



USDA Guaranteed Rural Housing Program Guidelines

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(Click the link to go straight to the section)

1 Program Summary	12 Credit	23 Max Financed Properties
2 Product Codes	13 Documentation	24 Guarantee Fee & Annual Fee
3 Program Matrix	14 Income and Employment	25 Escrow Accounts
4 Occupancy	15 Qualifying Ratios	26 Repair Escrow
5 Transactions	16 Down Payment/Gifts	27 ARM Adjustments
6 Property Flips/Resale	17 Reserves	28 Temporary Buydowns
7 Identity of Interest	18 Interested Party Contributions	29 Insurance
8 Loan Limits / LTV	19 Property Eligibility	30 Subsidy Recapture
9 Subordinate Financing	20 Property Inspections	31 USDA Forms & Reference Forms
10 Borrower Eligibility	21 Appraisal	
11 Underwriting Method	22 Geographic Restrictions	

Section 1 Program Summary

The Section 502 Guaranteed Rural Housing Loan Program is offered through the Rural Housing Service (RHS), an agency of the U.S. Department of Agriculture. The program offers assistance to low- and moderate-income rural residents whose income is equal to or less than 115% of the area median income. It was designed to assist qualifying rural residents with better access to affordable housing finance options with little or no down payment or out-of-pocket costs.

Borrowers may obtain a loan to purchase or refinance a new or existing home that is located in a designated rural area. A rural community generally has a population of 10,000 or less; however, a community with a population of 20,000 or less can be considered “rural” if it is located outside a metropolitan statistical area (MSA). To be eligible for RHS assistance, the borrower must lack sufficient resources to qualify for traditional conventional financing. Refer to **HB-1-3555, Chapter 5**, for definition of traditional conventional credit.

Note: Plaza does not offer the USDA Rural Housing Direct Loan program, although a Direct Loan may be refinanced by a Guaranteed Loan. Applicants who do not qualify for a Section 502 Guaranteed Loan may qualify for a Direct Loan which is a subsidized mortgage program offered directly by USDA Rural Development to households whose adjusted income does not exceed 80 percent of the area median. Applicants interested in the Direct Loan Program should contact their local Rural Development Office to learn more about the program and to obtain an application for assistance. [Click here for local Rural Development office contact information.](#)

Section 2 Product Codes

Product Name	Product Code	Available Term in Months
USDA Rural Housing 30 Year Fixed	USDARH30	360
USDA Rural Housing Streamlined-assist Refinance 30 Year Fixed	USDARH30P	360
USDA Rural Housing 30 Year Fixed w/2-1 Buydown	USDA30BD21	360
USDA Rural Housing 30 Year Fixed w/1-0 Buydown	USDA30BD10	360

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Section 3 Program Matrix

USDA GUARANTEED RURAL HOUSING				
Primary Residence				
Purchase and Rate/Term Refinance				
Property Type	LTV	CLTV	Min Credit Score	Max DTI
1 unit	100%	100%	600	29/41%
Primary Residence				
Streamline Refinance				
Property Type	LTV	CLTV	Min Credit Score	Max DTI
1 unit	N/A	N/A	600	29/41%
Primary Residence				
Streamlined-assist Refinance				
Property Type	LTV	CLTV	Min Credit Score	Max DTI
1 unit	N/A	N/A	600	N/A

Section 4 Occupancy

Owner-occupied Primary Residence

Section 5 Transactions

Purchase:

Loan Amount is limited to:

- The purchase price of the property
- The upfront guarantee fee (if financed)
- Eligible loan closing costs (not to exceed 3% of the total loan amount)
- Permissible bona fide discount points (not to exceed 2% of the total loan amount)
- Funds to establish an escrow account for real estate taxes and insurance

Land contracts are eligible and will be treated as purchase transactions in all cases. 12 months cancelled checks are to be provided as housing payment history.

Refinance:

Three refinance options are available and summarized here. See respective sections below for complete details:

- **Rate/Term Refinance:** Appraisal required. Maximum loan amount allowed up to the new appraised value plus the amount of the financed upfront guarantee fee. Loan amount may include principal & interest balance, eligible closing costs, and the financed upfront guarantee fee.
- **Streamline Refinance:** No appraisal. Loan amount may include principal & interest balance, eligible closing costs, and the financed upfront guarantee fee. Debt ratios are calculated. 0 x 30 mortgage lates in 6 months.
- **Streamlined-assist Refinance:** No appraisal. Loan amount may include principal & interest balance, eligible closing costs, and the financed upfront guarantee fee. Debt ratios are not calculated. 0 x 30 mortgage lates in 12 months. Only deceased borrowers may be removed.

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Rate/Term Refinance:

The refinance of an existing Rural Housing Guaranteed loan or Section 502 Direct loan is acceptable as follows:

- The new interest rate must be a fixed rate and may not exceed the interest rate of the loan being refinanced.
- The existing loan to be refinanced was closed at least 12 months prior to the Agency's receipt of a conditional commitment request for refinance.
- 0 x 30 mortgage lates in the last 180 days on the loan being refinanced.
- The new PITI is less than the PITI on the loan being refinanced.
- The loan security must include the same property as the original loan.
- The security property must be owner-occupied as the borrower's primary residence.
- The new loan amount is limited to:
 - The unpaid principal balance of the loan being refinanced
 - The upfront guarantee fee (if financed)
 - Accrued interest (current interest)
 - Eligible loan closing costs (not to exceed 3% of the total loan amount)
 - Permissible bona fide discount points
 - Funds to establish an escrow account for real estate taxes and insurance
 - Any **Subsidy recapture** due
- The new loan amount cannot exceed the baseline conforming loan limits.
- Borrowers may be added to the new guaranteed loan.
- Existing borrowers on the current mortgage note may be removed when one of the original borrowers remains on the refinanced loan.
- Subordinate financing, such as home equity lines of credit and down payment assistance "silent" seconds, cannot be included in the new loan amount and must be resubordinated.
- Unpaid fees, such as late fees due the servicer, cannot be included in the new loan amount.
- Cash out is not allowed. Any cash out, not to exceed \$250, must be applied as a principal reduction. If cash out exceeds \$250, closing docs must be re-drawn.
- A full appraisal is required and loans must be submitted to the Rural Development's Guaranteed Underwriting System (GUS) and receive a GUS approval.

GUS Data Input:

Enter the Purpose of Loan as 'Refinance' and the Purpose of Refinancing as 'No Cash-Out Other'. All rate/term refinance transactions must be entered into GUS as "Non-Streamline Refinance" transactions.



Streamline Refinance:

The Streamline refinance of an existing Rural Housing Guaranteed loan or Section 502 Direct loan is acceptable. Except as outlined below, all Rate/Term Refinance requirements also apply to Streamline Refinances.

- A new appraisal is not required.
 - Note: A new appraisal will be required if the loan being refinanced is a Direct Loan and a subsidy recapture is required.
- The new loan amount is limited to:
 - The unpaid principal balance of the loan being refinanced
 - The upfront guarantee fee (if financed)
 - Accrued interest (current interest)
 - Reasonable and customary closing costs (not to exceed 3% of the total loan amount)
 - Funds to establish an escrow account for real estate taxes and insurance and the annual guarantee fee
 - **Subsidy recapture** due for Direct Loan borrowers **may not be included** in the new loan amount; however, the cost of any appraisal obtained for recapture purposes is an eligible closing cost and may be included. Subsidy recapture must be paid in cash or subordinated to the new first lien.
- Borrowers may be added to the new guaranteed loan
- Existing borrowers on the current mortgage note may be removed, when one of the original borrowers remains on the refinance loan.
- All other Rate/Term refinance requirements including debt ratio calculation and limits apply.

Streamlined-assist Refinance:

The Streamline-assist refinance of an existing Rural Housing Guaranteed loan or Section 502 Direct loan is acceptable. Except as outlined below, all Rate/Term Refinance requirements also apply to Streamline-assist Refinances.

- A new appraisal is not required.
 - Note: A new appraisal will be required if the loan being refinanced is a Direct Loan and a subsidy recapture is required
- Debt ratios are not calculated.
- 0 x 30 mortgage lates in the 12-month period prior to the refinance.
- The borrower must receive a \$50 or greater reduction in their principal, interest, and annual fee monthly payment compared to the existing principal, interest and annual fee monthly payment.
- The new loan amount is limited to:
 - The unpaid principal balance of the loan being refinanced
 - The upfront guarantee fee (if financed)
 - Accrued interest (current interest)
 - Reasonable and customary closing costs (not to exceed 3% of the total loan amount)
 - Funds to establish an escrow account for real estate taxes and insurance and the annual guarantee fee
 - **Subsidy recapture** due for Direct Loan borrowers **may not be included** in the new loan amount; however, the cost of any appraisal obtained for recapture purposes is an eligible closing cost and may be included. Subsidy recapture must be paid in cash or subordinated to the new first lien.
- Borrowers may be added to the new guaranteed loan.
- Existing borrowers on the current mortgage note must remain on the refinanced loan; however, deceased borrowers may be removed from the loan.
- Lenders are required to document their annual income calculations on the FNMA 1008/FHLMC 1077, **USDA HB-3555 Attachment 9-B**, or similar form in order to support the household income does not exceed the allowable maximum income limits.
- All other Rate/Term refinance requirements apply.

Energy Efficient Mortgages: Not allowed.

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Section 6 Property Flips/ Resale Requirements

Property flipping is a practice whereby a property recently acquired is resold for a considerable profit with an artificially inflated value. If the owner (individual or entity other than the Mortgage holder) sells a property within 12 months after the date of acquisition, the underwriter should ensure that value is supported. Generally, purchases of properties that have been acquired within the last 12 months are eligible when any increase in value can be supported. Refer to Property Flips in the Mortgage Eligibility Chapter of Plaza's **Credit Guidelines**.

Section 7 Identity of Interest

Plaza uses the term Identity of Interest and Non-Arm's Length to describe certain transactions that pose increased risk and warrant additional precautions when evaluating that risk. Transactions may be eligible with additional restrictions.

Employees that have an impact on the mortgage transaction (i.e. loan originators, processors, underwriters, appraisers, inspectors, etc.) are prohibited from having multiple roles or multiple sources of income, either directly or indirectly, in a single Rural Development transaction. Examples include but are not limited to: compensation resulting from an ownership interest in another business that is party to the same Rural Development transaction, or compensation earned by a spouse, domestic partner, or other family member that has a role in the same Rural Development transaction. Employees who are also the applicant may not participate in any part of the loan origination, approval, or closing process on behalf of the lender.

Section 8 Loan Limits / LTV

The maximum loan amount is based on the conforming balance limits.

Property Type	Max Base Loan Amount	
	Contiguous U.S.	Alaska & Hawaii
1 unit	\$766,550	\$1,149,825

Maximum Loan / LTV:

The base loan amount may never exceed 100% of the market appraised value. When the appraised value exceeds the sales price, allowable recurring and non-recurring closing costs may be financed in the loan amount provided the LTV does not exceed 100% of the appraised value.

The total note loan amount may exceed 100% of the market appraised value to include the amount of the financed guarantee fee. This applies only to loans for which all or a portion of the guarantee fee is being financed into the loan. Also refer to the **Calculating the Guarantee Fee** section.

Refer to the **Transactions** section for items that can be included in the loan amount.



Pro-rated taxes:

When the borrower is being charged for the full amount of the tax installment payment and the seller will be reimbursing the borrower for their portion of the taxes owed up to the date of close of escrow, USDA will only allow a pro-rated tax credit up to the amount the borrower put into the transaction from their own funds. Examples include, earnest money deposits, upfront appraisal and credit report fees. All upfront fees paid by the borrower must be clearly documented as paid by the borrower with either copies of cancelled checks or credit card receipts showing the fees were paid directly by the borrower. A cash credit to the borrower that exceeds the amount shown on the HUD-1 as paid by borrower in earnest money and/or in advance fees shown as (POC) is not allowed.

Example of an Acceptable Cash Credit: Purchase transaction with a close of escrow date of 2/5 and the tax installment is due now. The borrower will be charged the full amount for this installment and will receive a credit from the seller, for Jan 1st through Feb 5th in the amount of \$350. The net funds due at closing from borrower on the HUD-1 shows \$650. The borrower contributed an earnest money deposit of \$1000 (cancelled check in file). No upfront fees were paid by borrower by check or credit card. Since the earnest money deposit exceeds the pro-rated tax credit, this credit is acceptable to USDA.

Example of an Unacceptable Cash Credit: Purchase transaction with a close of escrow date of 2/5 and the tax installment is due now. The borrower will be charged the full amount for this installment and will receive a credit from the seller, for Jan 1st through Feb 5th in the amount of \$1350. The net funds from borrower on the HUD-1 shows cash back to borrower of \$350. The borrower contributed an earnest money deposit of \$1000 (cancelled check in file). No upfront fees were paid by borrower by check or credit card. Since the earnest money deposit is less than the pro-rated tax credit, the amount of cash to the borrower must be reduced by \$350 and any overage must be applied to principal. The borrower may only receive \$1000 cash back on the HUD-1 closing statement.

Section 9 Subordinate Financing

Subordinate financing may be used if it is approved by RHS and is offered by city or county agencies.

Section 10 Borrower Eligibility

Eligible Borrowers:

- Borrowers must lack sufficient resources to obtain conventional financing (for example, the borrower is unable to secure the necessary down payment needed for conventional financing, refer to USDA [HB-1-3555, Chapter 5](#) for additional details).
- Borrowers must have a valid Social Security number.
- Title must be placed in individual names only.
- All borrowers must be screened using Credit Alert Interactive Voice Response System (CAIVRS) to determine if an applicant is delinquent on a federal loan.
- A maximum of four borrowers allowed on a single transaction.
- Permanent Resident Aliens - Refer to USDA [HB-1-3555, Chapter 8](#).
- Non-Permanent Resident Aliens - Refer to USDA [HB-1-3555, Chapter 8](#).
- First Time Home Buyers
- Generally, borrowers may not own more than one property. Refer to [Maximum Owned Properties](#).

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Non-Purchasing Spouse (NPS) in Community Property States:

Except for obligations specifically excluded by state law, the debts of NPSs must be included in the applicant's qualifying ratios when the applicant resides in a community property state or the property guaranteed is located in a community property state. The NPSs credit history is not considered a reason to deny a loan application. However, the NPSs obligations must be considered in the debt-to-income (DTI) ratio unless excluded by state law. A credit report that complies with Rural Development requirements must be obtained for the NPS in order to accurately determine the debts that must be counted in the total debt ratio. Community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

Note: Guaranteed Underwriting System (GUS) will only retrieve credit reports for applicants. Therefore, lenders must obtain an acceptable credit report outside of GUS for applications in community property states. On the "Asset and Liabilities" application page lenders must enter the debt obligations (those obligations not excluded by state law) of the NPS in the appropriate liability section. In the "Notes" data field lenders should identify the debt as "spousal debt".

First Time Homebuyers:

Please note that homebuyer education may be required per USDA. When applicable, the borrower may attend online classes offered by Mortgage Insurance (MI) companies, or any other type of homebuyer counseling that meets Fannie Mae and/or Freddie Mac requirements.

Ineligible Borrowers:

- Foreign Nationals
- Non-occupant co-borrowers
- Partnerships/ Corporations
- Trusts

Section 11 Underwriting Method

All loans, with the exception of Streamlined-assist Refinances, must be decided through GUS. Streamlined-assist loans must be manually underwritten.

Transaction Type	Underwriting Method	Acceptable GUS Results
Purchase, Rate/Term Refinance, Streamline Refinance	GUS, Manual	Eligible
Streamlined-assist Refinance	Manual	N/A

Loans underwritten through GUS must receive "Eligible" findings. GUS findings of "Ineligible" are not allowed. Loans that receive a finding of "Refer" or "Refer with Caution" may be manually underwritten subject to the requirements in USDA **HB-1-3555**. Regardless of a GUS Eligible Finding, the Lender is responsible for satisfactorily establishing the applicant's willingness and ability to repay and manage obligations. The Lender cannot rely solely on GUS approval for making a lending decision.

When manually underwriting a loan, the file must contain supporting documentation with a signed LOE from the borrower explaining the nature of any adverse credit. The underwriter's 1008 must include detailed justification for approving the loan listing any mitigating circumstances and compensating factors.



Information that is entered into GUS must match the final 1003/1008, specifically loan application data submitted to the Agency must reflect a true and accurate representation of the loan to be closed. This data must match the loan file submitted to the Agency when requesting the Conditional Commitment for Loan Note Guarantee or fall within the tolerances established by the Agency.

- It is not necessary to perform an updated underwriting analysis of a loan file that has received a Conditional Commitment for Loan Note Guarantee when an increase in monthly payments does not exceed a cumulative total of \$50.
- The threshold policy should not be construed to allow manipulation of escrow variables to obtain approvals.
- If the final income calculation is different from the GUS cert and the income changed enough to affect the ratios and/or loan eligibility, then the loan file must be re-submitted to GUS. In cases where a conditional commitment has already been issued by the local RD office, it will be necessary for the RD office to release the GUS cert back to the Plaza underwriter so the information can be updated and re-submitted to GUS. If the income has only changed slightly and the RD office is not requiring the loan to be re-submitted to GUS, document this in writing from the RD office and provide a screen print from USDA's income calculator showing the borrower is still eligible. See the **Income & Documentation** section for instructions.

All loans must receive a conditional commitment issued by the local RD office regardless of GUS findings. The following documentation is required at time of submission to the appropriate production team via email.

- Form RD **3555-21** "Request for Single Family Housing Loan Guarantee"
- Full income verification for all adult household members.
- Uniform Residential Loan Application
- Evidence of qualified alien status, if applicable.
- Standard Flood Hazard Determination

Refer to the **GUS User Guide** and to the **GUS Technical Bulletin – Streamline Issuance of Conditional Commitment - Lenders**, effective 03/28/2015, for additional information.

Note: Form RD **3555-21** – *Request for Single Family Housing Loan Guarantee* no longer includes the income calculation attachments.

GUS recommendations that receive an Accept with Full Documentation, Refer, Refer with Caution, and manually underwritten files, require lenders to provide the agency a copy of annual and repayment income calculations with a complete loan application. Any of the following formats will be acceptable for documenting annual and repayment income calculations: **USDA HB-3555 Attachment 9-B**, or a copy of their Underwriting Analysis: FNMA 1008/FHLMC 1077, or equivalent.



Credit Score:

- The minimum credit score for all borrowers is 600 regardless of GUS approval.
- Borrowers without a credit score are not eligible.

Credit Report Requirements:

A tri-merged credit report ordered by Plaza or a broker's BREEZE issued or re-issued credit report is required. For broker credit reports that have been issued or re-issued through BREEZE, the Plaza underwriter will follow these steps:

1. Create the loan application in GUS without submitting.
2. Email clientsupport@plazahomemortgage.com and request that BREEZE credit be re-issued in GUS ("GUS Credit" in subject line).
3. Client Support will email the branch when the credit report has been successfully re-issued in GUS and the branch can complete the GUS submission.

Credit History:

The borrower's credit history must indicate a reasonable ability and willingness to meet obligations as they become due. The following must be reviewed carefully:

Valid Credit Score - GUS Accept/Accept with Full Documentation: No credit score validation required.

Valid Credit Score – GUS Refer, Refer with Caution and Manual Underwrite:

- All applicants require a credit score and any applicant whose income and/or assets is used to originate the loan must have a validated credit score.
- The applicant must have two tradelines on the credit report that have been open for 12 months based on the date the account was opened as stated on the credit report.
- A validated credit score does not indicate the applicant has an acceptable credit history. A validated credit score confirms that one applicant has an eligible minimum credit history.

The following tradelines are eligible to validate the credit score and may be open, closed and or/paid in full: loans (secured/unsecured), revolving accounts, installment loans, credit cards, collections, charge-off accounts, etc. An authorized user account may be used to validate the credit score when of the following is met:

- The tradeline is owned by another applicant on the mortgage loan application;
- The owner of the tradeline is the spouse of the applicant; or
- The applicant can provide evidence that they have made payments on the account for the previous 12 months prior to loan application.
- Public records (bankruptcy, foreclosure, tax liens, judgments, etc.), disputed, and self-reported accounts are ineligible tradelines for credit validation.

GUS Refer, Refer with Caution, and manually underwritten files are not eligible for debt ratio exceptions if there is not one applicant with a validated score using traditional tradelines on the credit report, or if the file requires non-traditional credit tradelines.

Refer to [HB-1-3555, Chapter 10](#).



Mortgage/Rental Payment History:

- Purchase & Streamlined-assist Refinance: 0 x 30 for the past 12 months
- Rate/Term & Streamline Refinance: 0 x 30 for the past 6 months
- Any delinquencies in the last 24 months are subject to Plaza underwriter approval and may require additional documentation.

If GUS waives the rental payment history but the borrower has sufficient other traditional credit to base a credit decision on, the underwriter may waive the rental payment history.

Child Support:

Delinquent child support renders the borrower ineligible unless there is a repayment agreement in place with three timely payments made prior to closing, the arrearage is paid in full prior to the loan closing or there is a release of liability.

Timely payments are defined as those made in congruence with the repayment agreement. Payments cannot be prepaid.

Bankruptcies / Foreclosure / Pre-Foreclosure / Short Sale / Deed-in-Lieu:

- Not allowed in the last 36 months.
- Exceptions to the 36 months seasoning requirement will be considered with documented extenuating circumstances. Refer to **HB-1-3555, Chapter 10**.
- Chapter 13 Bankruptcy may be acceptable if completed at least 12 months or if satisfactory payments have been made for at least 12 months. Refer to **Refer to HB-1-3555, Chapter 10**.

Adverse Credit: Delinquent federal debt or adverse credit on a previous Rural Housing loan must be reviewed and approved by the local RD office and may be required to be paid in full.

Non-Derogatory Disputed Accounts – For GUS Accept/Accept with Full Documentation Files:

If disputed accounts exist, loans underwritten with the assistance of GUS that receive an underwriting recommendation of “Accept” will be downgraded to a manual “Refer” unless the following conditions are met on the credit report:

- The disputed trade line has a zero dollar balance.
- The disputed trade line is marked “paid in full” or “resolved”.
- The disputed trade line has a balance owed of less than \$500 and is more than 24 months old.
- The disputed trade line is current and paid as agreed.
- The payment to include in the monthly debts:
 - The payment stated on the credit report or
 - A documented payment from the creditor is obtained.
 - Five percent of the outstanding balance as shown on the credit report.

Non-Derogatory Disputed Accounts - For GUS Refer, Refer with Caution or Manual Underwrite:

The applicant must provide the lender with applicable documentation to support the reason and basis for the dispute with the creditor. Lenders must determine the impact of the disputed account on the borrower’s ability to repay the proposed mortgage obligation. No credit exception is required. The payment to include in the monthly debts:

- The payment stated on the credit report or
- A documented payment from the creditor is obtained
- Five percent of the outstanding balance as shown on the credit report



Derogatory Disputed Accounts:

Disputed derogatory accounts that must be considered are non-medical and collections with late payments in the last 24 months. For all loan types, the lender may exclude the following:

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

Derogatory Disputed Accounts – Less than \$2,000:

GUS Accept/Accept with Full Documentation files with less than \$2,000 in disputed derogatory accounts will require the lender to determine if the disputed accounts may impact the applicant's ability to repay the proposed mortgage obligation. No credit exception is required. The payment to include in the monthly debts:

- The payment stated on the credit report or
- A documented payment from the creditor is obtained
- Five percent of the outstanding balance as shown on the credit report

Derogatory Disputed Accounts – Greater Than \$2,000:

GUS Accept/Accept with Full Documentation files with more than \$2,000 in disputed derogatory accounts must be downgraded to a Refer. The lender must analyze the potential impact to the applicant's ability to repay the proposed mortgage debt with disputed derogatory accounts. No credit exception is required. The payment is included in the monthly debts:

- The payment stated on the credit report or
- A documented payment from the creditor is obtained
- Five percent of the outstanding balance as shown on the credit report

Collections:

If unpaid open collection accounts exist:

- Determine if the total outstanding balance of all collections accounts of all applicants is equal to or greater than \$2,000. Unless excluded by state law, collection accounts of a non-purchasing spouse in a community property state are included in the cumulative balance of all collections.
- Remove all medical collections and charge off accounts from the total balance. Medical collections and charge off accounts must be clearly identifiable on the credit report.
- If the remaining outstanding balance of collection accounts are equal to or greater than \$2,000, any of the following actions will apply:
 - Payment in full of all collection accounts at or prior to closing.
 - Payment arrangements are made with each creditor for each collection account remaining outstanding. A letter from the creditor or evidence on the credit report is required to validate the payment arrangements. The agreed upon monthly payment for each outstanding collection account will be included in the borrower's DTI ratio.
 - In the absence of a payment arrangement, the lender will utilize in the DTI ratio a calculated monthly payment. For each collection utilize 5% of the outstanding balance to represent the monthly payment.

For additional information refer to **HB-1-3555, Chapter 10**.



Section 13 Documentation

All USDA loans must be documented with full documentation.

Refer to **HB-1-3555, Chapter 9** for USDA requirements for documenting and submitting supporting documentation to the Agency.

Section 14 Income and Employment

Purchase, Rate/Term and Streamline Refinance:

The adjusted income of all adult household members may not exceed 115% of the U.S. median income.

An **income eligibility tool** is available from the USDA. Once the required adult household member data has been completed, refer to the Maximum Adjusted Household Income under Section 502 Guaranteed Rural Housing Loan Program.

The following sources are included in repayment income and annual income for eligibility for an RHS guaranteed loan:

- Gross amount of wages, salaries, overtime pay, commissions, fees, tips, bonuses and other compensation for personal services of all adult members of the household.
- Income from all adult household members must be fully documented.
- Net income from the operation of a farm, business or profession, interest, dividends and other net income of any kind from real or personal property. See rental income below.
- Payments for social security, annuities, insurance policies, pensions, unemployment, workers compensation, alimony and/or child support and other types of periodic receipts
- All regular pay, special pay and allowances of a member of the armed forces who is the borrower or spouse whether or not that family member lives in the unit.

See **HB-1-3555, Chapter 9** for a complete definition of Annual Income. Refer to **Attachment 9-A** to review income and asset types, guidance for annual and repayment purposes, and documentation options acceptable to verify the income or asset source.

Rental income must be included in the annual income calculation, however, it may only be used to qualify the borrowers from a DTI ratio perspective when the borrowers have owned the property for at least 2 years and can document receipt of rental income with 2 years of tax returns.

The following sources **are not** included in annual income but will be considered in determining the repayment income (ability to repay the loan):

- Earned income of persons under the age of 18 unless they are a borrower or a spouse of a member of the household
- Payments received for the care of foster children or foster adults
- Amounts granted for or in reimbursement of the cost of medical expenses
- Earnings of each full-time student 18 years of age or older, except the head of household or spouse, that are in excess of any amount determined pursuant to section 501(b)(5) of the Housing Act of 1949, as amended
- Temporary, nonrecurring, or sporadic income (including gifts)
- Lump sum additions to family assets such as inheritances; capital gains; insurance payments under health, accident, or worker's compensation policies; settlements for personal or property losses; and deferred periodic payments of supplemental security income and Social Security benefits received in a lump sum
- Any earned income tax credit
- Adoption assistance in excess of any amount determined pursuant to section 501(b)(5) of the Housing Act of 1949, as amended

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- Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling
- 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
- The full amount of any student financial aid
- Any other revenue exempted by a Federal statute; a list of which is available from any Rural Development office.

Adjustments to reduce annual income include **\$480** for each minor child, full time student or a disabled member of the family. **\$400** may be deducted from annual income for each family member over 62 years of age. An additional deduction may be calculated for certain expenses when added together exceed 3% of gross annual income.

Streamlined-assist Refinance:

Income must be documented per standard USDA Rural Housing guidelines to ensure the borrowers meet current household income eligibility requirements; however debt ratios are not calculated.

At least one of the borrowers must be employed or have a current source of income in order to be eligible.

4506-C:

Processed 4506-T transcripts for the previous 2 tax years must be reviewed and approved for each adult (age 18 or older) member of the household, regardless of income source, prior to closing/funding. 4506-C forms for the previous 2 tax years must also be signed by all adult household members at closing. Full time students age 18 and up that are not the applicant, co-applicant, or spouse of an applicant are not required to sign the 4506-C or have transcripts provided.

If the IRS returns “no transcripts available” for the time period requested, proof of extension and the most recent years’ IRS transcripts available, as determined by the GUS certificate, are required.

When unable to obtain transcripts from the IRS for an applicant or required household member, document the correspondence to and from the IRS in the permanent loan file to support the omission. “Failure to file” tax returns when legally required to do so is not an eligible explanation. The asset statements must be documented and reviewed to ensure no errant deposits are identified that may be attributed to additional income sources.

Section 15 Qualifying Ratios

Purchase, Rate/Term and Streamline Refinance:

Debt Ratios:

- The typical maximum DTI ratios for USDA loans are 29/41%.
- An applicant’s PITIA ratio may exceed 29% and the total debt ratio may exceed 41% if it is determined that strong compensating factors demonstrate that the household has higher repayment ability. Refer to **HB-1-3555, Chapter 11** for additional information on acceptable debt ratios and compensating factors.
- Debt ratios exceeding 29/41% are allowed with a GUS Accept/Accept with Full Documentation finding. Debt ratio waivers are not required for loans receiving an Accept finding in GUS.
- GUS Refer, Refer with Caution and manually underwritten files are not eligible for debt ratio exceptions if there is not one applicant with a validated score using traditional tradelines on the credit report, or if the file requires non-traditional credit tradelines.

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Installment Accounts:

- Accounts that will be paid in full through a specified number of fixed payments such as auto, personal, secured/unsecured, etc. must have the monthly payment included in the debt ratio.
- If ten or less months of repayment remains per the credit report, creditor verification, etc., the monthly installment debt may be excluded if the payment does not exceed five percent of the monthly repayment income.
- Installment debt may be paid down to ten months or less of remaining debt and excluded from the debt ratio.

Student Loans:

For outstanding student loans, regardless of the payment status, one of the payments below must be used in the underwriting decision:

- The payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or
- One half (.50) percent of the outstanding loan balance documented on the credit report or creditor verification, when the payment amount is zero.

Mortgages – Rental Property:

- A retained dwelling that has been rented for 24 months or longer prior to loan application may have the mortgage obligation omitted when the applicant provides documentation to support the lease history.
- If the rent received does not cover all expenses (principal, interest, real estate taxes, hazard insurance, HOA fees, assessments, etc.), the remaining balance must be included in the monthly debts.
- The manual entry of a rental income loss to the monthly debts in GUS will not require an Accept loan file to be downgraded to a Refer.
- If the credit report reflects late mortgage payments on the rental dwelling in the 12 months prior to loan application, the full mortgage liability and all associated costs must be included in the monthly debts.

Mortgages – No Release of Liability:

- Mortgage liabilities disposed of through a sale, trade or transfer without a release of liability (i.e., borrower remains on the promissory note) must be included in the total debt ratio unless evidence can be obtained to confirm the remaining party/new owner has successfully made the payment for the previous 12 months prior to loan application.
- Evidence may be reported through the credit report or verification from the creditor/servicer to document the payment history has been current for the 12 months prior to loan application.
- If there are late payments in the previous 12 months prior to loan application, the full mortgage obligation must be included in the monthly debt.

Mortgages – Divorce:

- In the case of a divorce, the lender must obtain a copy of the legal separation agreement or divorce decree to document the remaining party/new owner responsible to pay all mortgage debts from the effective date of the decree forward.
- To exclude the mortgage debt, the lender must document the previous 12 months have been paid as agreed prior to loan application through the credit report or verification from the creditor/servicer.
- If there are late payments in the previous 12 months prior to loan application, the full mortgage obligation must be included in the monthly debts.

Refer to USDA **HB-1-3555, Chapter 11** for additional scenarios involving borrower liabilities and their respective requirements.

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Automobile Allowances and Expense Account Payments:

- An automobile or allowance will not cancel out a monthly debt for an automobile or expense loan/debt.
- The full monthly payment(s) due must be included in the monthly debt.
- Refer to **HB-1-3555, Chapter 9** for automobile and expense allowance income guidance.

Streamlined-assist Refinance:

Income must be documented per standard USDA Rural Housing guidelines to ensure the borrowers meet current household income eligibility requirements; however debt ratios are not calculated.

Section 16 Down Payment / Gifts

Down Payment:

Down payment is not a requirement of this program; however, if the borrower is making a down payment on a purchase transaction, the source of funds must be documented.

Gifts:

Gifts are acceptable from someone who is not an interested party to the transaction. The gift may come from a family member. A fully completed gift letter stating that no repayment of the gift is required must be provided. Evidence of funds must be included in the loan file.

For additional information refer to USDA **HB-1-3555, Chapter 9**.

Section 17 Reserves

Assets and cash reserves are not required for the USDA program; however, any asset information entered into GUS must be fully documented.

The amount of liquid assets listed in GUS will be the lesser of the 2-month average balance or the actual balance as reported on the most recent statement.

Section 18 Interested Party Contributions

An amount of 6% of the sales price can be contributed towards all closing costs.



Eligible Properties:

- Attached/Detached SFRs
- Attached/Detached PUDs
- Condos – Fannie Mae, Freddie Mac, HUD or VA eligible projects are acceptable.
- Manufactured Housing:
 - Must be classified as Real Property
 - Single-wide and multi-wide allowed
 - For purchase transactions, the unit must be new, less than 12 months old and never occupied (see exception for pilot states below)
 - An exception to allow the purchase of an existing unit, constructed on or after January 1, 2006, applies to properties that qualify under the **Manufactured Housing Pilot** and is limited to the following Pilot states:
 - Colorado, Iowa, Louisiana, Michigan, Mississippi, Montana, Nevada, New Hampshire, New York, North Dakota, Ohio, Oregon, Pennsylvania, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin and Wyoming
 - Manufactured homes must be at least 12 feet wide and have a minimum 400 square feet of gross living area
 - Leasehold properties are ineligible
 - Condo projects comprised of manufactured homes are ineligible
 - The manufactured home may not have been previously installed at another location
 - All manufactured housing must meet USDA guidelines, restrictions in these Program Guidelines, and **Plaza's Manufactured Housing Guidelines**
 - Manufactured housing not eligible in states of Hawaii and Rhode Island
- The property must be located in a rural area, as designated by the local RHS office. To determine whether the property is located in a designated rural area, go to the **RD Website** and from the home page under "Property Eligibility" click "Single Family Housing". Property can be looked up by address or by viewing the "Additional Eligible Areas" or "Text Descriptions".
- The property must be a single family non-farm residence.
- The value of the site should be typical for the area.
- The property must be contiguous to and have access to a paved or all-weather surface street, road or driveway.
- Privately maintained roads must be protected by a permanently recorded, non-exclusive, non-revocable easement or be maintained by the Homeowner's Association.
- The property must have dependable water and waste disposal systems that are approved by local authorities.
- Remaining Economic Life must meet or exceed the term of proposed loan.
- Existing properties located within a flood zone are eligible (when and only if NFIP is available). Flood insurance is required.

Ineligible Properties:

- 2-4 units
- Mobile Homes
- Geodesic domes
- Cooperatives
- New or proposed construction properties located in a flood or mudslide zone.
- Properties with more than one detached garage may be considered non-essential for Rural Housing and therefore may not be acceptable. Exceptions may be requested through the local Rural Development office.
- Properties that are actively used as a farm operation, cases where the seller previously used the property to operate a farm, or properties that contain farm service building(s), even if the building(s) have no contributory value. Refer to **HB-1-3555, Chapter 12** for additional information.



New Construction:

Properties with a notice of completion or certificate of occupancy filed less than 12 months prior to the loan application date for the subject transaction are considered New Construction. All New Construction files must include the following documentation:

Certified Plans and Specifications **HB-1-3555, Chapter 12.**

The loan file must contain evidence that the plans and specifications comply with all development standards applicable to the new construction. There are three options to document certified plans and specs:

1. Building Permit, issued by local jurisdiction*. **OR**
2. Certificate of Occupancy or completion certificate, issued by local jurisdiction*. **OR**
3. Copy of certification from a qualified individual or organization that states the reviewed documents comply with applicable development standards. Form RD **1924-25 "Plan Certification"** is an acceptable format, but is not required.

Notes:

* Properties are not eligible for financing if local building authority does not issue a final occupancy certificate or notice of completion. Refer to **RD Instruction 1924-A.**

** Licensed Architects, Professional engineers, Plan Reviewers certified by a national code organization, Local building officials authorized to review and approve building plans and specifications, or National codes organizations. These individuals may also sign RD Form **1924-25 "Plan Certification"** which is an optional RD form that may be used, but it is NOT required.

Evidence of construction inspections **HB-1-3555, Chapter 12.**

The loan file must contain copies of the documents described in one of the following three options:

1. Certificate of Occupancy issued by a local jurisdiction that performs at least three construction phase inspections, including those prescribed in RD Instruction **HB-1-3555, Chapter 12** and a 1-year builder warranty plan acceptable to Rural Development. **OR**
2. Copies of three construction inspections:
 - Footings and foundation are ready to be poured and prior to back-filling.
 - Shell is complete, but plumbing, electrical and mechanical work is still exposed.
 - Final inspection of completed work prior to occupancy.
 - A 1-year insured builder warranty plan acceptable to Rural Development. **OR**
3. Final inspection and a 10-year insured builder warranty plan acceptable to Rural Development per **RD Instruction 1924-A Exhibit L.**

Construction modification loans are not allowed.



Section 20 Property Inspections

Pest/Termite Inspections:

Pest/termite inspections are required as follows:

- If the purchase contract requires an inspection.
- If the appraiser or home inspector requires an inspection.
- If state law requires one. The local RD office will condition for this when necessary.

Items to be cleared prior to closing will be based on the local RD office requirements.

Septic Inspections:

The septic system must be free of observable evidence of failure.

An FHA roster appraiser, government health authority, licensed septic professional, or qualified home inspector may perform the septic system evaluation. An FHA roster appraiser or qualified home inspector may require an additional inspection due to their observations. All septic tanks must meet HUD guidelines and/or State codes.

Well Inspections:

A water quality analysis is always required. The local health authority or state certified laboratory must perform the water quality analysis. Evidence must be provided that the water quality analysis meets state and local standards.

Shared Wells:

Shared wells are allowed as long as they meet the requirements of HUD Handbooks 4150.2 and 4905.1, and also have been approved by the State Department of Health or comparable reviewing and regulatory agency. Written verification must be obtained from the regulatory agency that the well complies with the Safe Drinking Water Act and the Clean Water Act (see [HB-1-3555, Chapter 12](#)).

There is a limit of four homes per shared well.

Property Repairs/Home Improvements: Repairs and/or improvements are not allowed to be financed.

Section 21 Appraisal

A full appraisal is required on all non-streamline refinance and non-Streamlined-assist refinance USDA loans. All appraisals must comply with Plaza's AIR requirements. The appraiser must be on the FHA approved appraiser list and be an FHA Roster appraiser, although an FHA case number is not required. The appraisal must be prepared in accordance with Single Family Housing Policy Handbook (SF Handbook; HUD Handbook 4000.1), or as superseded by HUD and the appraiser must certify that the subject property meets the requirements of HUD Handbook 4000.1. Refer to [HB-1-3555, Chapter 12](#).

If the original appraisal report will be more than 120 days old as of the Note date, a re-inspection by the appraiser is required. An appraisal may be up to 240 days old if a re-inspection is obtained after 120 days. The appraiser must use the Appraisal Update and/or Completion Report (Form 1004D or 442) which must include all of the following:

- A determination on whether or not the property value has declined.
- Evidence that there has been, at a minimum, an exterior inspection of the property.
- Notes on any market changes



If the appraiser determines that the value has declined, a new appraisal and loan must be re-underwritten using the new value.

Transferred Appraisals:

Plaza will accept transferred / assigned appraisals from the original transferring lender when all of the requirements outlined in the Appraisal Policy in Plaza's **Credit Guidelines** are met.

Section 22 Geographic Restrictions

All properties must be located in a designated rural area as designated by the RD office. Plaza state restrictions are identified here. Eligibility is limited to the states where Plaza branches are currently authorized to lend.

Hawaii:

- Properties in Lava Zones 1 and 2 are not eligible.
- Manufactured housing not eligible.

Kansas:

- Additional requirements apply for properties located in the State of Kansas with LTVs greater than 100%. Refer to Plaza's **Geographic State Restrictions**.
- Streamline and Rural Refinance Streamlined-assist refinance loans in Kansas require market value to be established and additional requirement apply if the LTV is greater than 100%. Refer to Plaza's **Geographic State Restrictions**.

Rhode Island: Manufactured housing not eligible.

Section 23 Max Financed Properties

Only **one** USDA loan is allowed per borrower and co-borrower. The borrower may not own any other property, including property owned free and clear, unless:

1. The additional property is sold prior to or concurrently with the purchase of a new home.
2. The additional property is not structurally sound or no longer meets the applicant's needs. This must be sufficiently documented in the loan file. Example: A disabled borrower that owns a property that is no longer suitable to their needs.
3. The borrower must be able to qualify with the full PITIA payments for each property. Rental income can only be used to qualify with a 2-year history of receipt.
4. The borrower may own only one additional property.

Refer to **HB-1-3555, Chapter 8** for USDA requirements when the borrower owns more than one property.

Maximum Loans/Maximum Exposure:

Rural housing loans are limited to one loan per borrower and co-borrower.

When the subject loan is a USDA loan, the borrower may have a maximum of 2 Plaza loans.

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Up-Front Guarantee Fee & Annual Fee:

The date of issuance of the Conditional Commitment by the local/State RD Office (not the loan closing date) determines the fee schedule for loan requests.

Conditional Commitment issued on or after October 1, 2016:

- Up-Front Guarantee Fee: 1.000%
- Annual Fee: .350%

The Guarantee Fee may be calculated in two ways depending on whether the fee will be financed:

Conditional Commitment Date	Guarantee Fee Not Financed	Guarantee Fee Financed
On or After October 1, 2016	Multiply the loan amount by 1.000% and round to the nearest cent. Example: \$100,000 x .01 = \$1,000	Divide the base loan amount by .990 and round to the nearest cent. Multiply that number by .01 (1%) and round to the nearest cent. Example: $\$100,000 \div .990 = \$101,010.10$ <ul style="list-style-type: none"> • (actual result of \$101,010.1010 is rounded to \$101,010.10) $\$101,010.10 \times .01 = \$1,010.10$ <ul style="list-style-type: none"> • (actual result of \$1,010.1010 is rounded to \$1,010.10) Financed Guarantee Fee = \$1,010.10

Refer to the USDA [webpage](#) for Guarantee Fee and Annual Fee calculators and information.

Annual Fee:

All USDA loans are subject to an annual fee in addition to the up-front guarantee fee. The annual fee is a percentage of the scheduled amortized unpaid principal balance determined by Rural Development.

Conditional Commitment issued on or after October 1, 2016:

The annual fee is .350% of the unpaid principal balance. The annual fee is calculated and collected as follows:

- The initial fee, for the first year of the loan will be determined and calculated based on the loan amount. For remaining years of the loan, the annual fee will be charged on the scheduled amortized unpaid principal balance of the loan, not the actual UPB.
- The annual fee will be included as part of the borrower’s monthly PITIA payment.

Example: \$101,010.10 Note loan amount x .350% = \$353.54 / 12 = \$29.46. \$29 is the monthly annual fee payment.
 Plaza will establish an escrow account to collect the annual fee from the borrowers on a monthly basis.

Note: The annual fee is a life of loan fee and will continue to be charged until the loan is paid in full.

USDA has provided an [Annual Fee Calculator](#) to assist in calculations.

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Section 25 Escrow Accounts

Impound accounts are required for property taxes and hazard insurance on all loans.

Section 26 Repair Escrow

When proposed exterior development work and minor interior development cannot be completed because of weather and the work remaining to be done does not affect the livability of the dwelling, an escrow account may be established by the originating lender if the following conditions are met:

- A signed contract and bid schedule is in effect for the proposed exterior development work.
- The contract for development work must provide for completion within 120 days.
- The cost of any remaining work is not greater than 10% of the final loan amount.
- The Lender agrees to obtain a final inspection report and advise Rural Housing Community Development System (RHCD) when the work has been completed.
- Repair escrow accounts are not permitted for manufactured housing.

Examples of repairs that cannot be escrowed for include the roof, foundation, repairs to the homes basic structure, a system for electricity, plumbing, or the delivery of heating fuel.

The escrow account must be funded in an amount sufficient to assure the completion of the remaining work. This figure should be 150 percent of the cost of completion but may be higher if the Lender determines a higher amount is needed. Refer to **HB-1-3555, Chapter 12**.

Section 27 ARM Adjustments

Not applicable.

Section 28 Temporary Buydowns

Temporary Buydowns are eligible subject to the following:

- 2-1 and 1-0 buydowns are offered
- Purchase transaction only
- Qualify at the note rate
- Funds may come from the seller or other eligible interested party
 - Interested Party Contribution (IPC) limits apply
 - Seller paid buydowns must be documented on the sales contract or applicable legally binding document. When a legally binding document other than the sales contract is used to document the Interested Party Contributions, a copy of this document must be provided to the assigned Appraiser.
 - The amount and source of all IPCs must be submitted to GUS as applicable
- Buydown Agreement required and will print with Plaza loan docs
- **Plaza's Buydown Calculator** can be used to estimate the buydown payment and total contribution amount



Section 29 Insurance

Hazard insurance coverage must be equal to at least the principal balance of the new loan or replacement cost.

Flood insurance is required on all properties located in a Special Flood Hazard Area (SFHA).

Manufactured Housing:

Manufactured Homes located within a Special Flood Hazard Area are not eligible unless a FEMA National Flood Insurance Program (NFIP) Elevation Certificate (**FEMA Form 086-0-33**) prepared by a licensed engineer or surveyor stating that the finished grade beneath the Manufactured Home is at or above the 100-year return frequency flood elevation is provided, and flood insurance under the NFIP is obtained.

Section 30 Subsidy Recapture for the Refinance of a Direct Loan

This section only applies to borrowers refinancing a Direct Loan. Direct Loan borrowers may require a new appraisal to calculate the subsidy recapture that may be due. If the new loan is a Streamline or Streamlined-assist the appraisal will not be used for LTV purposes. The cost of this appraisal is an eligible loan closing cost. If the direct loan borrower has never received subsidy and the statement of loan balance from the Centralized Servicing Center (CSC) confirms that subsidy was not utilized at any time for the loan, a new appraisal will not be required.

Obtaining a “Statement of Loan Balance” or payoff/subsidy recapture due for a Section 502 Direct Loan borrower:

SFH Direct Loans are serviced by CSC located in St. Louis, MO. When the applicant’s existing loan is a Direct Loan, the lender submits a payoff request to obtain a “Statement of Loan Balance” letter from the CSC. A Direct Loan can be identified by the loan creditor (on the credit report or mortgage statement) as “USDA” or if the borrower informs the lender they applied for and obtained their loan from a USDA Service Center.

Obtain a Statement of Loan Balance letter. Submit the following:

- A completed **USDA Direct Loan Payoff Request Form, FM-158**
- Include a copy of the good faith estimate or estimated closing cost statement
- Current Appraisal

The Statement of Loan Balance will reflect the amount of subsidy recapture that is due and will include instructions for the lender to follow.

Section 31 USDA Forms & Reference

- **HB-1-3555**: 7 CFR Part 3555 Handbook (Guidelines)
- **3555-18**: Conditional Commitment for Single Family Housing Loan Guarantee
- **3555-18E**: Electronic Conditional Commitment for Single Family Housing Loan Guarantee (delivered to lender by USDA)
- **3555-21**: Request for Single Family Housing Loan Guarantee
- **USDA HB-3555 Attachment 9-A**: Income and Documentation Matrix
- **USDA HB-3555 Attachment 9-B**: Income Calculation Worksheet
- **Attachment 15-A**: Origination Stacking Order Checklist
- **Attachment 16-A**: Loan Closing Stacking Order Checklist
- **USDA Lender Interactive Network Connection (LINC) Training and Resource Library**
- **GUS Technical Bulletin – Streamline Issuance of Conditional Commitment - Lenders**, effective 03/28/2015
- **Streamlined Conditional Commitment Issuance Lending Training**
- **List of all available USDA forms**

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