

Posted 05/17/2012

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## 500 - Rural Housing

### Product Description and Product Codes

**Product Description** Fixed Rate Loans that meets applicable USDA Rural Development, Single Family Housing Guaranteed Loans/Rural Housing guidelines.

**Product Highlights** Program provides moderate income families with access to affordable home ownership in eligible rural areas through requiring no down payment and financing loan closing costs up to the property's appraised value. (Refer to the Refinance for complete details).

**Product Codes** The following Product Code Matrix outlines the applicable product codes for GRH/RD Loan products.

Product Name	Product Code	Product Feature Options
Guaranteed Rural Housing	GRH30 (GNMA II Only)	30-year Fixed Rate Term only
<b>IMPORTANT:</b> Currently not available in the state of Nevada.		

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## Processing Requirements

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### Changing Loan Parameters

- ✓ Once Form RD 1980-18, Conditional Commitment for SRH Loan Guarantee, has been issued, no increases to the loan amount or interest rate are permitted without prior receipt of RD's Amended Conditional Commitment reflecting the new terms.
- ✓ Loans will not close at an interest rate or loan amount higher than indicated on the Conditional Commitment.
- ✓ An increase in the loan amount can be approved, but requires 3 business days to process this change by RD. Required documents to submit for an increased loan amount: 1003, 1008 and Form RD 1980-21 (Revision date 02-12).
- ✓ Decreases in the loan amount or interest rate will be permitted if ClearPoint Funding documents the date the rate was locked at an eligible rate of interest. This information along with a revised Form 1003 and 1008 must be submitted to document this change.

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## Processing Requirements, Continued

**Processing Checklist**

Rural Development Guaranteed Rural Housing – Loan Application Processing Checklist.

<b>PRIOR TO SUBMITTING A STANDARD APPLICATION:</b>	
_____	Request for Single Family Housing Loan Guarantee Form RD 1980-21 (Rev. 02/12) Signed by ClearPoint Funding and Applicant(s) and submitted to RD with the underwriting package.
_____	CAIVRS code for each applicant.
_____	Uniform Residential Loan Application, signed by Applicant(s) and Lender.
_____	Waiver Request, if applicable from Underwriter (credit, ratios, payment shock).
_____	Verification of Rent if not on credit report.
_____	Good Faith Estimate.
_____	Copy of Divorce Decree or Bankruptcy Schedules (as applicable).
_____	URAR Appraisal Report with clear photographs and all required applicable attachments.
_____	Purchase Agreement with Amendments.
_____	Well and Septic Inspection Report (as applicable).
_____	Safe Water Test (as applicable).
_____	Flood Hazard Determination Certification.
_____	Verification of Deposit and most recent bank statement OR 2 most recent bank statements.
<b>PURCHASE OF AN EXISTING HOME</b>	
_____	Inspection Report for Purchase of Existing Homes (Rev. 01/01/02 or later)
_____	Site Survey (as applicable)
<b>PURCHASE OF A NEW HOME – PURCHASE CONTRACT</b>	
_____	Marshall and Swift Cost Approach Appraisal
_____	Certification of Completion by the Appraiser (as applicable)

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## Processing Requirements, Continued

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**Processing  
Guide for  
Loans  
Submitted  
through GUS**

1. Complete Form RD 1980-21 (Rev. 02/12) with the applicants at the time of application. CPF Underwriter will also sign and submit to the RD office.
2. Complete the loan origination package by obtaining the documentation required on the "GRH Application Processing Checklist".
3. Send the loan origination package to CPF and the Underwriter will submit the loan through RD AU engine, GUS. Loan approval will include condition for approval to be "subject to issuance of the Conditional Commitment by RD".
4. Once the Underwriter makes the submission "Final", RD will access entry from the GUS menu.
5. RD submits application to the GLS from GUS.
6. Once approved by RD, RD will issue the Conditional Commitment and send it to CPF.
7. The CPF Underwriter will inform the originating office and closing department of the loan conditions set by both the underwriter and RD.
8. CPF proceeds to close the loan once all conditions have been met.
9. CPF submits a closing package to RD to obtain the Loan Note Guarantee.
10. RD issues the Loan Note Guarantee to the approving underwriter or closer. The Loan Note Guarantee must be attached to the original promissory note as proof of guarantee in the event of a loss.

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### **Processing Requirements,** Continued

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**GUS  
Resubmission**

Loans are required to be resubmitted to GUS if any loan data changes. This includes:

- ✓ Borrowers were either added or deleted from the application, or critical information has changed.
  - ✓ A decrease in the borrower's income and/or cash assets/reserves.
  - ✓ An increase in the loan amount or interest rate on the mortgage loan request.
  - ✓ Any changes that would negatively affect the borrower's ability to repay the mortgage.
  - ✓ Information regarding the property changes – such as a change in sales price or value.
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## Loan Details

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### Anti-Flipping

Seasoning requirements on re-sales are not applicable.

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### Eligible Borrowers

Loans will be granted only to natural persons. Title must be held in individual names only. All borrowers must have a valid social security number.

The following are permitted to the applicable agency underwriting guidelines.

- ✓ U.S. Citizens
- ✓ Permanent Resident Aliens

**NOTE:** The 1003 should clearly indicate the citizenship of the applicant(s).

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### Co-Borrowers

- ✓ All must occupy the property.
  - ✓ All must take title to the property AND sign the Note and the Mortgage.
  - ✓ Co-borrower may not be an interested party to the transaction (such as seller, builder, real estate agent, etc.).
- 

### Inter Vivos Trust

Not Permitted.

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### Eligible Transaction Types

GRH/RD loans are eligible under the loan parameters outlined by RD for the applicable transaction type:

- ✓ Purchase
  - ✓ No Cash Out Refinance of existing GRH/RD loans only; refer to Refinance section within this summary for complete details.
    - **NOTE:** Cash Out Refinances are not permitted.
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## Loan Details, Continued

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### Permanent Resident Alien

Permitted under the same terms and conditions as U.S. Citizens. Documentation evidencing permanent residency is required and the URLA must indicate status of lawful permanent resident alien.

**NOTE:** All borrowers, including alien status, are required to provide a valid social security number.

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### Ineligible Borrowers

- ✓ Borrowers who are eligible for uninsured conventional financing.
  - ✓ Borrowers whose adjusted household income exceeds the RD income limit for the applicable area.
  - ✓ Non-Permanent Resident Aliens
  - ✓ Foreign National
  - ✓ Living Trust Agreements, such as inter vivos trust.
  - ✓ Full time students
  - ✓ Persons who do not possess a valid Social Security Number
  - ✓ Diplomatic immunity; an individual may not waive their immunity for loan application purposes.
  - ✓ Non-profit organization borrowers
  - ✓ Non-occupying co-borrowers
  - ✓ Possession by corporations or partnerships is not acceptable, including, but not limited to, the following:
    - S Corporations
    - Life Estates
    - Real Estate Syndication
    - LLCs and DBAs
- 

### Borrower Name Change

If the borrower's name changes during loan application, such in cases of marriages, the following items must be cured prior to closing/purchase:

- ✓ Social Security card must have been applied for to reflect the new name. Copy of new card or evidence of change made by SSA will be required.
  - ✓ Signed AKA Letter.
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## Loan Details, Continued

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**Escrow /  
Impound  
Waiver**

Waiver of escrows/impounds is not permitted for GRH/RD loans under any circumstances.

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**Occupancy**

Owner-occupied properties are eligible for GRH/RD loans.

The following property types are NOT permitted:

- Second Vacation Home
- Investment (Non-owner occupied)

**IMPORTANT:** Loan occupancies will be highly scrutinized to confirm occupancy status.

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## Loan Details, Continued

**Borrower  
Power of  
Attorney**

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Power of attorney may be used for CLOSING DOCUMENTS, including the final URLA if it is signed at closing. The SPECIFIC power of attorney must comply with state law and allow for the mortgage note to be enforced legally in that jurisdiction.

Except for the conditions described below, the initial loan application may not be executed by using a power of attorney (i.e., it must be signed by all borrowers). Either the initial loan application or the final must contain the signatures of all borrowers.

- ✓ **Military Personnel.** Power of attorney may be used for military personnel on overseas duty or on an unaccompanied tour. CPF will require the service person's signature on the application by mail or fax machine.

**NOTE:** Utilization of POA for Incapacitated Borrowers will not be permitted.

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## Loan Details, Continued

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### Property Types

#### Eligible Property Types

As permitted by GRH/RD, the following properties are eligible for funding:

- 1 Unit Properties, Attached and Detached.
- PUDs in accordance with GRH/RD guidelines.

#### Ineligible Property Types

Unless otherwise specifically permitted by the applicable loan parameters, the following property types are not acceptable:

- ✓ "To Be Determined" property addresses (i.e. all submissions must contain an actual property address)
- ✓ Cooperative Share Properties (Co-Op)
- ✓ Leasehold Estate properties
- ✓ Manufactured and Mobile Homes
- ✓ True and Sided Log Homes
- ✓ Commercial enterprises, such as hotels/motels and bed/breakfast homes.
- ✓ Income producing farms
- ✓ Condos of any nature or location
- ✓ Non-warrantable condos
- ✓ 2-4 Units
- ✓ Properties with an in-ground swimming pool; not applicable to PUD developments with a common area pool.
- ✓ Mixed use properties
- ✓ Earth Berm or Earth Home
- ✓ Geodesic Dome
- ✓ Properties that are not located in a GRH/RD designated rural area

**NOTE:** Eligibility of Unique Properties, such as extra small homes, and homes with lower than normal ceiling heights; depend on whether or not the property is structurally sound and readily marketable. If a property meets these criteria, the appraiser estimates market value. However, depending on the uniqueness, the final determination to accept the property is at the underwriter's discretion.

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## Loan Details, Continued

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**Property Location**

Property MUST be located within a GRH/RD designated area. Rural areas are designated on maps available from the local GRH/RD office and/or website.

[http://www.rurdev.usda.gov/recd\\_map.html](http://www.rurdev.usda.gov/recd_map.html)

<http://eligibility.sc.egov.usda.gov>

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**Non-Purchasing Spouse**

- ✓ If required by state law in order to perfect the lien, the non-purchasing spouse will be required to sign either the security instrument, or other documentation, evidencing that he/she is relinquishing all rights to the property.
- ✓ The non-purchasing spouse is not considered a borrower and does not need to execute the note, loan application or sales contract.
  - Due to the non-purchasing spouse not signing the Note, he/she is not permitted to take ownership to the property and may not be listed on title (must be removed in cases of refinance) UNLESS the security instrument specifically states to the effect that 'regardless of who is on title HUD and/or its successors can foreclose'.

**For Community Property States**

- ✓ Except for debt excluded by state law, the debts of the non-purchasing spouse must be included in the borrower's qualifying ratios if the borrower resides in a community property state. Although the non-purchasing spouse's credit history is not to be considered a reason for credit denial, a credit report must be obtained for the non-purchasing spouse in order to determine the debt-to-income ratio.
  - ✓ A credit report for the non-purchasing spouse should not be a joint report, it must be obtained separately.
    - Obtain and document authorization from the non-purchasing spouse to pull a separate credit report. If this is not obtainable, then the loan is not eligible.
  - ✓ All defaulted federal debt, open judgments and liens of a non-purchasing spouse, in all Community Property States, must be satisfied prior to closing.
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## Loan Details, Continued

### **Principal Reductions**

#### **Lender Paid Transactions**

On transactions where the loan originator is paid by the lender, CPF will permit a Principal Curtailment on purchase and refinance loans unless noted below as a result of excess premium rate credit. The excess premium must be identified on the HUD-1 Settlement Statement and is limited to the amount of the excess premium rate credit below. The premium rate credit is the amount associated with the lowest pricing rate option that allows for some or all of the borrower's closing costs to be paid so the borrower does not have to pay those closing costs out of pocket.

- ✓ Premium rate credits are permitted up to or equal to \$2,000 for loan amounts up to \$350,000, or \$4,000 for loans amounts exceeding \$350,000.

If the program permits, the borrower may also receive cash back within program guidelines in addition to the amount of the curtailment. Check your product summary for cash back eligibility criteria.

#### **Borrower Paid Transactions**

On transactions where the loan originator is paid by the consumer, principal curtailments are not permitted of any amount. The premium rate credit may not exceed the amount of third party costs.

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## Loan Details, Continued

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### Paying Off Land Contracts

If the borrower will use the loan to complete payment on a land contract, contract for deed, or other similar type financing arrangement in which the borrower does not have title to the property, the new mortgage must be processed as a purchase transaction.

If all loan proceeds are used to pay the outstanding balance on the land contract and eligible repairs, renovations, etc., the appropriate LTV ratio is applied to the lesser of:

- The appraised value; or
- The total cost to acquire the property (the original purchase price, plus any documented costs the purchaser incurs for rehabilitation, repairs, renovation, or weatherization), plus allowable closing costs.

Replenishment of the borrower's own cash expended for repairs, improvements, renovations, etc. is not permitted.

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### Geographic Restrictions

#### Temporarily suspended for the following States:

- ✓ Iowa, Kansas, Kentucky, Mississippi, Nebraska, South Dakota, Wisconsin, West Virginia.

Property MUST be located within a GRH/RD designated area. Rural areas are designated on maps available from the local GRH/RD office and/or website.

- [http://www.rurdev.usda.gov/recd\\_map.html](http://www.rurdev.usda.gov/recd_map.html)
- ✓ **Texas** Section 50a6 equity cash out is not permitted.

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**Loan Details,** Continued

**Temporary  
Buydown**

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Not permitted.

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**Third Part  
Originations**

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Co-brokering or Third Party Originations are not permitted.

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## General Underwriting Guidelines

**Overview** Rural Development loans must be underwritten to the current and local GRH/RD guidelines and to CPF guidelines stated herein.

### Loan Parameters – GRH/RD

Units	Purchases			
	Max LTV	Total LTV w/Guarantee Fee	CLTV	Minimum Credit Score
1	100%	102.00% <sup>3</sup>	NA	640
2-4	NA			
Units	Refinances of Existing GRH/RD ONLY <sup>1</sup>			
1	100%	101.5% <sup>2</sup>	101.5%	640
2-4	NA			

**NOTES:**

- Refinance transactions must be a current GRH or 502 Direct loan.
- LTVs may only exceed 100% when the Guarantee Fee is financed into the loan amount.
- Max Loan Amount on a Purchase Transaction is up to 102.00% of the property's appraised value when financing the 2.0% RD guarantee fee. The loan amount cannot exceed 102.00% LTV based on the property's appraised value under any circumstances.

**Loan Amounts** Maximum: \$417,000  
 Minimum: \$50,000

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## General Underwriting Guidelines, Continued

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**Calculation of  
Guarantee  
Fee, Purchase  
Transactions**

**Not Financed**

Multiply the loan amount by 2.00% and round to the nearest cent.

*Example:* \$100,000 loan amt x .020 = \$2000.

**Financed**

The fee is calculated as follows:

1. Divide the base loan amount by .980 and round to the nearest cent.
2. Multiply that number by .020 and round to the nearest cent.

*Example:* \$100,000 loan amt / .980 = \$102,040.81

\$102,040.81 x .020 = \$2,040.82

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**Refinances**

Refer to Refinance section within this summary for complete details.

**IMPORTANT:** Refinance transaction must be a current GRH or 502 Direct loan; conventional, FHA, VA or any other non-USDA loan may NOT be refinanced into a GRH/RD loan.

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**Cash  
Investment /  
Down  
Payment**

Not required.

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## General Underwriting Guidelines, Continued

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### AUS Requirements

GUS must be utilized by underwriter with an Accept/Eligible recommendation from the system.

**NOTE:**

- ✓ Manual underwriting is not permitted.

The following items are not allowed regardless of GUS findings.

- ✓ Non-Traditional Credit
- ✓ Bankruptcy (Chapter 7 or Chapter 13) discharged within two (2) years of loan application.
- ✓ Delinquent Federal Debts. All Borrowers must be screened using **CAIVRS** to determine if they are delinquent on a federal debt.
- ✓ No more than 1x30 lates within the most recent 12 months in any installment or revolving tradelines.
- ✓ Foreclosure within the most recent 36 months of loan application.
- ✓ Short Sale completed within 36 months of loan application.
- ✓ Outstanding tax liens or delinquent Government debts with no satisfactory arrangements for payments, no matter what their age, as long as they are currently delinquent and/or due and payable.
- ✓ No judgments within the most recent 12 months of loan application.
- ✓ Accounts which have been converted to collections within the last 12 months.
- ✓ Collection accounts outstanding with no satisfactory arrangements for payments, no matter what their age as long as they are currently delinquent and/or due and payable. Note collection accounts may be paid in full to satisfy this requirement and utilize GUS findings.

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## General Underwriting Guidelines, Continued

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**REV 05/17**

**Disputed  
Accounts**

- ✓ DU does not take disputed tradelines into consideration in the credit analysis; therefore, the Underwriter must confirm the accuracy of the information.
  - If the tradeline does not belong to the borrower, or is not accurate, no further action is required; supporting documentation is required.
  - If the tradeline does accurately belong to the borrower and does **NOT** contain any adverse reporting, no further action is required.
  - If the tradeline does accurately belong to the borrower and **DOES** contain adverse reporting, an updated credit report must be submitted to DU with the disputed designation removed or resolved so the information can be included in the DU analysis.
    - a. If an updated credit report is not available, then the Underwriter cannot rely on the DU recommendation and therefore the loan scenario is ineligible.
- ✓ If the disputed account is because of stolen or fraudulent use of the account, a credit report supplement should be obtained to verify the status.

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## General Underwriting Guidelines, Continued

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**IRS Form  
4506-T**

An IRS Form 4506-T is required to be signed at application and provided to CPF within the loan package.

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**First Time  
Homebuyers**

First time homebuyers are permitted, but educational courses are required in Georgia, Louisiana and South Carolina or if mandated by the state office.

- ✓ Training must be provided by homebuyer counselors that are certified by any of the following:
  - Department of Housing and Urban Development (HUD)
  - NeighborWorks America (NWA)
  - National Federation of Housing Counselor (NFHC)
  - State Housing Finance Agency or other qualified state organization
  - National American Indian Housing Council (NAIHC)
- ✓ Certification of Completion is required and must be retained in the loan file; see [www.rurdev.usda.gov](http://www.rurdev.usda.gov) (followed by /(State Abbreviation))

**NOTE:** Includes displaced homemakers and single parents even though they previously owned or resided in a dwelling with a spouse.

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**Co-signers or  
Guarantors**

Not permitted.

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**Age of Credit  
Report**

Credit reports and other credit documents are valid for 75 days for the date of approval and 90 days from the date of the Note; tri-merge is acceptable.

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**Credit Score  
Requirements**

Minimum credit score for all applicant borrowers of 640 is required. A minimum of three (3) scores is required for each applicant.

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**Mortgage /  
Rental  
Payment  
History**

Evaluated by GUS, but should not contain more than one payment being more than 30 days late in the most recent 12 months.

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## General Underwriting Guidelines, Continued

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**Tradelines** A minimum of three (3) tradelines are required each having at least a 12-month history. One of the three must be recent.

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**Authorized Users** To be eligible, evidence of at least one the following is required:

- ✓ Another applicant on the mortgage application owns the tradeline in question
- ✓ Owner of the tradeline is the spouse of an applicant
- ✓ Evidence the applicant has been making payments on the account for the most recent 12 months.

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**Collections and Judgments**

- ✓ No judgments reported within the most recent 12 months; older judgments must be satisfied prior to closing.
- ✓ No collections reported (or accounts converted into a collection) within the most recent 12 months.
- ✓ Outstanding collection accounts must either be paid in full or have a documented agreed upon arrangement for payments; this is required no matter their age as long as they are currently delinquent and/or due and payable.

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**Tax Liens** Required to be paid off prior to or at closing.

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**Charge-offs** Reviewed on a case by case basis. Depending on age and balance, evidence of zero balance may be required.

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**Bankruptcy** Requires discharge (or dismissal date) to be more than 24 months prior to application.

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**Foreclosure / Short Sales / Loan Modification** Requires discharge (or dismissal date) to be more than 36 months prior to application.

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## General Underwriting Guidelines, Continued

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**Non-traditional Credit**

Not permitted.

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**Consumer Credit Counseling**

The borrower must have made all required payments on time for at least one year and permission from the counseling agency to enter into a mortgage transaction to be eligible.

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**Interested Party Contributions**

Interested parties include, but are not limited to, the builder, developer, seller of the property and the real estate agent. Contributions from interested parties are acceptable with the following limitations:

- 6% maximum (based upon the lesser of the sales price or appraised value).

Contributions are to be towards a buyer's actual closing costs and financing concessions (i.e. fees exclusively associated to the provision of mortgage financing). Other expenses paid on behalf of the borrower must result in a dollar-for-dollar reduction to sales price.

Contributions must be itemized on page 2 of the HUD-1. Disclosing only lump sums is not acceptable.

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## General Underwriting Guidelines, Continued

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### **Inducements to Purchase**

Certain expenses paid on behalf of the borrower, as well as other inducements to purchase, result in a dollar-for-dollar reduction to the sales price before applying the appropriate LTV ratio.

These inducements include decorating allowances, repair allowances, moving costs, and other costs as determined by the appropriate RD state office. Dollar-for-dollar reductions to the sales price for excess rent credit, as well as for gift funds not meeting the requirements stated herein, will be required.

Personal property items such as cars, boats, riding lawn mowers, furniture, televisions, etc., given by the seller to consummate the sale result in a reduction to the mortgage. The value of the item(s) must be deducted from the sales price and the appraised value of the property (if not already done so by the appraiser) before applying the LTV ratio. However, certain items, depending upon local custom or law, may be considered as part of the real estate transaction with no adjustment to the sales price or appraised value necessary. These items include ranges, refrigerators, dishwashers, washers/dryers, carpeting, window treatments, and other items as determined appropriate. Replacement of existing equipment or other realty items by the seller before closing, such as carpeting or air conditioners, does not require a value adjustment provided no cash allowance is given to the borrower.

In addition, if the seller or builder of the property agrees to pay any portion of the borrower's sales commission on the sale of the borrower's present residence, the amount paid by the seller or builder is an inducement to purchase and must be subtracted dollar for dollar from the sales price before the LTV ratio is applied. Similarly, a borrower not paying real estate commission on the sale of a present home constitutes a sales concession, if the real estate broker or agent is involved in both transactions and the seller of the property purchased by the borrower pays a real estate commission exceeding that typical for the area. In these situations, the amount paid by the seller above the normal real estate commission is considered an inducement to purchase and must be subtracted from the sales price of the property being purchased before applying the LTV ratio.

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## General Underwriting Guidelines, Continued

**Multiple Mortgages**

- ✓ Borrowers may own up to one (1) additional property with the following requirements:
  - Other property owned must be outside the commuting area (approximately 60 miles or more); OR
  - Owns a dwelling that is not structurally sound, functionally adequate.
  - Increase in family size such that current residence is no longer adequate.
  - Mobile home not permanently affixed.
  - Is not financed by Rural Development.

**Non-Occupying Co-Borrower**

Not permitted.

**Non-Arms Length Transaction**

Permitted on a case by case review at the discretion of the approving underwriter.

**Qualifying Ratios**

29% / 45% with AUS Accept/Eligible.

**Payment Shock**

Regardless of GUS decision, payment shock must be considered if:

- ✓ Ratios exceed 29/41% AND
- ✓ The proposed mortgage payment is 100% or greater than the current housing expense or borrower has no history of housing expense.

**Calculation:** Proposed PITI divided by Current Housing Expense - 1 = \_\_\_\_\_ x 100% = Payment Shock%

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## Employment and Annual Income

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**General Employment / Income**

The borrower's history of income will be considered in determining whether it is adequate and dependable.

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**Two Purposes for Analyzing Income**

Income is underwritten for two purposes:

1. Determining the household's annual income as defined within the Employment and Annual Income section of this lending guide.
2. Determining repayment ability through qualifying income as defined within the Employment/Annual Income AND Liabilities section of this lending guide.

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**Maximum Annual Income**

The adjusted annual household income limits for all states are available at the below link. Use RD Moderate Income Limits.

<http://eligibility.sc.egov.usda.gov/eligibility/incomeEligibilityAction.do?pageAction=state&NavKey=income@11>

**IMPORTANT:**

- ✓ This income eligibility screen must be printed and retained in the loan file.
- ✓ Income loss may not be used to offset other income in order to qualify under the maximum income limit.

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**Annual Income Verification**

Income of all adults that will be residing in the household and certain other income must be verified and included in the qualifying income to determine program eligibility.

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*Continued on next page*

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## Employment and Annual Income, Continued

**Annual  
Income  
Definition****\*\*Used to determine household income for program compliance\*\***

- ✓ Current verified income, either part-time or full-time, received by any borrower and all adult members of the household, including co-borrowers.
- ✓ If any other adult member of the household is not presently employed but has a recent history of employment, that person's income will be considered unless the borrower and the person involved sign a statement that the person is not presently employed and has no intentions of resuming employment in the foreseeable future.
- ✓ Income from such sources as seasonal type work of less than 12 months duration, commissions, overtime, bonuses, and unemployment (disability, worker's comp and severance pay) compensation are to be calculated as the estimated annual amount of such income for the upcoming 12 months. Consideration should be given to whether the income is dependable based on verification by the employer and the borrower's history of such income over the most recent 24 months.
- ✓ Public assistance (except the value of the allotment provided to an eligible household under the Food Stamp Act of 1977).
- ✓ Periodic allowances, such as alimony, child support or recurring monetary gifts/contributions from someone who is not a member of the household.
- ✓ Regular, special pay and allowances of a member of the armed forces.

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## Employment and Annual Income, Continued

### Adjusted Annual Income

Annual income, minus eligible household deductions, determines whether the household is eligible for Guaranteed Loan benefits.

Annual income may be adjusted as follows:

- ✓ A deduction of \$480 for each member of the family residing in the household, other than the applicant, spouse or co-applicant, who is:
  - Under 18 years of age
  - Eighteen years of age or older and is disabled (See Document 1980-D section 1980.302 for definition of disabled).
  - A full-time student aged 18 or older.
- ✓ A deduction of \$400 for any elderly family (See Document 1980-D section 1980.302 for definition of elderly family)
- ✓ A deduction for the care of minors 12 years of age or under, to the extent necessary to enable a member of the borrower's family to be gainfully employed or to further his or her education. The deduction will be based only on monies reasonably anticipated to be paid for care services and, if caused by employment, must not exceed the amount of income received from such employment. Payments for these services may not be made to persons whom the applicant is entitled to claim as dependents for income tax purposes. Full justification for such deduction must be recorded in detail in the loan docket.
- ✓ A deduction of the amount by which the aggregate of the following expenses of the household exceeds 3% of gross annual income:
  - Medical expenses for any elderly family member. This includes medical expenses for any household member the applicant anticipates incurring over the ensuing 12 months and which are not covered by insurance (e.g., dental expenses, prescription medications, medical insurance premiums, eyeglasses, hearing aids and batteries, home nursing care, monthly payments on accumulated major medical bills, and full time nursing or institutional care which cannot be provided in the home for a member of the household), and;
  - Reasonable attendant care and auxiliary apparatus expenses for each disabled member of any household to the extent necessary to enable any member of such household (including such disabled members) to be employed.

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## Employment and Annual Income, Continued

### Qualifying Income Definitions

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**\*\*Used to determine housing and qualifying ratios\*\***

An applicant's qualifying income may be different than the annual income which is used to determine program eligibility. In considering qualifying income, it must be determined whether the income and its source are stable from only the borrower and co-borrower(s).

**NOTE:** If the borrower is obligated to pay child care costs, the amount of any Federal tax credit for which the borrower is eligible may be added to the borrower's qualifying income.

**IMPORTANT:** Qualifying income may be different than annual income used to determine program eligibility depending on the borrower's employment history and the types of income involved.

- ✓ The qualifying income is based on income that is considered to be stable and dependable based on the history of that type of income.
- ✓ Qualifying income must be based on the income of the persons(s) signing the Note.
- ✓ The income must be anticipated to last for at least 36 months.
- ✓ Pending pay increases that are scheduled to occur in the near future are not considered for qualifying purposes; however, they may be viewed as a compensating factor when a ratio waiver is requested.

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## Employment and Annual Income, Continued

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### Repayment Income

The following income is not included in Annual Income but may be included when determining the Borrower's ability to repay:

- ✓ The value of the allotment provided to an eligible household under the Food Stamp Act of 1977.
  - ✓ Payments received for the care of foster children.
  - ✓ Lump-sum additions to family assets such as inheritances; capital gains; insurance payments from health, accident, hazard or worker's compensation policies; and settlements for personal or property losses (excludes payments in lieu of earnings, such as unemployment, disability and worker's compensation and severance pay.)
  - ✓ The hazardous duty pay to a service person borrower or spouse away from home and exposed to hostile fire.
  - ✓ Any funds that a Federal statute specifies must not be used as the basis for denying or reducing Federal financial assistance or benefits.
  - ✓ The stability and continuance of income from sources other than employment must be documented.
- 

### Wage Earner Documentation

Any one of the following documentation types are deemed acceptable for verifying the employment income of non-self-employed loan applicants:

- ✓ Form RD 1910-5, "Request for Verification of Employment", (or the equivalent HUD/FHA/VA or FNMA form), and the most recent paycheck stub.
  - ✓ Paycheck stubs or payroll earnings statements covering the most recent 30-day period, and W-2 tax forms for the previous 2 tax years, and a telephone verification of the borrower's current employment.
  - ✓ Electronic verification or other computer generated documents accessed and printed from an Intranet or Internet, and W-2 tax forms for the previous 2 tax years, and a telephone verification of the applicant's current employment.
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## Employment and Annual Income, Continued

### Self-Employed Documentation

- ✓ Completed IRS Tax Returns for the most recent 2 years, including all applicable schedules.
- ✓ Current documentation of the business's income and expenses, including any applicable Federal tax returns that were filed with the IRS for the most recent 2 years as well as YTD P&L. P&L must be audited if YTD income is used when qualifying the borrower.
- ✓ Underwriting method will be FNMA Form 1084 Cash Flow Analysis to document a trend analysis for the borrower's business.

The following allowable IRS deductions may be added to the net profit (item #31 of Schedule C):

- Depletion (item #12 on Schedule C)
- Depreciation (item #13 on Schedule C)

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### Annual Income

- ✓ The gross amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips, bonuses, and other compensation for personal services of all adult members of the household.
- ✓ The net income from operation of business or profession. Refer to self-employed income for details.

**NOTE:**

- Borrowers are not required to have 24 months continuous employment with their current employer.
- Any income above the base amount, such as commissions and bonuses, require a minimum 24 month receipt to be considered stable.
- Where there has been a change in employers within the most recent 2 years, the borrower must explain any gap in employment that extends beyond one month.

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## Employment and Annual Income, Continued

**Spouse  
Income**

*For all states, regardless of community property laws:* The excluded spouse's income must be properly verified to determine the eligibility of the household income, unless the spouse has been living apart from the applicant for at least 3 months (for reasons other than military or work assignment), or court proceedings for divorce or legal separation have been commenced.

**Self-Employed  
Income**

The net income from operations of a business or profession (self-employed):

- ✓ Expenditures for business expansion and payments of principal on capital indebtedness shall not be used as deductions in determining income. A deduction is allowed in the manner prescribed by IRS regulations only for interest paid in amortizing capital indebtedness.
- ✓ Business losses may not be used to offset other income in order to qualify for GRH Loan.
- ✓ A deduction, based on straight-line depreciation, is allowed in the manner prescribed by IRS regulations for the exhaustion, wear and tear, and obsolescence of depreciable property used in the operation of a trade or business by a member of the household. The deduction must be based on an itemized schedule showing the amount of straight-line depreciation that could be claimed for Federal income tax purposes.
- ✓ Any withdrawal of cash or assets from the operation of a business or profession will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested in the operation by a member of the household.
- ✓ A deduction for verified business expenses, such as for lodging, meals or fuel, for overnight business trips made by salaried employees, such as long-distance truck drivers, who must meet these expenses without reimbursement.

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## Employment and Annual Income, Continued

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**IRS Form  
4506-T prior  
to April 15<sup>th</sup>**

For loans receiving an Approve/Accept recommendation, obtain tax transcripts for the number of years of income documentation required on the GUS. ClearPoint Funding requires the most recent Tax Return Transcript for all borrowers.

- ✓ For loans underwritten before April 15, 2012, if the borrower has NOT filed their 2011 tax returns, obtain the number of year(s) income documentation according to the GUS findings. If the borrower has filed 2011, then follow instructions under the prior to June 15<sup>th</sup> section.

- **For Salaried Borrowers:**

- If GUS requires 1 year documentation, obtain 2010 tax transcript, current paystub and 2011 W-2.
- If GUS requires 2 years documentation, obtain 2009 and 2010 tax transcripts, current paystub and 2010 and 2011 W-2s.

- **For Self-Employed Borrowers:**

- If GUS requires 1 year documentation, obtain 2010 tax returns and tax transcript.
- If GUS requires 2 years documentation, obtain 2009 and 2010 tax returns and transcripts.
- 2011 unaudited P&L, but signed by the borrower; declining incomes will be taken into account.

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## Employment and Annual Income, Continued

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**IRS Form  
4506-T prior  
to June 15<sup>th</sup>**

- ✓ For loans underwritten prior to June 15, 2012, if the borrower has filed their 2011 tax returns, and the tax transcripts are not yet available, the tax transcript request will be returned from the IRS and reflect "No Record Found", the following must be provided:
  - 2011 Tax Transcript showing "No record or return filed"; and
  - Copy of the 2011 Tax Return reflecting proof of filing; and
  - **For Salaried Borrowers:**
    - If GUS requires 1 year documentation, obtain 2010 tax transcript, current paystub and 2011 W-2.
    - If GUS requires 2 years documentation, obtain 2009 and 2010 tax transcripts, current paystub and 2010 and 2011 W-2s.
  - **For Self-Employed Borrowers:**
    - If GUS requires 1 year documentation, obtain 2010 tax returns and tax transcript.
    - If GUS requires 2 years documentation, obtain 2009 and 2010 tax returns and transcripts.
    - 2011 unaudited P&L is required (if a filed/stamped copy of the 2011 returns are not provided), but signed by the borrower; declining incomes will be taken into account.

**NOTE: See below if borrower filed an extension.**

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## Employment and Annual Income, Continued

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**IRS Form  
4506-T after  
June 15<sup>th</sup>**

- ✓ For loans underwritten on or after June 15, 2012, the 2011 Tax Return Transcripts must be provided. If a borrower has filed an extension, the following must be provided:
  - Evidence that the extension was filed and evidence of tax payment; and,
  - A 2011 Tax Transcript showing "No record or return filed"; and,
  - **For Salaried Borrowers:** See above directions based on GUS recommendations.
  - **For Self-Employed Borrowers:** See above directions based on GUS recommendations. 2011 unaudited P&L, but signed by the borrower; declining incomes will be taken into account.

**NOTE:** Extension requests that exceed the October 15<sup>th</sup> filing date will require verification of further extension approval from the IRS.

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**IRS Form  
4506-T Not  
Required to  
File**

**Borrowers Not Required to File a 2011 Tax Return**

If a borrower is not required to file a 2011 tax return and the source of income cannot be validated through the 4506-T process, alternative documentation must be obtained. Examples of documentation include 1099 transcripts or an award letter with a bank statement.

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**Vehicle  
Allowance**

Vehicle allowances provided by an employer for the applicant to acquire transportation are considered as income for both compliance and qualifying purposes. The vehicle allowance cannot be used to offset the payment on the vehicle's debt from the Total Debt Ratio.

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**Part-Time  
Income**

Requires a minimum duration of 24 months.

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**Commission  
Income**

Requires a minimum 24 month receipt to be considered stable income and requires 2 year tax returns.

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## Employment and Annual Income, Continued

**Interest,  
Dividends,  
Trust Funds**

Interest, dividends and other net income of any kind from real or personal property, including:

- ✓ The share received by adult members of the household from income distributed through a trust fund.
- ✓ Any withdrawal of cash or assets from an investment except to the extent the withdrawal is reimbursement of cash or assets invested by a member of the household.
- ✓ Where the household has net family assets in excess of \$5,000, the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate.

**NOTE:** Borrower must provide tax returns for the previous 2 years along with verification of current assets via bank statements, verification of deposits. This income will be averaged over 2 years or calculated at current market interest rates, whichever is less.

**Military  
Income**

All regular pay, special pay (except for persons exposed to hostile fire), and allowances of a member of the armed forces who is the borrower or co-borrower, whether or not that family member lives in the subject property.

**Educational  
Benefits**

Not Permitted.

**Employed by  
Relative or  
Family**

Requires 2 years tax returns.

**Alimony /  
Child Support**

Requires 3 month history with proof of three (3) years continuance.

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## Employment and Annual Income, Continued

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**Retirement,  
Disability and  
Non-Taxable  
Income**

The full amount of periodic payments received from social security (including social security received by adults on behalf of minors or by minors intended for their own support), annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts may be utilized.

**NOTE:** For the purposes of qualifying income, the amount of tax savings attributable to the non-taxable income may be grossed up by 125%, or the borrower's applicable tax rate. It must be verified that the income is not subject to Federal income tax and that the income and its non-taxable status are likely to continue for the next three (3) years.

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**Live-in Aides**

Income of live-in aides who are not relatives of the applicant or members of the household will not be counted in calculating annual income and not be considered in determination or repayment ability.

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**Projected  
Income**

Not permitted.

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**Trailing Co-  
Borrower  
Income**

Not permitted for qualifying purposes, but may be viewed as a compensating factor if a ratio waiver is needed.

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**Rental Income**

Not permitted. If the borrower owns other property, the borrower must qualify with all housing payments.

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**Mortgage  
Credit  
Certificate  
(MCC)**

Not permitted.

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## Assets

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### Maximum Assets

- ✓ For purchase transactions, the borrower must not have sufficient assets to obtain traditional conventional financing.
- ✓ Borrower may have assets and be eligible to participate in the RD program, but those assets should not be sufficient to meet the down payment and closing costs requirements associated with a conventional uninsured mortgage product.

**NOTE:** IRA Retirement and 401k accounts are not included as liquid assets.

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### Funds to Close

If applicable, the following sources of funds are acceptable:

- ✓ Gift/Grant
  - ✓ Funds held in a checking/savings account
  - ✓ Stocks, Government Bonds and Mutual Funds
  - ✓ Trust Accounts
  - ✓ Retirement Accounts
- 

### Reserves

Minimum reserve amounts are not typically required; however, LIQUID assets may be considered as a compensating factor if requesting a Ratio Waiver. Refer to RD AN 4413 for details regarding the definition of liquid versus illiquid assets when reserves are to be used as a compensating factor.

**NOTE:** If used, reserves must be documented by 2 months asset statements.

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### Earnest Money Deposit

- ✓ Copy of the Borrower's cancelled check.
  - ✓ Certification from the deposit-hold acknowledging receipt of funds.
  - ✓ Verification that earnest money cleared through financial institutions.
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### Assets, Continued

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**Savings /  
Checking  
Account**

A verification of Deposit (VOD), along with the most recent bank statement, or two most recent bank statements may be used to verify savings and checking account. If there is a large increase in an account, or the account was opened recently, an explanation and documentation for the source of those funds will be required.

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**Gift**

If funds to close are required, gifts are permitted from relatives, domestic partners or fiancé/fiancée (but not if they are considered household members); no portion may be donated by interested parties to the transaction including sellers, realtors, brokers or sales associates.

✓ Full documentation in accordance with FNMA guidelines is required.

**NOTE:**

- Gift funds are considered part of the borrower's liquid assets; refer to the Maximum Assets section within the lending guide for additional restrictions.
  - Gifts may not be used for reserves.
- 

**Gift of Equity**

Only family members may provide equity credit as a gift on a property being sold to other family members, not to exceed 20% of the sales price.

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**Sales  
Proceeds**

The net proceeds from an arms-length sale of a currently owned property may be used for the cash investment on a new house. A fully executed HUD-1 Settlement Statement must be provided as satisfactory evidence of the cash sales proceeds accruing to the borrower.

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**Trade Equity**

Not permitted.

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## Assets, Continued

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**Employer's  
Guarantee  
Plans**

If the borrower's employer guarantees to purchase the borrower's previous residence as the result of relocation, the borrower must submit evidence of the agreement and the net proceeds must be guaranteed.

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**Savings Bonds**

Government issued bonds are counted at original purchase price, unless eligibility for redemption and redemption value are confirmed. Actual receipt of funds at redemption must be verified.

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**IRS, 401Ks**

Assets such as IRAs, thrift savings plans, and 401ks, etc., may be included in the underwriting analysis up to only 60% of value unless the borrower provides conclusive evidence that a higher percentage may be withdrawn after subtracting any federal income tax and any withdrawal penalties. Evidence of redemption is required.

**NOTE:** Retirement accounts may only be utilized as a compensating factor (assets) and as cash reserves ONLY if the account allows for withdrawals by the borrower(s). Retirement accounts that restrict withdrawals only in connection with the borrower's employment separation, retirement or death is not permitted.

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**Stocks and  
Bonds**

The monthly or quarterly statement provided by the stockbroker or financial institution managing the portfolio may be used to verify the value of these securities. Actual receipt of funds must be verified and documented.

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**Cash Saved at  
Home**

Not Permitted; this includes cash on hand funds.

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### **Assets, Continued**

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<b>Rent Credit</b>	The cumulative amount of the rental payments that exceed the appraiser's estimate of fair market rent may be considered accumulation of the borrower's cash investment. Both the rent-with-option-to-purchase agreement and the appraiser's estimate of market rent must be included in the endorsement package.
<b>Sweat Equity</b>	Not permitted.
<b>Commission from Sale</b>	If the borrower is a licensed real estate agent entitled to a real estate commission from the sale of the property being purchased, that amount may be used for the cash investment with no adjustment to the maximum mortgage required. A family member entitled to the commission also may provide gift funds to the homebuyer.
<b>Disaster Relief Grants and Loans</b>	Grants or loans from state and federal agencies, such as FEMA, that provide immediate housing assistance to individuals displaced due to natural disaster may be used for the borrower's cash investment. Secured or unsecured disaster relief loans administered by the Small Business Administration (SBA) also may be used. <b>IMPORTANT:</b> However, it is not acceptable if the SBA loan will be secured against the property.
<b>Cash Accumulated with Private Savings Clubs</b>	Not permitted.

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## Liabilities

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### Qualifying Income

**IMPORTANT:** Qualifying income may be different than annual income used to determine program eligibility depending on the borrower's employment history and the types of income involved.

- ✓ The qualifying income is based on income that is considered to be stable and dependable based on the history of that type of income.
- ✓ Qualifying income must be based on the income of the person(s) signing the Note.
- ✓ The income must be anticipated to last for at least 36 months.
- ✓ Pending pay increases that are scheduled to occur in the near future are not considered for qualifying purposes; however, they may be viewed as a compensating factor when a ratio waiver is requested.

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### Liabilities, Continued

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**Recurring Obligations**

The borrower's liabilities include all installment loans, revolving charge accounts, real estate loans, alimony, child support, and all other continuing obligations. In computing the debt-to-income ratios, the monthly housing expense and all other additional recurring charges extending six months or more will be included, in addition to payments on installment accounts, child support or separate maintenance payments, revolving accounts and alimony, etc. Debts lasting less than six (6) months must be counted if the amount of the debt affects the borrower's ability to make the mortgage payment during the months immediately after loan closing; this is especially true if the borrower will have limited or no cash assets after loan closing.

The following additional information deals with revolving accounts and alimony payments:

- ✓ **Revolving Accounts.** If the account shown on the credit report has an outstanding balance, monthly payments for qualifying purposes must be calculated at the greater of 5% or the balance or \$10, unless the account shows a specific minimum monthly payment.

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**Payoff of Debt**

The pay off of installment debt, for qualification purposes is permitted. If debts are being paid off to qualify the borrower, the pay off must be documented and the source of funds verified. The source of funds must be over and above the assets needed for the new loan transaction.

Significant installment debt (those with high balances or large monthly payments) may be included in the debt-to-income ratio at the discretion of the Direct Endorsement Underwriter.

The pay off or pay down of revolving debt for qualification purposes is not permitted. All revolving debt, regardless of the outstanding balance must be included in the monthly debt obligations for qualification.

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## Liabilities, Continued

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**Student Loans** Deferred student loans must be included in the debt ratio calculations regardless of the deferment period.

If the credit report does not reflect a monthly payment due at the end of the deferment period, a copy of the applicant's payment letter may be provided or the industry standard of estimating student loan payments as 2% of the loan balance may be utilized.

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**Auto Leases** Regardless of remaining term, the auto lease payment will be included in the borrower's qualifying ratio.

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**Contingent Liabilities** A contingent liability exists when an individual will be held responsible for payment of a debt, should another party, jointly or severally obligated, default on that payment. Unless the borrower can provide conclusive evidence from the debt holder that there is no possibility the debt holder will pursue debt collection against him or her should the other party default, the following rules apply to contingent liabilities:

- ✓ **Mortgage Assumptions.** When a borrower remains obligated on an outstanding FHA-insured, VA-guaranteed, or conventional mortgage secured by a property that has been sold or traded within the most recent twelve (12) months without a release of liability, or is to be sold on assumption without a release of liability being obtained, contingent liability must be considered unless:
  - The originating lender of the mortgage being underwritten obtains from the servicer of the assumed loan a payment history showing that mortgage has been current during the previous 12 months.
- ✓ **Co-signed Obligations.** If the individual applying for a GRH/RD-insured mortgage is a co-signer, or is otherwise co-obligated on a car loan, student loan, mortgage, or any other obligation, contingent liability applies unless documentation is obtained to prove that the primary obligor has been making payments during the previous 12 months on a regular basis and does not have a history of delinquent payments on the loan.

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## Liabilities, Continued

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**Obligations Not Considered Debt**

Obligations not to be considered debt, or subtracted from gross income, include federal, state, and local taxes; FICA or other retirement contributions, such as 401k accounts (including repayment of debt secured by these funds); commuting costs; union dues; open accounts with zero balances; automatic deductions to savings accounts; child care; and voluntary deductions.

**Business Debt**

If a debt is paid through the business, the debt may be omitted from the debt ratio calculations with documentation showing the debt payments are made by the business via 12 months canceled business checks.

**Qualifying Ratios**

PRODUCT	Qualifying Ratios
RD/GRH Loans	29% / 41%

**Debt Ratio Waiver**

May be considered at the discretion of the Underwriter along with GUS Approval up to a maximum of 29% / 45%; exception not permitted.

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## Liabilities, Continued

### Undisclosed Debt

**ALL** existing debt must be disclosed within the loan application. In addition, any *pending* transactions which may result in new debt must be disclosed on the 1003. Supporting documentation for pending transaction in which an application has been submitted in anticipation of new debt being extended to the borrower must be included in the loan package. Supporting documentation may include sales agreement, loan commitment, security agreement, etc.

**Examples of Pending Debt (but not limited to):**

- Auto loan purchase or refinance in process
- Newly submitted Credit Card Applications
- Pending or Applied Credit Application for Refinance and/or Purchase of Real Estate

*Failure to disclose existing or pending debt is considered to be material misrepresentation and default in violation of the agreements set forth within the Loan Application. Non-disclosure of existing and/or pending debt will result in acceleration of the indebtedness in accordance with the terms of the Security Instrument.*

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## Refinances

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**Definition**

A refinance involves repaying an existing Guaranteed or Direct Rural Development mortgage from the proceeds of a new mortgage that has the same Borrower(s) and the same property.

NOTE: GRH/RD refinances are not eligible to pay off an existing lien that is NOT an original RD loan.

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**Interest Rate**

The interest rate on the new loan must be at least 1% below the interest rate of the loan being refinanced

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**Temporary Buydowns**

Not permitted.

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**No Cash Out Refinance**

No Cash Out Refinances may include:

- ✓ Maximum loan amount cannot exceed the balance of the loan being refinanced, plus the guarantee fee, and reasonable and customary closing costs excluding discount points, including funds necessary to establish a new tax and insurance escrow account.
  - ✓ 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. **IMPORTANT:** SBA loans are not permitted to subordinate nor be refinanced as part of the new loan.
  - ✓ Applicants are not eligible to receive "cash out" from the refinancing transaction. However, borrowers may receive reimbursement from loan proceeds at settlement for their personal funds that are advanced as part of the refinanced transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of "cash out" to the borrowers may occasionally result due to final escrow and interest calculations. If this occurs, the loan amount must be reduced prior to closing.
  - ✓ Unpaid fees, such as late fees due the servicer, are not eligible to be included in the new loan amount.
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## Refinances, Continued

<b>Property Location</b>	GRH/RD will refinance current RD loans for properties in areas that have since been determined to be non-rural since the existing loan was made.
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<b>Adding / Deleting Individuals to Title</b>	Additional borrowers may be added to the new loan. Existing borrowers may be deleted from the current loan. All borrowers that will be a party to the promissory note for the new loan must meet all eligibility requirements.
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<b>Cash Out Refinance</b>	Not permitted.
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<b>Streamline Refinances</b>	Not permitted. All borrowers must credit qualify for the new loan, including acceptable regard for credit, income, assets, collateral and employment.
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<b>Property Inspections</b>	No property inspections or thermal certifications are necessary. Required property repairs will be at the discretion of the Underwriter, per RD AN 4336. Expenses related to property inspections and repairs may not be financed into the new loan amount.
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<b>Guarantee Fee</b>	<ul style="list-style-type: none"> <li>✓ 1.50% and may be financed into the new loan.</li> <li>✓ Closing costs and fees up to 100% of the current appraised value may be financed.</li> <li>✓ Fee may not be split and must be paid in its entirety by an acceptable source.</li> </ul> <p><b>NOTE:</b> It is possible that the LTV of the new loan could exceed 100% when the guarantee fee is financed. Loans may only exceed 100% LTV to the extent that the excess represents only the financed guarantee fee.</p>
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<b>Appraisals</b>	A new appraisal is required.
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## Property Requirements

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### Property Location

Property MUST be located within a GRH/RD designated area. Rural areas are designated on maps available from the local GRH/RD office and/or website.

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

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### RD Appraisal

The appraisals must be completed by an approved FHA roster appraiser. The information in the report must be accurate, internally consistent, written in clearly understandable language, fully supported, and sufficiently documented to FHA and GRH/RD standards.

- ✓ One full appraisal (FNMA 1004) is required.
  - ✓ The appraisal report must be dated within 120 days of the Note Date.
  - ✓ Properties appraised in "Fair Condition" are unacceptable. The property must be brought up to at least "Average Condition", prior to closing. A final inspection showing the work has been completed must be included in the file.
    - USDA has adopted the new FNMA Uniform Appraisal Dataset (UAD) and will become mandatory on January 1, 2012.
  - ✓ Appraiser must analyze the subject sales contract (on all purchase transactions).
  - ✓ Must be AIR compliant
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## Property Requirements, Continued

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### UAD Condition Ratings

UAD compliant appraisal report forms must include a UAD Condition Rating (C1, C2, C3, C4, C5 or C6) that best describes the overall condition of the subject property and each comparable property.

- ✓ UAD Condition Ratings C5 or C6 are not acceptable.
  - All issues that caused the C5 or C6 rating must be cured. Once cured, the condition rating on the appraisal report must be updated to reflect a C4 or better rating. If a property has deficiencies or defects that are severe enough to affect the safety, soundness or structural integrity of the improvements, then the property's condition must be rated as a C6.
- ✓ UAD Condition Ratings C1, C2, C3 or C4 may be subject to completion or repairs; however, the repairs must be addressed and completed.

**NOTE:** The appraisal report must contain additional commentary, descriptions, and explanations to enable the appraisal reviewer to understand the property condition and quality.

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### UAD Quality Ratings

UAD compliant appraisal report forms must incorporate a UAD Quality Rating (Q1, Q2, Q3, Q4, Q5 or Q6) that best describes the overall quality of the subject property and each comparable property.

- ✓ UAD Quality Ratings Q6 is not acceptable.
    - All issues that caused the Q6 rating must be cured including modifying the property to make it habitable as a year-round residence; upgrading the electrical, plumbing, and other mechanical systems and equipment to meet community standards; correcting any substandard or non-conforming additions to the original structure; and curing any other quality related items needed to make the property acceptable to typical purchasers in the market in which the property is located. Once items are cured, the quality rating on the appraisal report must be updated to reflect a Q5 or better rating.
  - ✓ UAD Quality Ratings Q1, Q2, Q3, Q4 or Q5 may be subject to completion or repairs; however, the repairs must be addressed and completed.
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## Property Requirements, Continued

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### Condition and Quality Adjustments

The appraiser must make appropriate adjustments for differences in condition and quality between the subject property and each comparable property to reflect the value, if any, of the differences in the market place. If the appraiser makes an adjustment for differences in quality and condition between the subject property and a comparable property that have the same UAD quality or condition rating, or does not make an adjustment for properties that receive different quality and condition ratings, the appraiser is expected to provide a sufficient explanation for the basis and rationale for all adjustments.

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### Appraisal Portability / Transfer

When a borrower changes from one lender to ClearPoint Funding, the initial lender must at the borrower's request transfer the case to us. This requires the initial lender to:

- ✓ Provide ClearPoint Funding with a copy of the appraisal report ordered by and completed for the initial lender.
- ✓ Initial lender must provide written assurance such as an AIR Certification and borrower receipt that the appraisal was obtained in a manner consistent with AIR Compliance.
- ✓ **NOTE:** It is acceptable for the client name listed on the appraisal report to continue to reflect the initial lender.

**IMPORTANT:** A ClearPoint Funding Underwriter will review the original appraisal as provided from the initial lender to determine if it is acceptable collateral.

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## Property Requirements, Continued

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### Updates

If the appraisal report will be more than 120 days old, a re-inspection by the appraiser is required. 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.
- That there has been, at 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.

**NOTE:** The original appraisal cannot exceed 6 months, even if a recertification is completed.

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## Property Requirements, Continued

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**Re-Using the Appraisal**

Not permitted.

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**Acreage**

CPF will permit up to 15 acres, in all cases, the lot size must be typical for the area as supported by similar comparables.

**NOTE:** Site value may not exceed 30%.

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**Site Requirements**

- ✓ In-ground swimming pools are not permitted.
  - ✓ Dwellings should be of a residential nature.
  - ✓ Income producing structures (including side by side duplexes) or land is not permitted. Other structures of a storage nature (with low contributory value are allowed, besides the house and a garage, subject to their value and the site's value being under 30% of the total value.
  - ✓ Property must be contiguous to and have direct access from a street, public road or driveway. Streets and roads must be hard surfaced (paved) or an all weather surface (i.e. not a single lane dirt road). Shared driveways are permitted as long as the access to the property is transferable with the title to the property.
  - ✓ Property with non-conforming features such as: only one (1) bedroom, small square footage of the site or dwelling, slab foundation, A frame or dome homes, etc., may not be suitable for GRH/RD financing. The appraisal must be made using similar comparable sales with acceptable gross and net adjustments and a similar value per square foot of living area.
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## Property Requirements, Continued

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### **Appraisals on New Homes**

Appraisals on new homes (under 12 months old and not previously occupied) must include a detailed “cost approach” appraisal based on a nationally recognized cost handbook. Two common handbooks are the Marshall & Swift Residential Cost Handbook and the Boech Residential Cost Handbook.

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## Property Requirements, Continued

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### **New Construction**

New Construction is defined as any homes less than 12 months old, which have not been occupied, even though those homes may be 100% complete.

End loans are permitted on new construction ONLY. Evidence that the new construction home was built in accordance with certified plans and specifications (e.g., International Residential Code, CABO, BOCA, etc.). One of the following combinations must be retained as evidence:

- ✓ Must be treated as a purchase transaction.
- ✓ See calculations on the following page.
- ✓ Copy of an eligible building permit that has been issued by an approved local jurisdiction. The State Director is responsible for making the determination of an "eligible jurisdiction" per RD Instruction 1924-A, section 1924.5(f)(1)(iii)(c)(2). This determination must be published by the state as a supplement; **or**
- ✓ Certificate of Occupancy or completion certificate issued by an approved local jurisdiction as determined by the State Director and published; **or**
- ✓ Certification from a qualified individual or organization (e.g., licensed architect, engineer, national code certified plan reviewer, local building official, etc.) that has reviewed the plans and specifications, and determined they meet all applicable building codes and development standards. If the reviewer does not have their own certification form, Form RD 1924-25 "Plan Certification," may be used.

The lender must retain evidence that construction inspections were performed throughout the project in accordance with section 1980.341(b)(2).

Acceptable evidence may include one of the following:

- Certificate of Occupancy issued by an eligible local jurisdiction as determined by the State Director and published, after a minimum of 3 construction inspections were performed and a 1-year builder warranty plan issued acceptable to RD; **or**
- Copies of 3 construction inspections performed when: (1) footings and foundation are ready to be poured (2) shell is complete, but plumbing, electrical and mechanical work is still exposed and (3) final inspection of completed work prior to occupancy and a 1-year builder warranty plan issued acceptable to RD; **or**
- Final inspection and a 10-year insured builder warranty plan acceptable to Rural Development per RD Instruction 1924-A Exhibit L.

New construction homes that do not have acceptable evidence of plans and specs, construction inspections and warranty are limited to a 90% loan to value (LTV) plus the guarantee fee per section 1980.311(b)(3). The guarantee fee may be included above the 90% LTV in the loan amount.

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## Property Requirements, Continued

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**New  
Construction  
Restrictions**

New construction may no longer: (1) have the borrower in title or in ownership of the lot (2) borrower may not have the construction loan in their name or (3) borrower may not be their own contractor.

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**New  
Construction  
Calculations**

- ✓ All improvements must be completed prior to purchase.
  - ✓ A final completion report or current appraisal indicating the property is 100% complete is required.
  - ✓ Photographs of the completed property must be provided.
  - ✓ Seasoning requirements for purchase transactions when the borrower acquires the lot at the same time of construction of the home is a regular purchase transaction.
  - ✓ The purchase price must be clearly supported with a purchase contract between the borrower and the builder or the acquisition cost to construct the property must be fully documented, including the cost of the lot.
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**Termite  
Inspections**

Termite Inspection: Per RD AN 4415, in areas subject to termite damage, RD will accept the NPMA forms to show a certified inspection and any needed remediation has been performed for existing construction.

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## Property Requirements, Continued

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### Well Inspections

#### **Community Water Systems**

A community water system is a central system, owned, operated and maintained by a private corporation or a non-profit property owners association. HUD no longer maintains a list of approved systems. The appraiser must note in the appraisal report if public water is available to the subject site. If a property is on community water, the appraiser should note the name of the water company on the appraisal report. CPF will require documentation that the community system(s) is/are licensed and adequate to service the property.

#### **Well (individual water system)**

Private water systems are required to be tested by the Department of Health or other regulatory agency and must specifically address nitrates, bacteria, nitrites and coliform.

#### **Shared Wells**

Shared wells may serve existing properties that cannot feasibly be connected to an acceptable public or community water supply system. A shared well shall have a valve on each dwelling service line as it leaves the well. A shared well shall service no more than four living units or properties. A shared well must have a shared well agreement and shall be binding upon signatory parties and their successors in title.

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## Property Requirements, Continued

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### **Private Road Maintenance**

If the property is on a community-owned or privately owned and maintained street, there must be an adequate, legally enforceable agreement for maintenance of the street. The agreement or covenant must include the following details and be properly recorded:

- ✓ Responsibility for payment of repairs, including each party's representative share.
- ✓ Default remedies in the event a party to the agreement fails to comply with their obligations.
- ✓ The effective term of the agreement, which in more cases should be perpetual and binding on future owners.
- ✓ The privately owned and maintained street should be common and customary to the area. The appraiser must comment on the effect of that location on the marketability of the subject property.

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## Property Requirements, Continued

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### Septic / Sewage Inspections

#### Community Sewer Systems

- ✓ HUD no longer maintains list of approved systems. The appraiser should note the name of the community system(s) on the appraisal report. CPF will require documentation that the community system(s) is/are licensed and capacity is adequate to service the property. The appraiser must note if public sewer is available to the subject site.

#### Individual Sewage Systems

- ✓ Individual sewage systems may be acceptable when the cost to connect to a public or community sewage system is not reasonable.
- ✓ 3% or less of the estimated value of the property is the suggested benchmark.
- ✓ If the property cannot be connected to a public system, FHA will accept individual sewage systems that are acceptable to the local health authorities. This includes numerous types of sewage systems including cesspools, individual pit privies, and mound systems.
- ✓ Inspection and/or testing are not automatically required, but are required when the appraiser suspects a problem with the system or problems common in the area. In these instances, the appraiser is to condition for a certification by a professional such as the local health authority, a licensed sanitarian or an individual determined to be qualified by the Underwriter.
- ✓ For existing properties, the appraiser is required to confirm that the distances meet HUD requirements; sketch drawings are not required for existing properties. If the appraiser is unable to provide, then measurements and drawings will be required from a licensed professional.

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## Property Requirements, Continued

### Roof Inspection

The covering must prevent moisture from entering and provide reasonable future utility, durability and economy of maintenance. The appraiser must visually examine the roof to determine whether deficiencies present a health and safety hazard or do not allow for reasonable future utility.

NOTE: The appraiser must exercise sound judgment when evaluating roof conditions. The roof should have a remaining physical life of at least two (2) years. If the roof has less than two (2) years remaining life, then the appraiser must report this condition in the appraisal report.

#### **Snow Covered Roofs**

- ✓ In areas where the snow is likely to lay for more than a few days:
  - The appraiser is required to make an extra thorough inspection of the attic and all visible roofing areas for signs of failing roofing materials.
  - If there is evidence of damage and/or leaks the appraiser is to condition for further inspection.
  - If there is no evidence of damage and/or water leaks, the borrower must be informed that the roof was snow covered at the time of the appraisal and that it is acceptable to the purchaser without any warranty or guarantees from GRH/RD.
- ✓ In areas where the snow is not likely to lay for more than a few days, a clear roof inspection is to be obtained prior to closing.
  - The appraiser is required to make a thorough inspection of the attic and all visible roofing areas for signs of failing roofing materials and report all roofing deficiencies in the appraisal report.
  - If the Underwriter determines, due to unusual weather conditions, it is not possible to obtain the clear inspection prior to closing, then the purchaser and seller are to sign an acknowledgment that indicates:
    - The roof was covered with snow at the time of the appraisal inspection,
    - The snow is likely to continue to cover the roof for several more days and that the roof cannot be inspected prior to loan closing,
    - GRH/RD makes no guarantees or warranties as to the roof's condition.

A clear roof inspection must then be obtained prior to closing. Certification is to be in the guarantying package.

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## Property Requirements, Continued

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### Roof Inspections, continued

**Re-Roofing:** GRH/RD will accept a maximum of 3 layers of existing roofing. If more than two (2) layers exist and repair is necessary, then all old roofing must be removed as part of the re-roofing.

**Flat Roof:** GRH/RD no longer mandates automatic inspection of flat and/or unobservable roofs. The appraiser must note in the appraisal that he/she could not adequately observe the entire roof area and state which area(s) were unobservable. As with any other type of roof the appraiser is to look for signs that would indicate a possible roof problem. Based on the information reported, either the appraiser or underwriter may condition for a roofing inspection.

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### Heating Source

- ✓ **General:** ALL habitable rooms must have a permanent heating source. This does not mean that each room must contain a heating device but that each room must receive sufficient heat. (Exception: Homes located in the Florida counties of Lee, Charlotte, Glades, Hendry, Palm Beach, Collier, Broward, Monroe and Miami-Dade do not require heat if, the lack of, is "typical" for the market area and does not adversely affect the marketability of the property.
  - ✓ **Wood Stoves and Solar Systems:** Dwellings with wood burning stoves or solar systems as a primary heat source must have permanently installed conventional heating systems that can maintain at least 50 degrees Fahrenheit in all living areas and those containing plumbing systems. These systems must be installed in accordance with the manufacturer's recommendations.
  - ✓ **Floor Heaters:** Due to the inherent dangers of a floor heater it is highly recommended that floor heaters in need of repair be replaced with another permanent heat source.
  - ✓ **Non-Conventional Heating Systems:** All non-conventional heating systems, such as space heaters and others, must comply with local jurisdictional guidelines. Often these are not acceptable as the primary source of heat.
  - ✓ Propane tanks must be a safe distance from the dwelling. Leased tanks are acceptable when not offered for sale. Propane fired furnaces located in a crawl space area is not acceptable.
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## Property Requirements, Continued

**Air Conditioner**

Properly operating window units may be permitted.

**Thermal Inspections**

Additional inspections not required with the HUD roster appraiser performing the appraisal review.

**Property Hazards**

- ✓ Properties with underground storage tanks (residential use) must be registered with the state’s safety and building division. Abandoned or unregistered storage tanks must be removed from the site.
- ✓ Properties with asbestos on the interior of the dwelling (typically found on the heating ducts in older homes) must have the asbestos material encapsulated or removed by a qualified individual.
- ✓ Homes built prior to 1978 must document applicants’ receipt of “Addendum S – Lead Based Paint Disclosures and Acknowledgments” as part of their Offer to Purchase.
- ✓ Any peeling, flaking or chipped paint noted in the appraisal or inspection reports must be abated in accordance with HUD guidelines.

**Required Repairs**

All Home Inspections must be reviewed and any issues addressed. All repairs to the subject property must be completed prior to the issuance of the Loan Note Guarantee. Escrows for incomplete work are not permitted.

**Listed for Sale**

Properties that have been listed for sale within the most recent six months are eligible with the following restrictions:

- Property has been taken off the market on or before the application date; Borrower must provide documentation of the cancelled MLS listing.
- Borrower must provide written confirmation of the intent to occupy the property as their primary residence.

**NOTE:**

Properties currently listed are not eligible for any refinance transactions.

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## Property Requirements, Continued

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**PUDs**

PUD approval not required.

**NOTE:** Refer to Mortgagee Letter 2003-02.

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**Carbon  
Monoxide  
Detectors**

For California properties, evidence that a carbon monoxide detector has been installed is required:

- On purchase transactions when installation is required per sales contract or appraisal report or when the appraisal indicates detectors have not been installed.
  - On refinance transactions when installation is required per the appraisal or when the appraisal indicates detectors have not been installed.
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## Secondary Financing

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**Down  
Payment  
Assistance  
Programs**

Not permitted.

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**Refinances**

- ✓ 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.
  - ✓ New subordinate financing is not permitted.
  - ✓ A copy of the subordination agreement, subordinate lien mortgage/deed of trust and note is required. A renewal and extension exhibit/rider is acceptable in lieu of a subordination agreement on a one (1) unit primary residence in the state of Texas that does not involve a HELOC or Section 50a6 loan.
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### Guarantee Fee

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**Guarantee Fee**    **Purchase:**

- Conditional Commitments prior to October 1, 2011: 3.50%
- Conditional Commitments on or after October 1, 2011: 2.00%

**Refinance:**

- Conditional Commitments prior to December 7, 2011: 1.00%
  - Conditional Commitments on or after December 7, 2011: 1.50%
- 

**Annual Fee**

Effective with Conditional Commitments issued on or after October 1, 2011:

- ✓ USDA will implement a new Annual (monthly) Fee of 0.30%. This fee will be added to the borrower's monthly payment and will remain for the life of the loan.
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## Closing Policies & Procedures

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### **Scheduling a Loan**

- ✓ Loan must be Cleared to Close in order to schedule for Closing.
  - ✓ Request to Close (Broker Fee Sheet) and Preliminary HUD must be uploaded into Image Flow.
  - ✓ To schedule the loan, the Broker will email [closer@clearpointfunding.com](mailto:closer@clearpointfunding.com) with the date and time of the closing:
    - Allow a minimum of 48 hours from when loan is being scheduled to closing/signing date.
    - A confirmation email will be sent to the Broker.
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### **Closing Practices**

The next sections reiterate and highlight best practices for ClearPoint Funding's closing and funding process.

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### **Verification of Employment**

- ✓ A verbal verification of employment must be completed within 5 days of closing and must be completed prior to the Note Date and must include:
    - Independent Verification of Employer's phone number.
    - Borrower's start date.
    - Verification borrower is still employed.
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### **Closing Protection Letter**

Clear Point Funding will validate all Closing Protection Letters as well as Closing Agents wiring information prior to the loan funding.

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### **Taxes**

Any taxes that are due within 60 days of closing must be collected at closing and be reflected on the HUD-1 settlement statement regardless if loan is escrowing or not.

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### **Insurance**

Insurance must be paid through the first mortgage payment.

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## Closing Policies & Procedures, Continued

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### Escrow Accounts

- ✓ Insurance escrows can be waived if loan is eligible for escrow waivers.
- ✓ Flood insurance may only be waived if escrows are waived on both taxes and insurance. If taxes are escrowed, then flood insurance will be escrowed as well.

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### Seller Contributions

- ✓ Seller Contributions are limited to the lesser of 6% or the maximums as identified on the Loan Approval.
- ✓ Allowable Seller Paid Fees on Lender Paid Transaction:
  - Any or all 3<sup>rd</sup> Party Fees (Title, Appraisal, Credit, etc.)
- ✓ Allowable Seller Paid Fees on a Borrower Paid Transaction:
  - Any or all 3<sup>rd</sup> Party Fees (Title, Appraisal, Credit, etc.)
  - **Broker Compensation MUST be paid in its entirety<sup>1,2</sup>**

**IMPORTANT:**

- <sup>1</sup> If the Borrower is paying the Broker Compensation, the funds can be paid by the Borrower OR funds from a seller concession; however, the Borrower must pay 100% of the Broker Compensation or the Seller Concession must pay 100% of the Broker Compensation.
- <sup>2</sup> The Broker can only receive compensation from ONE source, and the fee cannot be "split".

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### Premium Pricing Credits

Allowable Fees Paid By Premium Credit:

- Any and all Third Party Fees (Title, Appraisal, Credit, etc.)
- Interest, Escrow Accounts, Taxes Due, HOA Dues, Oil Adjustments, etc.
- POC Items, such as appraisal and insurance on Purchase Transactions.
- Interest on loan being paid off as well as any fees associated with payoff.

**NOTE:** Broker compensation of any kind may not be paid by the Premium Credit.

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## Closing Policies & Procedures, Continued

### Principal Reductions – Lender Paid Transactions

- ✓ If there is excess Premium Credit after all allowable fees have been paid, a Principal Reduction may be applied as follows:
  - USDA Loans:
    - For loans amounts less than \$350,000, the maximum principal reduction is \$2000.
    - For loan amounts greater than \$350,000, the maximum principal reduction is \$4000.

**NOTE:** If the excess credit or contribution exceeds the above Principal Reduction, the interest rate will need to be lowered and the GFE will need to be re-disclosed. The broker will need to contact Rate Lock to lower the interest rate and complete a Change Request so the loan may be re-disclosed.

- ✓ The Principal Reduction will be listed on page 2 of the HUD-1 Settlement Statement as a charge, which will be covered by the excess premium or contribution.

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### HUD Approval Process

ClearPoint Funding will approve all HUD-1 statements prior to the loan funding and wire being released.

- ✓ The HUD Approval Process ensures:
  - Borrower has brought the minimum funds to closing as required per program.
  - Borrower's funds to close do not exceed assets verified per the loan approval.
  - Borrower is not receiving more than the allowable cash at closing per program maximum.
  - Premium Pricing Credit does not exceed allowable costs.
  - Principal Reduction is within guideline.

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### **Closing Policies & Procedures,** Continued

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**Funding**

- ✓ Wire cutoff time is 3:30pm EST.
- Prior to ordering the wire, ClearPoint Funding will verify the following:
- VOE has been completed within 5 days of the closing
  - HUD has been approved
  - All Prior To Fund (PTF) conditions have been satisfied
- ✓ Fed Reference numbers are available upon request. Note, there may be a delay in retrieving once the wire has been ordered.

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**Interest Credit** Permitted up to the 5<sup>th</sup> day of the month.

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