

RD AN No. 4330 (1980-D)
January 30, 2008

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors,
Guaranteed Rural Housing Specialists,
Rural Development Managers, and
Area Directors

FROM: Russell T. Davis (*Signed by Russell T. Davis*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Guaranteed Underwriting System (GUS)

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to elaborate and clarify guidance on the availability and use of the Single Family Housing Guaranteed Loan Program's (SFHGLP) automated underwriting system, known as the Guaranteed Underwriting System (GUS). GUS is available, at no cost, to all approved lenders. Although use is not required at this time, lenders are encouraged to fully utilize GUS in their SFHGLP activity.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN 4273 (1980) dated April 24, 2007, on this subject.

EXPIRATION DATE:
February 28, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

Automated underwriting systems became prevalent in the mortgage industry during the 1990's. In response to frequent requests from SFHGLP partners and approved lenders, Rural Development developed an automated underwriting system, known as GUS. The automated process of GUS benefits approved lenders and the Agency by offering faster loan processing, with superior accuracy, and improved consistency compared with manual underwriting.

GUS incorporates applicant eligibility and underwriting requirements of RD Instruction 1980-D and associated Administrative Notices (AN's) by utilizing a modified version of the Federal Housing Administration (FHA) mortgage scorecard known as Technology Open To Approved Lenders (TOTAL) concurrently with a rules based engine. GUS is accessed through a secure web-based automated underwriting environment at:

https://usdalinc.sc.egov.usda.gov/EDIRHS_home.asp.

GUS considers mortgage loan application data entered by the originator, credit repository data, and property information to evaluate a potential borrower's ability to meet a proposed mortgage obligation. GUS evaluates select components in a mortgage loan application and provides a credit evaluation and underwriting recommendation within seconds.

Incorporated within the functionality of GUS are the following components:

Property and Income Eligibility

- The dwelling offered as collateral for the proposed mortgage loan is located in an eligible rural area; and
- The applicant's annual household income meets the adjusted income limits in accordance with size of household, county and State in which the applicant(s) will reside.

GUS Rules Based Engine

- The Engine incorporates the guidelines found in RD Instruction 1980-D, supplemented by Administrative Notices (AN) regarding originating SFHGLP loans, that are published to clarify RD Instruction 1980-D.

TOTAL Scorecard

- GUS uses a modified version of the FHA mortgage scorecard known as TOTAL.
- The scorecard has been validated and adjusted for SFHGLP use.
- The TOTAL scorecard, including the modified version validated for SFHGLP use, is intellectual property that is proprietary to The Department of Housing and Urban Development (HUD).
- Factors considered under the scorecard include credit history, payment-to-income ratios, and loan-to-value ratios.

- The scorecard also gives favorable consideration to applicants that exhibit positive compensating factors such as available reserves for housing payments after loan closing, which expands upon guidance provided in RD Instruction 1980-D and associated ANs.

Credit Bureau Interface

- GUS links with hundreds of credit providers nationwide. Users may link to a full list of credit providers at:
<https://www.efanniemae.com/sf/refmaterials/creditproviders/index.jsp>
- An interface occurs between GUS and the credit bureaus through a platform known as the Fannie Mae Credit Interface Service (CIS).
- The interface is seamless to lenders and only acts as a conduit.
- New or re-issued credit can be pulled through GUS.
- Reports are valid for 180-days.
- Lenders are not required to be a Fannie Mae subscriber or partner to utilize the credit report interface in GUS.

IMPLEMENTATION RESPONSIBILITIES:

Entering and Submitting Data

Data Integrity with GUS

The responsibility of loan data integrity remains with the lender. The data provided for a loan guarantee request must correspond to the loan application and underwriting documentation. Upon submission to the Agency, the lender represents that all information submitted is true, complete and accurate.

- GUS evaluates the credit risk of mortgage loan requests based upon information provided by the credit repositories and the data input by the lender.
- The responsibilities associated with producing loans of acceptable quality for loan guarantees by Rural Development remains the same for GUS evaluated mortgages or manually underwritten mortgages.
- GUS is intended to compliment and not replace the judgment of experienced underwriters. A GUS decision is NOT the basis for granting or denying credit and is not a replacement for a lending decision by the lender. The decision to grant or deny credit to a potential borrower remains with the lender.

The GUS Process

The following table provides a high-level overview of the GUS process:

Step	Action
1.	Obtain borrower information by completing a mortgage loan application.
2.	Enter the borrower, property and mortgage loan information directly into GUS. Importing loan applications from the lender’s loan origination system will become functional in the future.

3.	<p>Submit the mortgage loan request to GUS for a loan underwriting recommendation. The evaluation is based upon:</p> <ul style="list-style-type: none"> ▪ Data entered directly by the lender. ▪ Credit information obtained from national credit repositories. ▪ Risk evaluation through use of the modified TOTAL scorecard, adjusted for SFHGLP use. ▪ Application of rules under RD Instruction 1980-D and related Administrative Notice (AN) releases.
4.	<p>The lender will review the GUS Findings and Underwriting Analysis for feedback messages regarding the results of the GUS underwriting recommendation and the credit reports.</p>
5.	<p>The lender will document the mortgage loan request according to Rural Development guidelines.</p>
6.	<p>The lender will make a lending decision using the GUS Underwriting Findings Report, credit report (s), income, employment, asset, collateral and other file documentation. The lender will submit, through a final submission, the GUS file to the Agency for Conditional Commitment. Documentation for Conditional Commitment will be based upon the rendered underwriting recommendation by GUS.</p>

Documenting and Underwriting a Mortgage Loan Request through GUS

When a lender enters mortgage loan data into GUS and requests a loan underwriting evaluation, a two part underwriting summary is delivered to the lender through a GUS Underwriting Findings Report. The first portion of the underwriting summary will render an underwriting recommendation of ACCEPT, REFER or REFER WITH CAUTION. An INELIGIBLE or UNABLE TO DETERMINE may also be delivered. The underwriting recommendation is followed by a risk evaluation of ELIGIBLE, INELIGIBLE, or UNABLE TO DETERMINE. The second portion represents a combined analysis of property, income, and loan and borrower eligibility. An example of the display on the Underwriting Findings Report is as follows:

Underwriting Recommendation: **ACCEPT/ELIGIBLE**

ACCEPT/ELIGIBLE Underwriting Recommendation

If GUS renders an underwriting recommendation of ACCEPT or ELIGIBLE, based on the analysis of the credit, capacity and other loan characteristics, the loan is eligible for Rural Development's loan guarantee. This is provided the data entered in GUS by the lender is true, complete and accurate.

Minimal documentation provisions apply to GUS underwriting recommendations that receive an ACCEPT. The lender may submit the following three completed documents to obtain a Conditional Commitment when the GUS underwriting recommendation is ACCEPT:

1. “Uniform Residential Appraisal Report” (URAR) for single family dwelling units or its equivalent, or condominiums or manufactured homes [Federal National Mortgage Association (FNMA) Form 1004 or Freddie Mac Form 70].
2. “Standard Flood Hazard Determination Form” [FEMA Form 81-93].
3. “Request for Single Family Housing Loan Guarantee” [Form RD 1980-21].

Accurate data is the responsibility of the approved lender. By submitting the mortgage loan application request through GUS, the lender is representing that the data input is true, complete and accurate. Underwriting is the responsibility of the approved lender. Only a nominal amount of time by Agency personnel should be spent on GUS mortgage loan applications receiving an ACCEPT.

Mortgage loan documents may be photocopied, scanned, emailed, faxed or delivered by regular or express mail. All documents must be clear and legible. The necessity to collect an original Form RD 1980-21 is no longer required. A photocopy, scanned, emailed or faxed Form RD 1980-21 is acceptable.

ACCEPT/INELGIBILE Underwriting Recommendation

Loans receiving this recommendation have been determined as meeting Rural Development’s risk standards for loan guarantee; however do not meet certain eligibility guidelines. Typical reasons for an ACCEPT/INELIGIBLE recommendation may include:

- Property not located in a rural area.
- The applicant’s annual income exceeds Rural Development guidelines.
- Non-owner occupied transaction.
- Not a qualified alien.

Loans that receive a recommendation of ACCEPT/INELIGIBLE may still be eligible for a Rural Development loan guarantee. To achieve eligibility, the lender’s underwriter should analyze the findings report and determine the basis for the ineligibility and determine if the reason for ineligibility can be resolved in order to comply with Rural Development guidelines. Issues that caused the loan to be ineligible may be resubmitted to obtain a correct underwriting recommendation.

REFER or REFER WITH CAUTION Underwriting Recommendation

GUS loans receiving an underwriting recommendation of REFER or REFER WITH CAUTION will require further review by the lender. Risk factors have been identified based upon the data entered in to GUS. The credit risk evaluation represented by a REFER WITH CAUTION is greater than the credit risk of loans that receive a REFER. The lender’s underwriter must perform a manual underwriting evaluation of the mortgage loan application to determine if the borrower is creditworthy in accordance with Rural Development standard credit policies and guidelines found at RD Instruction 1980-D and associated ANs. Full documentation provisions, as required for present manually underwritten mortgage loan applications apply to GUS underwriting recommendations receiving a REFER or REFER WITH CAUTION. Credit documentation, mitigating

circumstances, and compensating factors considered in the manual underwriting analysis should be recorded in the lender's permanent case file. Compensating factors considered in the evaluation of the mortgage loan application should be documented on the underwriting analysis and summary [typically the Uniform Underwriting Transmittal Summary – FNMA Form 1008/Freddie Mac Form 1077 or equivalent].

Loans should not be denied solely on the basis of a risk evaluation generated by GUS. Mitigating circumstances according to Rural Development standard guidelines may be considered.

Documentation Requirements

As stated in RD Instruction 1980-D, and keeping with the standards of the loan mortgage industry, lenders permanent case files will include documents verifying:

- Credit history
- Income
- Assets
- Collateral requirements
- Any other documentation supporting the mortgage loan request

Liquid assets are not required for the SFHGLP. However, the presence of assets and cash reserves after closing, if disclosed on the GUS mortgage loan application, can influence the outcome of the GUS underwriting recommendation. If assets are considered in a GUS transaction, the lender's permanent case file must document the borrower's assets.

Assets may also influence program eligible income. Assets meeting the requirements of Section 1980.347(d)(3) of RD Instruction 1980-D also require verification documentation for the lender's permanent case file.

Retirement accounts may be utilized as an asset at 70-percent of the value in the account. The discounted amount represents potential taxes or penalties for early withdrawal.

Data Modification/Loan Resubmission Requirements

The lender is responsible for the integrity of the data used to obtain an underwriting evaluation in GUS. Data entered in GUS must correspond to documentation retained in the lender's case file. If data changes during the loan application stage, after Conditional Commitment or prior to loan closing, the GUS underwriting recommendation could be compromised. Lenders are responsible for resubmitting the loan to GUS when material changes are discovered. Under the following conditions, lenders must resubmit the loan through GUS for an updated evaluation:

- Borrowers were either added or deleted from the loan application.
- A decrease in the borrower's income and/or cash assets/reserves.

- An increase in 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 appraised value.

In such cases, the lender must request the loan to be released from Rural Development to the lender. The lender should modify the data and resubmit the loan through GUS for an updated final evaluation underwriting recommendation.

Some data changes do not affect the outcome of an underwriting recommendation. Once a mortgage loan has been sent to the Agency as a “Final Submit,” the following data changes do not require that the GUS loan application be updated:

- Loan interest rate decreases.
- Loan amount decreases.
- Decrease of mortgage or personal liabilities.
- Increase of assets.

Documentation of Underwriting Recommendation

Lenders who receive an ACCEPT from GUS do not need to prepare a Uniform Underwriting Transmittal Summary (FNMA Form 1004/Freddie Mac Form 1077), or equivalent, to document the underwriting analysis and decision. The final Underwriting Findings and Analysis report produced by GUS will be maintained in the lender's permanent loan file, in accordance with standard mortgage industry guidelines.

Sign Up for GUS

- SFHGLP approved lenders will contact their State Rural Development coordinator to request a sign up package, referred to as a “GUS Starter Pack. ” A “GUS Starter Pack” outlines the steps necessary to register and gain access to GUS. A list of SFHGLP coordinators may be found at: <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=GetRHContact&NavKey=contact@12>.
- Access to GUS by mortgage brokers is not available with present functionality and will be a feature released with a future enhancement.
- Nationally approved lenders interested in a “GUS Starter Pack” may contact any of the National Office personnel noted on this AN.
- The lender will designate a primary contact for the sign-up process.
- User IDs for each individual in the lender's organization who will utilize GUS will be obtained from the USDA eAuthentication website at: <http://www.eauth.egov.usda.gov/eauthCreateAccount.html>. Access to GUS requires a Level 1 account. A Level 1 account allows customers limited access to a USDA website portal. GUS is a web-based underwriting environment on a USDA website.

- The Rural Development office will collect information and email addresses regarding users from the lender to confirm the point of contact.
- Once collected, the local Rural Development office will request a “GUS Starter Pack” be mailed to the lender from National Office.
- A “GUS Starter Pack” is forwarded to the lender by National Office.
- The lender assigns Security Administrator(s) to their organization.
- Security Administrator(s) create a Level 1 account at the following website, also noted above: <http://www.eauth.egov.usda.gov/eauthCreateAccount.html>.
- A computer generated message will be received by the Security Administrator prompting them to respond and activate the ID they have created. Security Administrators must respond within 7 days of the email received.
- The Security Administrator(s) eAuthentication ID is recorded on the User Agreement.
- The documentation identified in the “GUS Starter Pack” is forwarded by the lender to the St. Louis Deputy Chief Finance Officer (DCFO) for activation and access to GUS.
- DCFO will activate the lender’s access to GUS and notify the Security Administrator(s) of activation.
- Users within the lender’s organization will obtain a Level 1 eAuthentication ID and provide their activated ID to the Security Administrator(s).
- Security Administrator(s) will assign roles and responsibilities to users of their organizations through special access as Security Administrator they have to the Application Authorization Security Management website.
- Users will access GUS at the following website: https://usdalinc.sc.egov.usda.gov/EDIRHS_home.asp. Select “Guaranteed Underwriting System (GUS)”.

We anticipate an online sign-up process in the near future. Additional information regarding the online process will be communicated when developed.

Education and Training

Online training is available at: https://usdalinc.sc.egov.usda.gov/EDIRHS_home.asp. Select the “Training and Resource Library” link for valuable courses regarding eAuthentication and utilizing GUS. Lenders and Agency staff are encouraged to complete the training

Help Center

Assistance regarding GUS related eAuthentication and functionality issues can be referred to the Help Desk (HD) at the following contacts:

- Call 1-800-457-3642 utilizing Option 2 on the first and second menu items. Callers must utilize these options to reach the Rural Development help desk.
- Email questions to servicedesk-stl@stl.usda.gov.

Lenders and employees may obtain assistance from HD. Program related questions will continue to be referred to Rural Development SFHGLP State Coordinators or National Office.

Additional Resources

The GUS Lender Guide is available online on the navigation toolbar while online with GUS or at the Training and Resource Library link at:

https://usdalinc.sc.egov.usda.gov/EDIRHS_home.asp.

RD Instruction 1980-D and related Administrative Notices (AN) that supplement standard guidelines are available online at: <http://www.rurdev.usda.gov/regs/>. To navigate the regulation website easily, it is suggested that users utilize the *search* capability of the website and request documents related to *1980-D*.

Any questions concerning this AN should be addressed to National Office personnel Dean Daetwyler, Debbie Terrell, or Kris Zehr, at (202) 720-1452. Their respective email addresses are dean.daetwyler@wdc.usda.gov, debra.terrell@wdc.usda.gov, and kristina.zehr@wdc.usda.gov.