Guaranteed loan. • Properties that are now outside of a rural area previously defined by Rural Development are eligible. • Income eligibility must be met • Property must remain primary residence • Properties now located in a flood zone will 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. |
| Subordinate Financing | <ul style="list-style-type: none"> • No new subordinate financing. Existing subordinate financing cannot be included in the new loan amount. • Any existing subordinate financing must subordinate to the new first lien except for PACE/HERO loans which cannot be resubordinated; the loan must be paid off or the transaction is ineligible for a USDA loan |
| 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 • 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 Refinance of a USDA Section 502 Direct Loan Refinance of any loan that is not a current Rural Development loan |
| USDA Forms | <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) – used to request a loan guarantee from Rural Development. Must be completed at time of origination and signed by the borrower(s) Conditional Commitment for Single Family Housing Loan Guarantee (RD Form 3555-18) – issued by Rural Development to indicate the loan appears to be eligible for a GRH loan. |