RD AN No. 4413 (1980-D)
December 3, 2008

TO: All State Directors
Rural Development

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

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

SUBJECT: Single Family Housing Guaranteed Loan Program
Use of Retirement Assets in the Risk Analysis

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to clarify guidance regarding the use of retirement assets in the risk evaluation of loan applications for the Single Family Housing Guaranteed Loan Program (SFHGLP).

COMPARISON WITH PREVIOUS AN:

There is no previous AN issued on this subject.

EXPIRATION DATE:
December 31, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

Liquid assets are not required to qualify the applicant for the SFHGLP. As part of the loan underwriting process, the value of liquid assets may be considered as a compensating factor. Assets consisting of cash, or cash equivalents, reduce risk and provide additional strength to loan files. Underwriters may choose to utilize borrower assets when assessing applicant risk. Liquid assets may be used for both manual and automated underwriting. If an underwriter considers liquid assets in assessing risk, they should be sure to verify and document the asset.

Many types of liquid assets may be considered in the loan application analysis. They include demand deposit accounts, saving accounts, certificates of deposit, money market accounts, mutual funds, marketable securities traded on public exchanges, or any asset that can be liquidated rapidly with a minimum or no loss of value. Liquid assets may be contrasted with assets that typically cannot be liquidated rapidly with a minimum or no loss of value.

Illiquid assets include real estate, antiques, automobiles, boats, and other assets which cannot be sold quickly without significant discounts.

Retirement accounts can be liquid, illiquid, or both. Verification documentation and special calculation instructions are necessary to correctly consider a retirement account asset. If an underwriter uses any assets, including retirement assets, when considering a loan application, they should verify and document that the asset exists as represented. Retirement accounts include Individual Retirement Accounts (IRAs), Roth IRAs, 401(k) accounts, Thrift Saving Plans, and other accounts whose purpose is to be accessed at or after retirement.

IMPLEMENTATION RESPONSIBILITIES:

- State Directors should ensure that lenders using a borrower's retirement account as a compensating factor in assessing credit risk do so as described below. This treatment is very similar to that applicable under Federal Housing Administration (FHA) guidelines (see Mortgagee Letter 2004-44) and to mortgage industry standards.

- To account for withdrawal penalties and taxes, utilize 60% of the vested amount of the account as the value of the retirement asset.

- Utilize retirement accounts as compensating factors and as cash reserves <u>only</u> 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 should <u>not</u> be considered.

- Documentation of retirement assets utilized to support the loan application should be retained and may include a recent depository or brokerage account statement.

State Offices having questions regarding this AN should contact Debbie Terrell at 918.534.3254 or debra.terrell@wdc.usda.gov or Joaquín Tremols at (202) 720-1452 or joaquin.tremols@wdc.usda.gov.