



Residential Acceptance Corporation

## USDA GUIDELINE CHANGES

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**RD instruction 3555 will become effective on September 1, 2014.**

- The rule represents a framework which will update, reorganize, and simplify the Single **Family Housing Guaranteed Loan Program** (SFHGLP). It enhances program effectiveness by streamlining processes, reducing regulations, improving customer service, and strengthening the Agency's ability to manage the program.

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## The New Technical Handbook

- A technical handbook (**the Handbook**) that supplements the rule will be used to administer the program efficiently and ensure that legal requirements are met. It will contain Administrative procedures currently in the existing rule, as well as guidance now published in multiple Administrative Notices (AN).

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## USDA Maximum Legal Rate

### New Regulation

- Calculated by taking the Fannie Mae 90 Day Actual/Actual rate + 100 bps and rounding up to the nearest .25bps  
*Existing Regulation: Add .60 bps to the Fannie Mae 90 Day Actual/Actual rate and round up to the nearest .25 bps*

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## USDA Eligibility

### New Regulation

- \$480 deduction permitted for students in college or that live with parents part of the time and children under the age of 18.  
*Existing Regulation: \$480 deduction for children under the age of 18 if primary residence*
- Earnings of full-time students 18 years of age, or older, in excess of \$480 unless a spouse or head of household are not included in the eligibility calculations.
- Pre-school tuition is considered an eligible child care expense

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## USDA Income Analysis

### New Policy

- 4506T required for all household members - transcripts to be processed for all members of the household prior to submission to USDA.  
*Existing Policy: Recommendation to order transcripts for borrower's.*
- Lenders must confirm with a third party the existence of a S/E business within 30 days of closing.  
*Existing Policy: Not previously required.*
- Non taxable income may be grossed up 125%.  
*Existing Policy: Gross up of non-taxable income determined by the tax bracket.*
- Re-entering the workforce: Minimum 6 months at current employer required.  
*Existing Policy: Not specifically addressed in current regulations.*



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## USDA Income Analysis

### New Policy

- Income for Foster children or adults is not considered for annual or repayment income calculations  
*Existing Policy: Foster care is considered for repayment calculation*
- Verbal VOE's are required to be completed within 10 days of the date of the note  
*Existing Policy: Not previously required.*
- Employer provided fringe benefits which are included as taxable income on an employee's pay statement or W-2 form are considered in the annual income calculation (if not taxable not counted)  
*Existing Policy: Annual income calculated off the gross amount on the paystub or W-2*



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## USDA Credit Policy

### New Credit Policy

- At least one applicant whose income or assets are used for qualification must have three historical traditional trade lines that have a 12 month history.  
*Existing Credit Policy: No trade line requirement.*
- If not available, then defer to below requirements for nontraditional credit and downgrade:

***4 trade lines required or 2 trade lines and rent history.***





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## USDA Credit Policy (continued)

### New Credit Policy

- Student loans, 1% used on all deferred or variable loans and the greater of 1% or fixed payment on fixed loans.  
*Existing Credit Policy: Student loans included in ratios payment dependent on loan type.*
- Installment loans removed from ratios if 10 payments or less.  
*Existing Credit Policy: Installment payments removed from ratios with 6 payments or less.*
- Minimum credit score is 581 delegated, 620 NDC and WS.  
*Existing Credit Policy: 580 minimum on delegated.*
- Credit docs are good for 120 days on new construction.  
*Existing Credit Policy: Credit docs are good for 180 days on new construction*



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## USDA Credit Policy (continued)

### New Credit Policy

- Extenuating circumstances that are **not acceptable** to USDA on foreclosures specifically identified:
  - ⇒ Job transfer or relocation
  - ⇒ Divorce in general

*Existing Credit Policy; No specific direction given nationally.*

- Private VOR is will be accepted in all cases. 680 scores and GUS Accepts still do not require rent verification.
- Nontraditional trade lines can be added to the credit report.



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## USDA Credit Policy (continued)

### New Credit Policy

- Judgments can remain open with proof borrower has been on a payment plan for at least 3 months  
*Existing Credit Policy: Judgments must be paid in full*
- Co-signed debts can only be removed from the ratios if the borrower is not the primary obligor of the note  
*Existing Credit Policy: Current policy states the same but most had interpreted this to mean the borrower could be in either position on the note of the debt in question*
- Assets
- Gift funds from household members are now permitted as an eligible source  
*Existing Credit Policy: Gifts funds were not permitted from household members*



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## USDA Collection Policy

### New Collection Policy

- Determine if the total outstanding balance of all collections is  $\geq$  \$2,000 (exclude medical collections and charge offs in this calculation) - include NPS collections.
- If the balance is  $>$  \$2,000 three options apply:
  - ⇒ Pay in full **or**
  - ⇒ Validate a payment plan and include payment **or**
  - ⇒ Include 5% of the balance in ratios

### Existing Collection Policy

- *All collections required to be paid on GUS Refers.*
- *Collections can remain open on GUS Accepts with justification.*
- *No payment included if not under payment plan.*



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## Streamline Refinance

### New Policy

- 12 months seasoning required.
- Minimum rate reduction of 100 basis points.
- Reasonable and customary closing costs may be included.
- Submitted via GUS to USDA
- 6 months history 0 x 30
- Maximum loan amount (*cannot exceed the original amount of the loan to be financed*)

### Existing Policy

- *No seasoning requirement.*
- *Net benefit required, no minimum rate reduction.*
- *Only unpaid principal balance and guarantee fee may be financed.*
- *Manually submitted to USDA.*
- *36 months history used to determine ability to repay.*
- *No pre-determined maximum.*

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## Asset Verification

- Two months of the borrower's most recent bank statements will be required on all files based on guidance in 3555 below.
- **Net Family Assets Income.** Documentation of income from net family assets in accordance with 7 CFR 3555.152(d), must be included in the calculation of annual income. The lender may verify assets by obtaining the most recent two consecutive monthly bank statements. See Paragraph 9.4 of the technical handbook for calculation and documentation of income from net family assets.

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## USDA Property Requirements

### New Regulations

- Elevation certificates will only be required on new construction.  
*Existing Regulation: Elevation certificates required on all properties in a flood zone.*
- In ground pools and farm service buildings used for storage no longer need to have contributory value deducted from the FMV.  
*Existing Regulation: Contributory value of in ground pool or farm service building is deducted from the FMV.*
- Seller concessions are now capped at 6%  
*Existing Regulation: Seller concessions are unlimited but must be typical*
- No dealer approval required.  
*Existing Regulation: Dealer's must be on approved dealer list.*



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## USDA Property Requirements (continued)

### New Regulations

- Appraisals reports must be no older than 120 days at loan closing. 30 day extensions can be requested.  
*Existing Regulation: Appraisals are acceptable that are up to 180 days old.*
- Appraisal updates per USPAP guidelines may be provided to extend the validity up to 240 days.
- The water analysis report must be no greater than 120 days old at loan closing.  
*Existing Regulation: Varied state to state.*
- Properties served by cisterns are **not** acceptable.  
*Existing Regulation: Properties served by cisterns are acceptable.*





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## USDA Property Requirements (continued)

### New Regulations

- Escrow accounts permitted for minor exterior **and** interior repairs.  
*Existing Regulation: Escrow accounts permitted for exterior repairs only.*
- The site value must be typical for the area.  
*Existing Regulation: If site value is greater than 30% you must verify it is typical for the area and cannot be subdivided.*
- Max deductible for flood insurance is \$1/000 or 1% of the loan amount.  
*Existing Regulation: No present max deductible other than required by FEMA.*



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## USDA Property Requirements (continued)

### New Regulations

- Cost approach to be completed on all appraisals.  
*Existing Regulation: Cost approach required on appraisals where the property is less than 1 year old.*

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