SECTION 1:	**CODING**
PROGRAM CODES:	**TERM** **CODE:** 30 Year term 4015-03 Temporary Buydown codes: **Program** | **Lender Paid 2/1** | **Seller Paid 2/1** 30 Year | 4015L-03 | 4015S-03
Second Lien Program Codes:	Not applicable
SECTION 2:	**LTV/CLTV/LOAN AMOUNTS BY DOC TYPE**
FULL DOCUMENTATION: **Purchase and Rate/Term Refinance:**	<u>LT V/CLTV*</u> <u>OCC.</u> <u>PROPERTY</u> 100% Owner 1 Unit/Condo/PUD *LTV is based on appraised value. Maximum loan amount $417,000 in continental US, $625,500 in Hawaii, including guarantee fee. Note that a pricing adjustment will apply for loans in Hawaii greater than $417,000 including the guarantee fee. **<u>Purchase:</u>** • Minimum 80.01% LTV is required on purchase transaction. The minimum LTV guideline is intended to discourage borrowers that have sufficient assets to provide a down payment on conventional or FHA financing from taking advantage of the Rural Housing program. • Maximum LTV is 103.626% of appraised value when guarantee fee of 3.50% is financed. (Loans may exceed 100% LTV only to the extent that the excess represents the guarantee fee.) **Government Agency “soft/silent seconds” allowed. See “Subordinate Financing” section for additional restrictions. **<u>Rate & Term Refinance</u>**: • No minimum LTV required on rate and term refinance transaction. • Maximum LTV is 101.01% of the appraised value when guarantee fee of 1.00% is financed. (Loans may exceed 100% LTV only to the extent that the excess represents the guarantee fee.) • Must be existing RD underlying loan. • **Additional restrictions and requirements apply: see refinance section below** **Reminder: when the guarantee fee is not being financed, the maximum loan is 100% of the appraised value.** **Note:** Discount points <u>cannot</u> be financed into the loan amount <u>unless</u> the borrowers meet the RHS Low Income Limits. **Maximum LTV/CLTV 100% for properties in West Virginia. This includes government assistance programs where the combined loan amount may exceed 100% LTV/CLTV.**
Cash-out Refinance:	Not applicable
SECTION 3:	**PROGRAM PARAMETERS**
MINIMUM LOAN AMT:	Minimum loan amount $40,000
ALLOWABLE TERMS:	30 year fixed rate term.
CASH PROCEEDS:	Not applicable

SPECIAL PROGRAM REQUIREMENTS:	• Fully amortizing Fixed Rate loans for Low to Moderate Income borrowers to be used in the purchase or rate/term refinance of a 1 unit Primary Residence in a rural/designated area. • In order for a property to be eligible for a Rural Development guaranteed loan, the property must be located in a rural designated area as defined by Rural Development. Please refer to the following website to verify income limits and geographic eligibility~ http://eligibility.sc.egov.usda.gov. • Refer to the final GUS findings for the documentation required to send to the local USDA for review. The checklist found in AN 4465 is to be used for each submission. • Provide the RHS county/state office the following documentation: ❖ The completed RD 1980-21 (Request for Single Family Housing Loan Guarantee) and all checklist items must be submitted to USDA prior to drawing docs. **The Conditional Commitment from USDA is required prior to funding** ❖ Purchase Agreement • Must be non-farm, non-income producing tract. • Borrowers' adjusted household income cannot exceed the maximum allowable income limit set forth by Rural Development. Please refer to the following website to verify income limits and geographic eligibility~ http://eligibility.sc.egov.usda.gov. • The **appraisal** determines the maximum loan amount. The borrower can borrow up to 103.626% of the appraised value for purchase transactions, and 101.0% for refinance transactions if the guarantee fee is included in the loan amount. • Must not own adequate housing at the time of closing. • The borrowers may not receive **any** cash back at closing, other than the documented amount for costs paid in advance by the borrower from their personal funds (earnest money deposit, appraisal, credit report). Pro-rated credits for real estate taxes are not paid by the borrower, but are paid by the seller. The borrower cannot be paid pro-rated real estate taxes. Pro-rated credits must either be 1) applied as a principal reduction to the guaranteed loan; or 2) reduce the amount of the loan by the amount of the pro-rated real estate tax credit. The same guidance applies to any excess funds remaining from seller paid concessions.
ARM ADJUSTMENTS:	Not applicable
INTEREST ONLY OPTION:	Not applicable
TEMPORARY BUYDOWNS:	• Lender and seller paid buydowns are permitted with prior approval from Rural Development. • Purchase only. • 2-1 buydown only. • Qualify at the NOTE rate. • No contributions are permitted from the borrower. • Must be funded by the Lender, Seller, Builder, or other Third Party. • Temporary Buydown form (Refer to the addendum USDA-03A for location of the form.) • Borrowers' credit profile must contain compensating factors to offset the risk of a temporary buy down. Refer to "Qualifying Ratios" section. • Temporary buy downs not allowed in the state of Arizona.
PREPAYMENT PENALTY:	**Not applicable**

SECTION 4:	**BORROWER ELIGIBILITY**
FIRST TIME HOMEBUYER:	• Allowed on purchase transactions. • Home ownership counseling currently required for borrowers in state of GA & SC. Contact your RD local office for requirements. See www.rurdev.usda.gov for state specific requirements.
NON-OCCUPANT CO-BORROWER:	• Not permitted. • All borrowers must occupy the property and take title to the property.

PERMANENT RESIDENT ALIEN:	• Allowed under the same terms as US citizens. • Permanent resident aliens must provide proof of their residency (i.e. green card). • The Permanent Resident Alien certification must be completed and included in the loan file.
NON-PERMANENT RESIDENT ALIEN:	Not eligible
FOREIGN NATIONAL:	Not eligible
NON-ARMS LENGTH TRANSACTIONS:	• A non-arms length transaction is defined as a direct relationship between any of the parties to the transaction including, buyer, seller, employer, lender, originator, appraiser, etc. • Non-arms length transactions may be acceptable provided there is adequate verification the borrower is making the required minimum down payment from their own funds, there is an executed sales contract, and the appraisal supports the value and the appraiser comments on whether the market value is affected by the relationship of the parties. • A non arms length transaction may not be used to bail out a family member or any other owner with an established relationship to the borrower from a delinquent mortgage. • The title commitment may not show any evidence of foreclosure proceedings or NOD. • If the seller is a corporation, partnership or any other business entity, there must be proof that the borrower is not an owner of the business entity selling the subject property.
NUMBER OF OTHER PROPERTIES:	Borrowers cannot own any other properties at the time of closing.
SECTION 5:	**CREDIT CRITERIA**

UNDERWRITING:	All loans must be underwritten through the USDA's AUS system (GUS: Guaranteed Underwriting System) and receive an approve/eligible finding, then must be manually validated to make sure all USDA Rural Housing guidelines are met.
	GUS does not recognize or analyze compensating factors or risk layers, so prudent manual validation should be performed to ensure that USDA guidelines are met.
	Streamline refinances (refinances without appraisal) should be manually underwritten. GUS AUS may not be used for these transactions.
	• **An Approve/Eligible from GUS is required. Manual underwriting (including Refer responses or manual downgrades) not permitted except as follows:**
	  o USDA requires a manual downgrade for certain debts that are not rated on credit report. Lender will permit the following debts to be submitted through GUS and manually downgraded to refer:
	    ▪ Alimony
	    ▪ Child support
	    ▪ Pay stub loans
	    ▪ Credit union or small community bank loans
	  o Files with debts that are not reported on the credit report MUST have the debts reported on the **initial** 1003.
	  o File must be manually downgraded from an Approve/Eligible to a Refer.
	  o Full file must be submitted to the local RD office for approval per AN 4543.
	• Conditional Commitments expire 90 days from issue; can request 1 90 day extension.

CREDIT SCORES:	• A 3 bureau merged in-file report must be obtained. • **A minimum of 2, but preferably 3 credit scores** is required for each borrower. • **A single representative credit score** must be obtained for each borrower. (Lower of 2 or middle of 3 scores). • Minimum **640** credit score is required by Lender **regardless of AUS.** • Lowest of borrowers representative scores used for qualifying. • All borrowers must have credit scores.

CREDIT REQUIREMENTS:

- **The borrowers' credit history may not be fully analyzed by the USDA's AUS system (GUS). Because this is a high LTV, higher risk loan, the underwriter should exercise diligence in analyzing the borrowers' ability to repay, credit profile, and risk factors. The requirements on the AUS finding report must be met.**
- A positive credit history is required.
- **A 24 month history of residence** is required on all files.
- **The borrower's rental history** does not have to be verified unless required by the AUS system.
- **Inquiries:** A detailed explanation letter that specifically addresses both the purpose and outcome of each inquiry is required. If additional credit was obtained, a verification of that debt must be obtained and the AUS findings must be updated to include the debt.
- **Mortgage Debt:**
  - ❖ No 30 day late payments within the past 12 months.
  - ❖ Maximum late permitted one (1) 30 day late within the past 36 months.
- **Bankruptcies/Foreclosures.** Bankruptcies must be discharged at least 3 years with an acceptable credit history since the bankruptcy. Foreclosures must be completed 3 years ago.
  - ❖ Exceptions may be considered if credit profile demonstrates strong mitigating circumstances.
- **Short sales:** any debts written off in the last 3 years indicate unacceptable credit history.
- **Delinquent student loans** must be satisfied prior to loan closing or have an acceptable repayment plan, reporting six months of positive payments.
- **Revolving/Installment Accounts**:
  - ❖ No more than one (1) 30 day late within the past 12 months and must be explained and supported.
  - ❖ Late/or slow payments caused by mitigating circumstances may be acceptable as long as the borrower provides a written explanation and documents the mitigating circumstances.
- If AUS findings reference a **disputed account**, the following requirements apply:
  - o Disputed accounts **must** be cleared by the creditor and the AUS findings **must** be reissued referencing a new credit report.
  - o A credit supplement is **not** acceptable; a new credit report is **required**.

Note: Generally borrowers are not required to provide explanations for recent credit inquiries or derogatory/adverse credit except for accounts involving delinquent Federal debt or a previous Agency loan AND collection accounts may remain open unless the USDA's AUS (GUS) system has different requirements.

RATIOS:

29/41%~ Exceptions may be considered with compensating factors (this exception may be done at the branch level, corporate support approval is not required). **The maximum DTI is 45% regardless of AUS.**

Compensating factors include, but are not limited to: PITI < Rent, 660+ credit score, substantial cash on hand after closing, accumulated savings, potential increase in income due to specialized training or education in their profession, conservative use of credit, long job history, etc.

Note: Caution should be taken if the borrower has no rental or housing payment history to verify, or if the payment shock is 100% or greater than the borrowers' current rent or housing expenses.

QUALIFYING:

- **Buydowns**: Qualify at the NOTE rate.
- **All borrowers whose income or assets are used for qualifying purposes must take title to the property**. No other persons are permitted to take title.
- **Revolving Debt:** included in ratios regardless of when the debt will be retired. Can pay off to qualify.
- **Deferred student loans:** Deferred student loans must be included in the DTI calculation regardless of the length of deferment. If the credit report does not show a monthly payment, a copy of the borrowers payment letter showing a payment amount may be obtained OR use 1% of the existing loan balance.

QUALIFYING: (cont'd)

- **Installment Debt:** payments extending 6 or more months must be included in qualifying ratios. Can pay off (or down to <6 payments remaining) to qualify.
- **Co-signed obligations** will not be included in the DTI if there is evidence the primary borrower has made payments as agreed for the last 12 months (copies of canceled checks, front and back). A copy of the note must also be provided to show that the person making the payments is also an obligor on the note. Being placed on title only is not sufficient.
- **Undisclosed debts:** If debts were disclosed that do not appear on the credit report, USDA requires a manual downgrade to "Refer". Refer / manual underwriting is not permitted, so loan would be ineligible. Note: non purchasing spouse debts not included on the applicant's credit report in GUS do not require a manual downgrade.
- For transactions in **community property states**, **non purchasing spouse debt** must be included in the applicants' debt ratios. GUS will only retrieve credit reports for applicants, so a credit report must be obtained outside of GUS. Enter debt obligations on the "Assets and Liabilities" page and identify the debt as "spousal debt" or "NPS debt". Does not need to be manually downgraded to refer.
- **Loans against personal assets** such as 401(k) accounts, retirement funds, or other liquid assets do not need to be considered in the debt ratio
- **Contingent liabilities** (i.e. property settlement "buy-outs" or court-ordered assignment of debt) will not be included in the DTI if there is proof the debt belongs to another person. A copy of a court order, divorce decree or property settlement may provide proof of the contingent debt. In addition to the divorce decree or property settlement, a release of liability from the mortgage creditor must be presented as evidence that an applicant is not legally obligated for the payment. If no release of liability is granted, the applicant remains responsible for the debt. Quit claim deeds do not remove liability for mortgage debts.
- Mortgage Credit Certificates may not be used as income or to offset housing payment. Lender is not participating in any MCC programs at this time.

Note: USDA considers the following to be layers of risk: any combination of payment shock, credit waiver, ratio waiver, or buy-down. Only <u>1 layer of risk</u> should be allowed; if > 1, must have strong, documented compensating factors.

Compensating factors include, but are not limited to: PITI < Rent, 660+ credit score, substantial cash on hand after closing, accumulated savings, potential increase in income due to specialized training or education in their profession, conservative use of credit, long job history, etc.

CALCULATING LTV/CLTV/VALUE:

LTV/CLTV is based on the current appraised value.
With HELOC subordinate financing, the **CLTV** should be calculated from the **full amount of the HELOC** (whether or not funds have been drawn).

Re-negotiated purchase agreement policy:

- Lender will not accept re-negotiated purchase agreements that increase the sales price <u>after</u> the appraisal has been completed if:
  - The appraised value is higher than the contracted sales price provided to the appraiser, and
  - The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, and
  - The only change to the purchase agreement is an increase in sales price.
- If the purchase agreement is re-negotiated after the completion of the appraisal, the loan to value will be based on the lower of the <u>original</u> purchase price or the appraised value, unless:
  - A re-negotiation of seller paid closing costs and/or pre-paids occurs if customary for the market and supported by comparables, not to exceed standard seller contributions, or
  - An amended purchase agreement for a new construction property is obtained due to improvements that impact the value. In the event of such changes, an updated appraisal must be obtained to verify the value of the modifications.

SEASONING:	Not applicable.
REFINANCES:	**Refinances under the Guaranteed Rural Housing program are allowed as follows:**

- The intent of a refinance transaction is to provide borrowers that have a satisfactory payment history the opportunity to benefit from a lower interest rate and increase their ability to be successful homeowners.
- 2 refinance options are available:
  - **Streamline Refinance** – No appraisal required, only the outstanding principal balance and guarantee fee may be financed. **If this option is used, the documentation type "USDA-NO APPRAIS" must be selected.**
  - **Non-Streamline Refinance** – Appraisal required, finance outstanding principal balance and accrued interest, reasonable closing costs and pre-paids up to appraised value plus the guarantee fee.
- Full credit, income & asset documentation is required for both processing options.
- **Both options will now require an inspection confirming the property meets the requirements of the HUD Handbooks 4150.2 and 4905.1.**
  - **This inspection requirement may be satisfied by an FHA Inspection Form from an FHA appraiser. This is required whether or not an appraisal has been completed. You may contact your local RD office for documentation guidance.**
- Loan must be secured by the same property as the original loan. The original loan must be USDA Section 502 Guaranteed or Section 502 Direct only. **The program may not be used to refinance FHA, VA, or other government or conventional mortgages.**
- Property must be occupied by the borrowers as their primary residence.
- The total household income cannot exceed the Rural Housing Service Moderate- Income Limit for the county in which the property is located.
- USDA GRH refinance loans are permitted for properties in areas that have been determined to be non-rural after the existing USDA loan that is being refinanced was closed.
- Applicants are not eligible to receive "cash out" from the refinancing transaction. However, applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinance transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of "cash out" to the applicants (beyond reimbursement of these "prepaid" items) may occasionally result due to final escrow and interest calculations. This amount, if any, must be applied to a principal reduction on the new loan.
- Subordinate financing such as home equity seconds and down payment assistance "silent" seconds cannot be included in the new loan amount. Any existing secondary financing must be subordinate to the new first lien.
- **The maximum loan amount for non-streamline refinances (with appraisal)** cannot exceed the present fair market value as supported by an appraisal, plus the guarantee fee. The base loan amount may include the balance (principal and accrued interest) of the existing loan to be refinanced, reasonable and customary closing costs and lender fees, including funds to establish a new tax and insurance escrow account in conjunction with the new loan.
- **The maximum loan amount for streamline refinances (no appraisal)** cannot exceed the outstanding principal balance of the existing loan to be refinanced, plus the guarantee fee. (Accrued interest, closing costs and other fees cannot be financed with the streamline refinance option. **If this option is used, the documentation type "USDA-NO APPRAIS" must be selected.**
- The guarantee fee is 1.00% of the total principal obligation of the new loan.
- The guarantee fee can be financed into the new loan. The max LTV may reach 101.01%, if the 1.00% guarantee fee is financed.
- Unpaid fees, such as late fees due the current servicer, are not eligible to be included in the new loan amount under either processing option
- As part of the refinance transaction, additional borrowers may be added to the new USDA GRH loan, or existing borrowers may be deleted from the current loan. All applicants that will be a party to the promissory note for the new loan must meet all eligibility requirements.
- Interest rate of the new loan must be a 30 year fixed rate (**2/1 buydown not permitted).**
- The existing loan to be refinanced must be current for the previous 180 days prior to application. No loan can be refinanced unless 6 payments have been made.

REFINANCES: (cont'd)	• Discount points paid to the originator representing application fees or broker fees cannot be assessed to the borrower. Discount points associated with a permanent interest rate reduction may be assessed to the borrower. These points may not be financed, however, unless the applicants have household incomes defined as "RHS Low-Income. • Reasonable and customary closing costs may be collected from the borrower, but may not exceed the actual cost incurred for the service provided. Examples of customary and reasonable fees and charges can be reviewed in the Federal Register located at: http://edocket.access.gpo.gov/2009/pdf/E9-26269.pdf **.** • If there are any conditions noted on the appraisal or inspection that are related to the safety or livability of the subject property, they must be addressed and rectified prior to the loan closing. **Expenses related to property inspections and property repairs may not be financed into the new GRH refinance loan, or escrowed for prior to closing.**
SUBORDINATE FINANCING:	• Not permitted, unless provided by Government Agency as a soft/silent second. • Any repayment must be considered in housing ratio. • Maximum LTV/CLTV 100% for properties in West Virginia. This includes government assistance programs where the combined loan amount may exceed 100% LTV/CLTV. • With HELOC subordinate financing, the **CLTV** should be calculated from the **full amount of the HELOC** (whether or not funds have been drawn).

EMPLOYMENT/INCOME:	The USDA has issued guidance on identifying stable and dependable income sources that may be used for repayment consideration.
	• Background: The program has three distinct income calculations that must be considered for program eligibility and repayment purposes:
	    o Annual Income: All income received by adult household members that will reside in the home.
	    o Adjusted Annual Income: Annual income, minus eligible household deductions, determines whether the household is eligible for guaranteed loan benefits.
	    o Repayment income (qualifying income): The stable and dependable income that will be utilized to calculate housing and total debt ratios. **Only the income of applicants that will be a party to the note will be considered.**
	• Qualifying income for USDA and repayment income as calculated by underwriter may be different.
	• Household income may not exceed 115% of the area's median income level as determined by Rural Development. (Qualifying income)
	• The income limit structure for non-high cost counties is as follows:
	    o 1-4 person household: 74,050
	    o 5-8 person household: 97,750
	    o Income eligibility must still be verified through the RD website.
	• Verify borrowers' income eligibility using RD Moderate Income limits at http://eligibility.sc.egov.usda.gov
	• Qualifying income will be calculated by considering the borrower's two-year history. If the borrower has had a recent substantial increase in earnings, acceptance by the state or local RD office is required.
	• Verify two year history for all sources of income.
	• Reminder: Income for each borrower to be obligated for the mortgage debt must be analyzed whether it can reasonably be expected to continue through at least the first 3 years of the mortgage loan.
	• **If any other adult member of the household is not presently employed but there is a recent history of such employment, that person's income will be considered unless the applicant/borrower and the person involved sign a statement that the person is not presently employed and does not intend to resume employment in the foreseeable future.**
	• Annual income may be reduced by $480 for each member of the family residing in the household, other than the borrower, spouse or co-applicant who is:
	    ❖ Under 18 years of age
	    ❖ A full time student aged 18 or older or
	    ❖ Disabled or handicapped 18 years of age or older (Form C6213 Certification of Disability or Handicapped must be completed)

EMPLOYMENT/INCOME: (cont'd)	• A one time deduction of $400 may be taken for any elderly family member (a person who is 62 or older). • **Full time –** For borrowers whose income is derived from full-time employment, two (2) years of full employment history must be verified on FNMA Form 1005 (Verification of Employment). Alternate documentation can be provided in lieu of the FNMA Form 1005. Alternate documentation must include: two years certified W-2's, 30 days certified pay stubs with year-to-date information, AND a Processor's Certification of Employment or Verbal VOE. ❖ Borrowers are not required to have 24 months continuous employment with their current employer ❖ Where there has been a change in employers in the last 24 months, the borrower must explain any gap in employment that extends beyond 1 month. ❖ Two years tax returns will only be required for: self employed borrowers, commissioned borrowers, borrowers employed by relative or closely held family business, and borrower who are not commissioned, but need to validate their expenses. • **Self-Employed Income:** Two (2) previous years 1040's are required. They must be signed and certified by the borrowers. A year to date Profit & Loss Statement with Balance Sheet, prepared and signed, must be submitted. If the borrower has 25 percent or more ownership interest in the business entity, the borrower must also provide the most recent two (2) years; business tax returns (Corporate, Sub-S Corporate, or Partnership) along with a current Profit and Loss Statement with a Balance Sheet prepared and signed by an accountant. • **Part-Time:** Part-time or second job income permitted if income has been received uninterrupted for the past 2 years and will continue. Seasonal employment may be counted if the applicant has worked the same type of job for the past 2 years. • **Overtime and Bonus Income:** Income should be received for 2 years from the same employer in order to be considered stable and dependable. Averages from periods of less than 2 years must be adequately justified and documented. The employer must indicate that the overtime and bonus income has a probability to continue. If income from these sources varies significantly from year to year, a period of more than 2 years should be used in calculating average income. • **Commissions:** Commission income should be averaged over the previous 2 years from the same employer. Non-reimbursed expenses, if any, should be subtracted from the gross income reported on tax returns. Commission earned less than 1 year should not be considered as repayment income without significant compensating factors. Exceptions may be made in situations where compensation was changed from a salary to commission with a similar position, with the same employer. If commission decreases from one year to the next, significant compensating factors must be documented to include this income. • **Tax-exempt Income:** Non-taxable income may be "grossed up" to calculate repayment purposes only. No other adjustments are allowed. • **Military Income:** In addition to base pay, military personnel may be entitled to additional forms of pay. Income from variable housing allowances, clothing allowances, flight or hazard pay, rations, and proficiency pay may be used for repayment income provided it is verified as stable and likely to continue. • **Alimony, Child Support, and Separate Maintenance:** documentation must be provided to support that Alimony, Child Support, or Separate maintenance will continue for a minimum of three (3) years after the date of the mortgage application or it will not be considered income. The borrower must also provide evidence that the funds have been received for the last 12 months: deposit slips, cancelled checks, court records, or tax returns. • **Retirement Income:** Retirement income (i.e. pensions, annuities, 401K distributions, etc, may be verified by letters from the organizations providing the income, copies of the retirement award letters (with photocopies of cancelled checks attached), tax returns, or IRS W-2 forms. This evidence must confirm a continuation of this income for a minimum of 3 years. • **Social Security Income:** Acceptable verification includes a photocopy of the social Security Administration's award letter or copies of the borrower's last 2 bank statements to confirm the regular deposit of the payments. Benefits that have defined expiration dates must have a remaining term of at least three (3) year to be considered income.

EMPLOYMENT/INCOME: (cont'd)	• **Disability Income:** Disability income will be considered acceptable income provided it can be documented by furnishing a recent copy of respective letter of benefits or allotment setting forth the terms of the income. The benefits must be on-going for a minimum of three (3) years. • **Grossing up non-taxable income**: The amount that the lender may gross up is limited to the amount of tax savings attributable to the non-taxable income. Adjustments for an amount other than the applicable tax rate are not allowed. The lender must fully document and support the amount of income grossed up for any non-taxable source. Rural Development does **not** endorse a standard tax rate percentage (i.e. 125% or 120%). • **Unemployment and Public Assistance Benefits:** Unemployment And Public Assistance benefits will be considered as income if they are properly documented by letters or exhibits by the paying agency. The amount, frequency and duration of payments must be stated in the verifying documents. If an individual receives unemployment benefits as a regular part of his/her income, the most recent two years tax returns are required to verify receipt. This income must be documented as on-going for a minimum of three (3) years. • **Dividends/Interest Income:** Dividends and interest may be used as income provided the assets that are generating the dividends/interest income will not be used for the down payment or closing costs on the proposed loan. The borrower must provide tax returns for the previous two (2) years along with verification of current assets via bank statements, verification of deposits, etc. This income will be averaged over two (2) years or calculated at current market interest rates, whichever is less. • **Employer Differential Payments**: If the employer subsidizes the mortgage payments through direct payments, this is a housing allowance. The amount of these payments should be considered gross income to calculate ratios. It may not be used to directly offset the mortgage payment, even if the employer pays the servicing lender directly. • **VA Benefits:** VA benefits, such as regular payments for a service related disability, may be counted if the VA verifies it. Educations benefits used to offset educational expenses are not an eligible source of repayment income. The difference between the costs of education and the benefit can be considered repayment income. • **Automobile Allowance and Expense Account Payments:** The amount by which an applicant's auto allowance or expense account payments exceed actual expenditures may be considered as repayment income. Income should be received for 2 years, along with verification from the employer that these payments will continue. The applicant's monthly car payment must be treated as a recurring debt and must not be offset by the car allowance. • **Pre-Tax Medical Premiums**: Pre-tax medical premiums that applicants pay with wages earned towards their medical/dental/vision benefits must be considered as gross income. • Income sources that a lender determines does not meet the definition of stable and dependable may be considered as a compensating factor only for meeting debt ratios. • **Relocation-Trailing Co-borrower:** Not eligible. • A signed 4506-T will be processed by Lender regardless of AUS findings. • **4506T / Tax transcripts:** Follow AUS findings for the level of income documentation required. A signed 4506-T will be processed for at least 1 year regardless of AUS findings except as noted. The most recent year's tax transcript is required if income information was used in the underwriting decision regardless of AUS results. If the most current year's tax transcripts are not available the following must be provided: ❖ the previous year's transcripts ❖ evidence that the extension was filed & IRS payment made / or refund received for the most current year ❖ most recent 30 days paystubs & most current W2s ❖ Fo r **self employed** borrowers, a P&L for the most current tax year is also required. 1040s that can not be validated, along with payment, can be used in lieu of this P&L. ❖ **Please note that if income for more than the most current year is used, tax returns and 4506Ts must still be obtained for all years of income used.** ❖ 4506T must be processed for most current year and show "no record" • **Mortgage Credit Certificates** may not be used as income or to offset housing payment. Lender is not participating in any MCC programs at this time.

ASSETS:

- Verification of funds is not required unless the borrower's contribution is greater than 2% of the purchase price.
- Borrowing of unsecured funds allowed with 660 credit score.
- Escrow/earnest money deposits do not need to be verified with copies of cancelled checks if the amount is < $1,000 or 2% of the loan amount.

The USDA has issued guidance on liquid asset types and documentation:

- Background: Liquid assets considered in the credit and risk evaluation can influence the underwriting recommendation due to remaining cash reserves post closing. Although cash reserves are not required, the presence of reserves can affect the strength of the loan.
- When liquid assets are entered into the underwriting the analysis, the asset must be verified and documented in the lender's permanent case file. The following chart provides examples of the liquid assets often utilized, and the expected documentation when these assets are present on the loan application:

Liquid Asset Type	**Minimum Documentation Guidelines**
Depository types: • Savings Accounts • Checking Accounts • Certificate of Deposit • Money Market Fund	• Verification of Deposit with average 2 month balance; or • 2 months bank statements dated within 45 days of the initial loan application date.
Earnest Money Deposit (Sales Contract)	• Earnest Money Deposit on sales contracts can be considered an asset, if the deposit is not already reflected in a depository account. • If the funds have cleared the borrowers' account, place the amount as "Other Credit" in Section VII of the application, where it is assumed to have been verified. • For GUS transactions, do not enter the earnest money in a depository account on the "Asset and Liabilities" page AND in the "Other Credit" section on the "Transaction Details" page.
Gift Funds	• Gift funds should be identified separately, as a gift, even if the funds have already been deposited in a liquid asset account by the borrower. • Gift funds should not be reflected in the depository accounts verified. If gift funds are in the borrowers' bank account, the account balance should reflect the balance less the gift funds deposited. • Gift funds will not be considered as cash reserves in GUS transactions or as a compensating factor for manually underwritten loans. • Gift funds may assist with available funds for closing costs, voluntary down payments or guarantee fees, but will not be considered as cash reserves for the purpose of compensating factors when waiving credit or requesting repayment ratio waivers. • Gift funds may be documented by obtaining a gift letter signed by the donor and borrower.

ASSETS: (cont'd)

Sale Proceeds from Currently Owned Property	• Final HUD-1 indicating cash sales proceeds actually received by the borrower • Proceeds from the sale of the property should be included in the borrower's liquid assets. • For GUS transactions, the "Net Equity" portion will be populated once the "Real Estate Owned Property" section is properly completed.
Individual Retirement Accounts, Thrift Savings Plans, 401Ks and Keough Accounts	• Up to 60% of the vested amount may be considered in the underwriting analysis – to account for federal income tax and any withdrawal penalties. • Obtain the most recent statement.
Stocks and Bonds	• The monthly or quarterly statement provided by stockbroker or financial institution managing the portfolio.
Cash On Hand (accumulated outside a depository account)	• The borrower should be able to explain in writing how funds were accumulated and the amount of time taken to do so. • The lender must determine the reasonableness based on the borrower's income stream and the time frame in which they were saved. • Typically individuals that accumulate and keep cash savings on hand are less likely to save money through a savings or checking account as would an individual with a history of such accounts.

- The above examples do not represent all types of possible assets, is not an all-inclusive list.
- Satisfactory explanation and documentation should be provided for large deposits or increases in liquid assets.
- The lender may exclude cash reserves from liquid assets from the underwriting analysis if the borrower qualifies without it.
- The presence of income producing assets may influence the annual income calculation.
- Business assets may be used for down payment and closing costs as follows:
  - The borrower must be the sole proprietor or 100% owner of the business or provide verification from the other owners that the borrower has access to the funds.
  - The accountant must comment on what impact the withdrawal of the funds will have on the business. If the accountant states that there will be a negative impact, the use of the funds will not be permitted.
  - Business funds are not an eligible source of funds for cash reserves.

CASH RESERVES: None required.

GIFTS/ DOWN PAYMENT:

- 100% of the borrower's cash to close may come from a gift.
- A borrower can use funds obtained as a gift (or grant) to satisfy part of the cash requirement for closing only if the donor is a relative, or friend, or charitable organization, municipality, or nonprofit organization.
- Donor must be disinterested third party to the transaction.
- A signed gift letter by both the borrower and the donor must include the donor's name, address and telephone number, the relationship to the borrower, state the dollar amount of the gift, the date the funds were transferred, and must include the statement that no repayment is expected or required.
- If the gift funds are not already in the borrowers account, transfer of the gift funds to the borrowers account or to escrow (or the closing agent) must be documented. The donor may give the closing agent a certified check for the amount of the gift. A copy of that check or a settlement statement showing receipt of that check will be sufficient documentation.

GIFTS/DOWN PAYMENT: (cont'd)	• If the gift (or grant) is coming from a charitable organization, municipality, or nonprofit organization, a copy of either the letter awarding the gift or grant to the borrower, or a copy of the legal agreement that specifies the terms, and conditions of the gift or grant is required. The documentation must indicate that no repayment of the gift or grant is expected and provide an indication of how the funds will be transferred (to the borrower, lender, or closing agent). Evidence of the transfer of funds, such as copy of donor's cancelled check or settlement statement showing receipt of the check is required.

DOCUMENTATION TYPES:	Loan applications on this program must be fully documented. Income, employment and assets are fully verified.
	• **The salaried borrower's** employment/income is verified with their current employer along with a FNMA form 1005 verification of employment or 2 yr's w-2's, a 30 day paystub with year to date earnings, AND a processor certification of employment.
	• A Verbal Verification of Employment will be performed (for salaried / W2 borrowers) a maximum of 3 days prior to the NOTE date, and will expire after 10 days (from the date on the VOE) if the loan is not funded.
	• **The self-employed borrower's** employment/income is verified with two (2) previous years 1040s. They must be signed and certified by the borrowers. A year to date Profit & Loss Statement with Balance Sheet, prepared and signed, must be submitted. If the borrower has 25 percent or more ownership interest in the business entity, the borrower must also provide the most recent two (2) years; business tax returns (Corporate, Sub-S Corporate, or Partnership) along with a current Profit and Loss Statement with a Balance Sheet prepared and signed by an accountant.
	• A signed 4506-T will be processed by Lender regardless of AUS findings.
	• **4506T / Tax transcripts:** Follow AUS findings for the level of income documentation required. A signed 4506-T will be processed for at least 1 year regardless of AUS findings except as noted. The most recent year's tax transcript is required if income information was used in the underwriting decision regardless of AUS results. If the most current year's tax transcripts are not available the following must be provided:
	  ◦ the previous year's transcripts
	  ◦ evidence that the extension was filed & IRS payment made / or refund received for the most current year
	  ◦ most recent 30 days paystubs & most current W2s
	  ◦ For **self employed** borrowers, a P&L for the most current tax year is also required. 1040s that can not be validated, along with payment, can be used in lieu of this P&L.
	  ◦ **Please note that if income for more than the most current year is used, tax returns and 4506Ts must still be obtained for all years of income used.**
	  ◦ 4506T must be processed for most current year and show "no record"
	• Refer to the final GUS findings for the documentation required to send to the local USDA for review. The checklist found in AN 4465 is to be used for each submission.

SECTION 6:	**PROPERTY/APPRAISALS**
ELIGIBLE PROPERTIES:	**Eligible Properties**: Property must be located in a designated rural area. See "Stated Specific County Maps" for ineligible areas. Visit website for eligibility: http://eligibility.sc.egov.usda.gov. **Condition of Property: For all real estate transfers (purchase transactions)**. All properties must be habitable and all appliances, plumbing, electrical, etc. must be functional and in good working condition. A stove is not required in the case where a stand-alone appliance can be placed. If the kitchen has built in appliances, a stove/oven must be installed. The lack of a stove or oven can not pose any health or safety hazard, otherwise installation is required prior to closing. **Single Family residence (including modular homes)**, primary residence only. **Condo:** See condo section below for complete information**.** **PUDS:** See rural housing website: www.rurdev.usda.gov **for state specific requirements and complete details.** • New construction acceptable. • Agency approval is not required for PUDs, including attached properties. PUDs are considered SFR for underwriting purposes. • **AZ & FL: Condos & PUDS,** See rural housing website: www.rurdev.usda.gov **for state specific requirements and complete details.**

ELIGIBLE PROPERTIES: (cont'd)

Leaseholds permitted. Leaseholds must have 40 years remaining.

Property's land value can be no more than 30% of the value. Exceptions may be acceptable if excessive land value is customary to the area as evidenced by the appraisal.

Above ground swimming pools permitted. In-ground swimming pools not permitted.

New Construction: If the builder is providing a one-year warranty, the following inspections are required:

- Framing Inspection
- Footing Inspection
- Final Inspection
- Thermal Inspection – not required if addressed in plan certification or certificate of occupancy.
- The following documentation is also required for new construction:
  - Plans & Specs
  - Plan Cert – Form RD1924-25 completed by professional engineer, licensed architect or plan reviewer.
  - Permits
  - Occupancy certificate
  - Construction Warranties

Well and Septic Certification: the septic system must be free of observable evidence of system failure. A government health authority, a licensed septic system professional, or a qualified home inspector may perform the septic system evaluation. Well certification – local authority or certified lab to perform water quality analysis. Any FHA roster appraiser can make a determination concerning observable failure as this is part of the HUD Handbook 4150.2 regulation. An actual test of the system (which would not be performed by the appraiser) is only necessary if the appraiser notes observable failure of the system or if property is vacant.

Properties located in Special Flood Hazard Zones which require Flood Insurance are not acceptable. **Exceptions** will be granted if approved by RHS.

AZ, CA, FL, & OR: See Rural Housing website: www.rurdev.usda.gov **for state specific requirements and complete details.**

If a 10-year Builder Warranty is provided: only a Final Inspection is required.

Existing Properties: (Properties older than one year, or properties less than one year old that were previously owner occupied)

- Existing properties must meet the current requirements of HUD Handbooks 4150.2 and 4905.1, typically verified through an RHS Adequacy Certification (Existing Dwelling Inspection Report), or by the appraiser certifying in the comments section of the appraisal that the property meets HUD Handbooks 4150.2 and 4905.01.

Private Road Maintenance Agreement:

- Must be filed at time of submission to the RHS county/state office.
- If recorded, a copy of the title insurance binder will contain the agreement.
- If subject property is a condo or PUD, the Road Maintenance Agreement will be contained in the bylaws or CC&R's.
- If a Private Road Maintenance Agreement is not available the property is ineligible.

Termite Inspections: Termite inspection reports are only applicable where required by state law, and are valid for 90 days from date of inspection.

Listed Properties/Refinance Transactions: Properties may not be currently listed at the time of application.

- The property listing agreement must be cancelled a minimum of 1 day prior to the application date.
- A copy of the cancelled/expired listing must be included in the file.
- Appraiser must note that the property is not currently listed.
- The borrower must confirm the intent to occupy the property.

Non-permitted additions: **Non-permitted additions** are **not** permitted unless approved by the local Rural Development office. Contact your local Rural Development office for details. Note: California properties with non-permitted additions are not acceptable.

Property Flipping: If the owner (individual or entity other than the Mortgage holder) sells a property within 90 days after the date of acquisition, that property is not eligible for financing. An exception may be granted by corporate support on a case by case basis.

INELIGIBLE PROPERTIES:	**Ineligible properties**: income producing properties (includes a duplex), second homes, non owner occupied properties, properties with private roads with no Road Maintenance Agreement, properties not safe, sanitary, and adequate for family's needs, Non-Essential Buildings and Land, Mobile Homes, manufactured homes, properties located in states where Lender is not licensed, properties that are not in an area on eligibility.sc.egov.usda.gov website, properties with deed restrictions, properties on Indian leased land, properties with in-ground swimming pools (regardless of USDA Rural Development approval), guest units/in-law units & properties with more than one kitchen are not permitted. Remote rural "off the grid" properties are not permitted. • Properties with unexpired redemption period are ineligible: Certain state laws provide for a "redemption period" after a foreclosure or tax sale has occurred, during which time the prior owner may reclaim the property upon payment of all amounts owed. Unexpired redemption periods create an unacceptable title defect on the subject property, and do not conform to the existing policy that requires the property to have "good and marketable" title. The purchase of additional insurance, a redemption bond or similar coverage during the redemption period does not remedy the title defect. • **Please consult state lending guidance and review the prelim for title defects especially on purchases of foreclosed properties.** **Re-negotiated purchase agreement policy:** • Lender will not accept re-negotiated purchase agreements that increase the sales price after the appraisal has been completed if: ▪ The appraised value is higher than the contracted sales price provided to the appraiser**,** and ▪ The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received, and ▪ The only change to the purchase agreement is an increase in sales price. • If the purchase agreement is re-negotiated after the completion of the appraisal, the loan to value will be based on the lower of the original purchase price or the appraised value, unless: ▪ A re-negotiation of seller paid closing costs and/or pre-paids occurs if customary for the market and supported by comparables, not to exceed standard seller contributions, or ▪ An amended purchase agreement for a new construction property is obtained due to improvements that impact the value. In the event of such changes, an updated appraisal must be obtained to verify the value of the modifications.
STATE RESTRICTIONS:	• Loans allowed in the states where Lender is licensed. • Properties on the island of Hawaii and located in Lava Flow Hazard Zones 1 or 2 as determined by the US Geological Survey are not eligible for purchase. • Temporary buy downs not allowed in the state of Arizona. • Condos in Florida are not permitted. • **Maximum LTV/CLTV 100% for properties in West Virginia. This includes government assistance programs where the combined loan amount may exceed 100% LTV/CLTV.** • The maximum acreage for properties in Idaho, Montana and South Dakota is 40 acres.
CONSTRUCTION/PERM:	• Not applicable.
APPRAISAL:	• No appraisal is required on a refinance if interest, closing costs and fees are **not** financed. **If this option is used, the documentation type "USDA-NO APPRAIS" must be selected.** • The appraiser must be an FHA approved appraiser, and not on Lender non-allowed appraiser list. • Obtain a conventional appraisal completed on a standard FNMA/FHLMC approved appraisal form, Forms 1004 and 1073/465 (Condos) are acceptable. • Effective with submissions on or after July 1, 2009: All appraisals will require Form 1004MC Market Conditions Addendum to the Appraisal Report • USDA Rural Housing loans must follow Agency Appraiser Independence Requirements.

APPRAISAL: (cont'd)	• Land value can be no more than 30% of value. Exceptions may be acceptable if excessive and value is customary to the area as evidenced by the appraisal and the site cannot be subdivided into two or more sites. • Appraisal validity period is 120 days, after which a new appraisal is required. • **Appraiser must certify that property meets all HUD standards in HB4150.2 and 4905.1.** • **Condition of Property: For all real estate transfers (purchase transactions)**. All properties must be habitable and all appliances, plumbing, electrical, etc. must be functional and in good working condition. A stove is not required in the case where a stand-alone appliance can be placed. If the kitchen has built in appliances, a stove/oven must be installed. The lack of a stove or oven can not pose any health or safety hazard, otherwise installation is required prior to closing. • The cost approach is no longer required on all appraisals, but the site value must be completed. Per USDA AN 4543, The cost approach section of the appraisal is to be completed if the dwelling is less than one year old. • **Termite Inspections:** Termite inspection reports are only applicable where required by state law, and are valid for 90 days from date of inspection. • Repair escrows are only permitted for weather – related items **Note: For all transactions ~** the underwriter must pull additional comps if there is **more than one** comparable sale on the appraisal older than 90 days from the date of the appraisal OR located >1 mile from the subject property for urban & suburban properties and > 5 miles away for rural properties. The additional comps must support the appraised value. If the comps do not support the appraised value, the underwriter must contact the appraiser for further clarification. If the clarification is not satisfactory, an enhanced desk review must be obtained and must support the appraised value. If the enhanced desk review does not support the appraised value, the value must be reduced. If the loan approval has expired, comparables should be verified to ensure that they are within 90 days of the new approval date, otherwise the underwriter needs to obtain new comparables to verify that the value is still supported. **Note: If there are NO additional comps available: If comps are > 90 days to 6 months old, no additional reviews will be required. If the comps are > 6 months old, the appraisal must include time adjustments.**
CONDO PROJECTS:	**Condo:** See rural housing website: www.rurdev.usda.gov **for state specific requirements and complete details.** • Amenities must be 100% complete. • Homeowners must be in control of the Homeowners Association. • Standard insurance requirements apply. • Project must be acceptable to FHA, VA, FNMA, or FHLMC. • **Ineligible condo projects** are timeshare or segmented ownership projects, own your own property, houseboat project, Kiddie condos, project with non-conforming zoning, projects in litigation or condotels. • **Condo projects** where a single owner may hold a single deed evidencing ownership of more than one unit is an ineligible project type. • Condo certification required (see product addendum for location of form) • **Spot condo approvals** are not permitted, reviews will not be performed by Lender. • Condos in Florida are not permitted. • HO-6 "walls in" policy is required on condos & PUDs in cases where the master policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the borrower may have made to the unit.
SECTION 7:	**INSURANCE**
MORTGAGE INSURANCE:	**Not required;** however, a RHSA Guarantee Fee of 3.50% (purchase) and 1.0% (refinance) of the total mortgage amount is charged and collected at the time of closing. No monthly Guarantee Fee is charged. Reminder: Due to the calculation method, the Guarantee Fee may actually exceed the 3.50% on purchases/1.0% on refinances if the fee is financed – please see USDA training materials for the exact calculation method.

SELF-INSURED OPTION	• Not permitted
HAZARD INSURANCE:	• The amount of hazard insurance coverage must be the lesser of 100% of the insurable value of the improvements as established by the property insurer OR the unpaid principal balance as long as it equals at least 80% of the insurable value of the improvements. • For properties located in California, lenders may not require hazard insurance in an amount exceeding the replacement value of the improvements on the property. • The maximum deductible may be up to 5% of the amount of the policy. • "Walls In" (commonly known as HO-6) hazard insurance coverage for condos: If the blanket insurance policy does not provide coverage of the interior of the unit, the borrower will be required to obtain "walls in" coverage for the interior of the individual unit. The HO-6 policy must provide coverage in an amount that is no less than 20% of the condo unit's appraised value. • HO-6 "walls in" will also be required on **PUDs** in cases where the master policy does not include interior unit coverage, including replacement of interior improvements and betterment coverage to insure improvements that the borrower may have made to the unit. • For **refinance** transactions, the current policy must have at least **60** days remaining coverage after closing.
FLOOD INSURANCE:	• A flood hazard determination is required for all loans • Properties located in Special Flood Hazard Zones which require Flood Insurance are <u>not</u> acceptable. **Exceptions** will be granted if approved by RHS.
RENT LOSS INSURANCE:	Not applicable
IMPOUNDS:	Required for all properties regardless of LTV. This **includes** impounds for "walls-in" HO-6 policy premiums.
SECTION 8:	**TITLE/CLOSING AGENTS**
TITLE DOCUMENTATION:	**<u>Title History Review Policy:</u>** The preliminary title report must reflect a minimum 6-month title history. **<u>Title Insurance:</u>** A full ALTA title policy is required.

PLAT/SURVEYS:	• Surveys are required in some areas. See Lender state lending information for survey requirements. • If surveys are not commonly required in the area where the property is located an ALTA 9 endorsement or its equivalent should be provided. • If it is not customary to supply either a survey or an endorsement, the title policy must not have a survey exception.
INTER VIVOS REVOCABLE TRUSTS:	Not eligible
POWER OF ATTORNEY:	A Specific (or Limited) power of attorney must meet the following requirements: • Clearly reference the subject property (if a legal description is referenced, it must be stated or attached accordingly) • Authorize the attorney-in-fact to enter into a real estate transaction and to mortgage the property (for refinance transactions, must specify the terms of the transaction) • Indicate clearly that the mortgagor is appointing an attorney-in-fact • Precisely identify who is being appointed • Identically match the legal name(s) on the POA to the typed name(s) and signature(s) for the Borrower and POA. If the legal signature differs from the typed name, a notarized Signature/Name Affidavit is required. • Must be signed and dated by the borrower (aka principal) • Must be notarized (notary must be complete, contain a valid date, and no blank fields) • Must be signed no more than 90 days prior to, or concurrent with, the date of the security instrument • Must be recorded prior to, or concurrent with, the date of the security instrument. • May not contain any blank fields. • Must be acceptable to the title company issuing the title policy. • General POA's are not acceptable. • In all states, documents executed by the attorney-in-fact must include the principal's name, the agent's name, and the agent's capacity (attorney-in-fact) in the signature. The agent's capacity (attorney-in-fact) must be written out in its entirety as abbreviations (AIF, POA, etc) are not acceptable. The same information must be typed on the documents.
SECTION 9:	**FEES/MISCELLANEOUS**
FEE LIMITATIONS:	• Agency/HOEPA Rule: The borrower may not pay >5% in fees that affect the APR on any loan. • Loans where the "points and fees" or "annual percentage rate" exceed the maximum thresholds described under HOEPA (Section 32) are not eligible for purchase. This applies to all types of mortgages (Purchases and refinances). • Reminder: Section 32 (HOEPA) thresholds are: APR that exceeds the yield on the Treasury securities for the same term of the loan by >10% OR the total points and fees paid by the borrower exceeds the greater of 8% or the maximum dollar amount set annually by the Federal Reserve. • There is no origination fee limitation, follow 1980.324(a) of the RD instructions. • All closing costs may be financed with the exception of discount points. • Originator compensation is limited to 4% of the loan amount. • Discount points may only be paid for with loan proceeds if the borrower has a household income classified as "low-income" by the USDA. "Low income" borrowers that are financing discount points must receive an interest rate less than the maximum note rate noted in RD instruction §1980.320 Interest rate. The maximum interest rate is posted on the USDA rate sheet. **If discount points are financed they can only be used for the purpose of an interest rate reduction.** Financed discount points may **NOT** be used for loan size adjustments, credit score adjustments, origination or processing charges or any other charge not relating to an interest rate reduction. • If the transaction includes discount points for a borrower with a household income that exceeds the USDA "low income" limits, the discount points must be paid with seller concessions, the borrowers own funds, or gift funds and cannot be paid out of loan proceeds

SELLER/INTERESTED PARTY CONTRIBUTIONS:	• No Maximum. • If > 6%, a comment from the appraiser on impact to value is required. • Seller paid closing costs and pre-paid Items may be included in the contributions. • HOA subsidies are not permitted. HOA fees due at closing may be paid with interested party contributions; however, payments due after closing can not be paid in advance through interested party contributions. • The borrowers may not receive **any** cash back at closing, other than the documented amount for costs paid in advance by the borrower from their personal funds (earnest money deposit, appraisal, credit report). Pro-rated credits for real estate taxes are not paid by the borrower, but are paid by the seller. The borrower cannot be paid pro-rated real estate taxes. Pro-rated credits must either be 1) applied as a principal reduction to the guaranteed loan; or 2) reduce the amount of the loan by the amount of the pro-rated real estate tax credit. The same guidance applies to any excess funds remaining from seller paid concessions.