

RD AN No. 4336 (1980-D)
February 28, 2008

TO: State Directors
Rural Development

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

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

SUBJECT: Single Family Housing Guaranteed Loan Program
Refinancing of Single Family Housing Guaranteed Loans

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to renew instruction to field staff involved in the Single Family Housing Guaranteed Loan Program (SFHGLP) of the process used to refinance existing SFHGLP loans. A separate AN is being issued to address the renewal requirements for refinancing an existing 502 Direct loan with a new SFHGLP loan.

COMPARISON WITH PREVIOUS AN:

This AN replaces AN No. 4239 (1980-D) dated February 2, 2007. The requirement to submit Form AD-1048 "Certification Regarding Debarment, Suspension, Ineligibility, and Voluntary Exclusion – Lower Tier Covered Transactions" has been removed because the form contents have been combined in the revised Form RD 1980-21 "Request for Single Family Housing Loan Guarantee." Additionally, the provision that only refinancing transactions are eligible to exceed 100 percent Loan-To-Value (LTV) by the amount of the guaranteed fee has been removed because the same provision now applies for purchase transactions. The amount of the fee differs between refinance and purchase transactions.

EXPIRATION DATE:
March 31, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

IMPLEMENTATION RESPONSIBILITIES:

In accordance with RD Instruction 1980-D and section 502(h) of the Housing Act of 1949, the following summarizes the requirements for the SFHGLP loan being refinanced:

Term

Term of the new loan will be 30 years.

Interest Rate

- Interest rate of the new loan must be a fixed rate and cannot exceed the interest rate of the loan being refinanced. The interest rate of the new loan does not have to meet requirements established in RD Instruction 1980-D, section 1980.320.
- Funded buydown accounts are not permitted.

Security

Loan security must include the same property as the original loan. The security property must be owned and occupied by the applicants as their principal residence.

Household Income

Total adjusted income for the household cannot exceed the moderate level for the area as established in RD Instruction 1980-D, Exhibit C.

Approved SFHGLP Lender

An approved SFHGLP lender must make the loan.

Loan Amount Limitations

- Maximum loan amount cannot exceed the balance of the loan being refinanced, plus the guarantee fee, and reasonable and customary closing costs, including funds necessary to establish a new tax and insurance escrow accounts.
- 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.
- Applicants are not eligible to receive "cash out" from the refinancing transaction. However, applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinance transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of "cash out" to the applicants may occasionally result due to final escrow and interest calculations. This amount, if any, must be applied to a principal reduction of the new loan.
- Unpaid fees, such as late fees due the servicer, are not eligible to be included in the new loan amount.

Rural and Non-Rural Areas

SFHGLP refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made.

Applicant Eligibility

As part of the refinancing transaction, additional borrowers may be added to the new SFHGLP loan. Existing borrowers may be deleted from the current loan. All applicants that will be a party to the promissory note for the new loan must meet all eligibility requirements.

Processing Requirements

The lender will process the refinancing loan package in accordance with RD Instruction 1980-D, except when provided otherwise in this AN.

Reservation of Funds

After the lender has determined that an applicant will likely qualify for a guaranteed refinance loan, the lender or originator should request a reservation of funds to ensure that funds will be available at the time the loan is ready for final loan approval. Field staff will reserve funds upon receipt of Form RD 1980-86, "Request for Reservation of Funds" from the lender, and funds will remain reserved for 60 days.

Loan Application Documentation

Application and verification requirements of RD Instruction 1980-D, section 1980.353(c) and (e) apply, except for that portion of paragraph (c)(4) that deals with maximum interest rate and paragraph (c)(16) (purchase agreement). The following items must be addressed or documented in the lender's loan file in order for the application to be considered complete:

- Signed copy of the final loan application.
- Current credit report.
- Any late mortgage payments within the past 36 months on the existing SFHGLP loan must be addressed by the lender and taken into consideration in the underwriting decision.
- Lender verification of applicant's current employment and income.
- Lender verification that the total adjusted income for the household does not exceed the current moderate income level established for the area.
- Lender's underwriting analysis, including applicant's qualifying ratios for the loan being refinanced. Ratios must meet requirements as stated in RD Instruction 1980-D, section 1980.345(c)(3). The monthly housing expense to income ratio may not exceed 29 percent and the total debt to income ratio may not exceed 41 percent. However, lenders may request a waiver of these ratio requirements with documentation of acceptable compensating factors. A satisfactory payment history for the existing mortgage is considered a strong compensating factor.

- Applicants will sign all applicable RD forms including Form RD 1980-21, “Request for Single Family Housing Loan Guarantee”.
- Notwithstanding RD Instruction 1980-D, section 1980.334 requirements, a complete appraisal report will be required only in cases when any accrued interest, closing costs and/or lender fees will be financed into the loan.
- No property inspections or thermal certification are necessary. Although Rural Development does not require repairs to be completed for refinance transactions, the lender may require completion of repairs as a condition of loan approval. Expenses related to property inspections and repairs may not be financed into the new loan amount.

Using Guaranteed Underwriting System (GUS) for Processing of Refinancing Applications

All loans are eligible for processing through GUS. Loans that receive an “accept” message will only require the following documents submitted to the Agency:

- A complete Federal National Mortgage Association (FNMA) Form 1004 or Freddie Mac Form 70, “Uniform Residential Appraisal Report” (URAR) or its equivalent for condominiums or manufactured housing, if required under the documentation requirements of this Administrative Notice; and,
- Form RD 1980-21, “Request for Single Family Housing Loan Guarantee”. The form should be duly completed and executed by the lender and borrower.

Loans which receive a “refer” or a “refer with caution” message will have full documentation submitted as outlined above (Loan Application Documentation).

Submission Process

After underwriting and approval of the loan, the lender will submit the loan application package for Agency review. The Agency will review applications to determine that all program requirements have been met.

Use of SFHGLP funds for the sole purpose of refinancing an existing 502 Guaranteed Loan is considered a servicing action and a categorical exclusion under RD Instruction 1940-G, section 1940.310(e)(2). In accordance with RD Instruction 1940-G, section 1940.317(c)(4), completion of Form RD 1940-22, “Environmental Checklist for Categorical Exclusions,” will typically not be required because refinance transactions will not likely have the potential to adversely effect environmentally sensitive land uses or resources. However, in extraordinary circumstances, the Agency loan approval official may be aware of an environmentally sensitive situation, such as reports of chemical spills in the area or hazardous material waste sites that have been developed in the community, that may impact the application and require further analysis as prescribed in RD Instruction 1940-G.

Following Rural Development approval, funds will be obligated and a Conditional Commitment issued.

Closing Costs and Lender Fees

As stated in RD Instruction 1980-D, section 1980.324(a), the lender may establish charges and fees for the refinance loan, provided they are the same as those they charge other applicants for similar types of transactions. Lenders and the Agency should make every effort to ensure that applicants are not being charged excessive fees as part of the new loan. At this time, discount points are not eligible to be financed, except for low-income applicants. In such cases, discount points financed will not exceed two percentage points of the loan amount.

Guarantee Fee

The guarantee fee for SFHGLP refinances will be 0.5 percent. The guarantee fee may be financed into any SFHGLP refinancing loan. As usual, applicants may finance closing costs and fees up to 100 percent of the current appraised value. However, it is possible that the LTV of the new loan could exceed 100 percent when the guarantee fee is financed. Loans may only exceed 100 percent LTV to the extent that the excess represents a financed guarantee fee. A new appraisal is not required when the amount to be refinanced is limited to the outstanding loan balance plus the guaranteed fee.

Loan Note Guarantee Issuance Requirements

Once the lender has closed the loan, closing documentation should be submitted to the Agency in accordance with RD Instruction 1980-D, section 1980.361(a). Provided that the lender's loan closing documentation is adequate, a Loan Note Guarantee will be issued to cover the terms of the new loan. The Agency will process loan closings for SFHGLP refinance loans using the same procedures used for SFHGLP purchase loans. Once the Agency's loan closing has processed and the new Loan Note Guarantee has been issued, the Finance Office should be notified to terminate the original guarantee due to the loan being refinanced through the SFHGLP program. Notifications should be made to the Finance Office, Guaranteed Loan Branch, Attn: FC-350 or by Fax at (314) 457-4279.

Guaranteed Loan System (GLS) Reporting

All SFHGLP refinance loans should be coded with assistance code **"326"** (SFHGLP purchase loans should be coded "96").

Funding Limitations

There will be no limit placed on the number of refinance loans made from the allocation at this time.

SUMMARY:

The intent of the new refinance feature of the SFHGLP loan program is to give existing SFHGLP borrowers with satisfactory payment histories the opportunity to benefit from a lower interest

rate and increase their ability to be successful homeowners. Applicants must meet all existing eligibility requirements as stated in RD Instruction 1980-D. The Agency should give applicants with existing SFHGLP loans that are in good standing every consideration when applying for a SFHGLP refinance loan. SFHGLP refinance loans may not be used as a loss mitigation measure for loans that are presently not performing or for borrowers who are not remaining current on their existing SFHGLP loan. Delinquent SFHGLP loans should be reviewed and evaluated using the loan servicing guidelines currently outlined in RD Instruction 1980-D, section 1980.370 and current Administrative Notices.

Questions regarding this AN may be directed to Michelle C. Corridon, michelle.corridon@wdc.usda.gov or Joaquín Tremols, joaquin.tremols@wdc.usda.gov or at 202-720-1452.