

RD AN No. 4738 (1980-D)
October 24, 2013

TO: State Directors
Rural Development

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

FROM: Richard A. Davis *(Signed by Richard A. Davis)*
Acting Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Refinancing Single Family Housing Loans
Section 502 Direct and Guaranteed

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide updated instructions regarding the standard refinance features of the Single Family Housing Guaranteed Loan Program (SFHGLP). The SFHGLP offers existing Section 502 Direct and Guaranteed loan program borrowers the opportunity to refinance their mortgage with a Section 502 Guaranteed loan. The objective of the refinance feature is to afford responsible homeowners the opportunity to achieve more favorable loan repayment terms. Existing Section 502 Direct and Guaranteed borrowers who meet the eligibility requirements of RD Instruction 1980-D, supplemented by this notice, may utilize the refinance feature of the SFHGLP. This AN does not apply to any current or future refinance pilot programs.

EXPIRATION DATE:
October 31, 2014

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

COMPARISON WITH PREVIOUS AN:

This AN replaces AN No. 4635 (1980-D), issued on April 2, 2012, which expired on March 31, 2013. New refinance eligibility requirements are introduced with this issuance and include:

- Minimum interest rate reduction requirement
- Seasoning requirement
- Satisfactory payment history requirement
- New eligible loan purposes (streamlined refinance transactions)
- Maximum loan amount (streamlined refinance transactions)

IMPLEMENTATION RESPONSIBILITIES:

In accordance with RD Instruction 1980-D, and Section 502(h) of the Housing Act of 1949, the SFHGLP may offer assistance to refinance existing Section 502 Direct and Guaranteed loan program borrowers with Section 502 Guaranteed loans.

Description of Assistance

Refinance transactions provide borrowers an opportunity to benefit from more favorable loan repayment terms. Existing Section 502 Direct and Guaranteed borrowers are eligible to refinance their current USDA loan when eligibility requirements of RD Instruction 1980-D are met along with the following:

- 1) The refinance loan will reduce the current interest rate by 100 basis points (1 percent) or more;
- 2) The existing loan to be refinanced was closed at least 12 months prior to the Agency's receipt of a conditional commitment request for refinance;
- 3) The borrower has been current on their existing USDA loan for the 12-month period prior to the conditional commitment request for refinance; and
- 4) The new principal, interest, taxes, and insurance (PITI) monthly amount is less than the monthly PITI amount of the existing loan.

Two refinance options are available:

Non-streamlined refinance. This option requires an appraisal. Non-streamlined refinance transactions may include the principal and interest of the existing USDA loan, closing costs, lender fees and the current upfront guarantee fee to the extent sufficient equity in the property exists as determined by an appraisal. The maximum loan amount is the appraised value of the subject property plus any amount of the upfront guarantee fee financed into the new loan. The Guaranteed Underwriting System (GUS) may be utilized when requesting a non-streamlined refinance.

Streamlined refinance. An appraisal is not required; however, the refinance loan amount may not exceed the original loan amount (i.e. the original purchase loan amount will establish the maximum loan amount of the refinance transaction). The refinance loan amount may represent the outstanding principal balance (including current interest

charges due along with a reasonable and customary fee for reconveyance) of the existing USDA loan and any amount of the upfront guarantee fee to be financed into the loan. Delinquent interest, closing costs or lender fees may not be financed into the new loan with this option. This option is not available for Section 502 Direct loans that have received any payment subsidy during the term of the original loan. All other costs, documentation and underwriting requirements remain consistent with a purchase guarantee, unless otherwise noted in this AN. Lenders must manually underwrite this refinance option. GUS may not be utilized when requesting a streamlined refinance.

Refinance Product Matrix

The attached matrix outlines the refinance features of the SFHGLP. General eligibility, approval and delivery criteria are noted under the Direct and Guaranteed columns. The matrix is intended to assist all parties involved in offering the refinance feature of the SFHGLP with eligibility, approval and loan note delivery guidance.

Agency Actions

When a refinance request for Loan Note Guarantee is received, the Agency will take the following actions:

Conditional Commitment for Loan Note Guarantee

- Review the application for completeness and eligibility for the SFHGLP.
- Funding for refinances may be requested from the national office. Funding requests must identify each individual loan amount. Requests are to be sent to: sfhgld@wdc.usda.gov.
- Form RD 1940-22, "Environmental Checklist for Categorical Exclusions," is typically not required for a refinance transaction. 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). Refinance transactions are not likely to have the potential to adversely affect 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.
- Establish an application in the Guaranteed Loan System (GLS). Non-streamlined refinance transactions developed with the assistance of GUS will be uploaded to GLS from the USDA Administration page in GUS. Streamlined refinance transactions are not eligible to utilize GUS and must be manually underwritten and submitted.
- Obligate the loan in GLS, provided funds are available.
- All SFHGLP refinance loans should be coded with type of assistance (TOA) code "651" for annual funds on the GLS obligation page.
- **Streamlined refinances** will utilize the original purchase loan amount as the appraised value for the refinance transaction in GLS. The refinance loan amount cannot exceed the original loan amount.

- Issue Form RD 1980-18, “Conditional Commitment for Loan Note Guarantee,” when the request is approved.

Issuing the Loan Note Guarantee

- The lender must submit loan closing documents to the Agency in accordance with RD Instruction 1980-D, Section 1980.361(a).
- If the provided documentation represents the loan was closed in accordance with the terms of the “Conditional Commitment for Loan Note Guarantee,” a Loan Note Guarantee will be issued.
- The Agency will process loan closings for SFHGLP refinance loans using the same procedures used for SFHGLP purchase loans.
- When the refinance is a guaranteed loan to guaranteed loan, 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. Notifications should be faxed to the Guaranteed Loan Branch at (314) 457-4279.

Summary

Refinance loans must achieve more favorable loan terms for existing borrowers who meet the criteria contained herein. Refinance loans may not be used as a loss mitigation measure for loans that are presently not performing or for borrowers who are not current on their existing Section 502 Direct or Guaranteed loan. Delinquent SFHGLP loans should be reviewed and evaluated using the loan servicing guidelines currently outlined in RD Instruction 1980-D, Section 1980.370.

Questions regarding this AN may be directed to:

Debbie Terrell	(918) 331-9404	debra.terrell@wdc.usda.gov
Kris Zehr	(309) 452-0830, ext. 111	kristina.zehr@wdc.usda.gov
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Attachment

Refinance Matrix for Rural Development Mortgages

		Refinance Type <i>Guaranteed Loan to Guaranteed Loan</i>	Refinance Type <i>Direct Loan to Guaranteed Loan</i>
Lender Eligibility	Eligible Lenders	<ul style="list-style-type: none"> ▪ Any lender who has been approved by Rural Development and holds an active lender agreement (Form RD 1980-16). ▪ Approved lenders are responsible for loan underwriting and will be issued a Conditional Commitment if all eligibility requirements are met. ▪ Approved lenders may utilize the services of an agent for processing refinance loans. 	
Types of Refinancing	Processing Types	<ul style="list-style-type: none"> ▪ Streamlined refinance <ul style="list-style-type: none"> • No appraisal; principal and current interest charges due, reasonable and customary reconveyance fee plus the upfront guarantee fee • Limited to original purchase loan amount ▪ Non-streamlined refinance 	<ul style="list-style-type: none"> ▪ Streamlined refinance <ul style="list-style-type: none"> • Payment subsidy never received • No appraisal; principal and current interest charges due, reasonable and customary reconveyance fee plus the upfront guarantee fee • Limited to original purchase loan amount ▪ Non-streamlined refinance

*This summary is intended for reference.
August 2013*

		Refinance Type	
		<i>Guaranteed Loan to Guaranteed Loan</i>	<i>Direct Loan to Guaranteed Loan</i>
Eligibility and Underwriting	Eligible <u>Existing Loan</u>	<ul style="list-style-type: none"> ▪ Loan must have a Loan Note Guarantee issued to an approved lender. (Form RD 1980-17) ▪ Loan must have closed at least twelve months prior to the Agency's receipt of a conditional commitment request for refinance. ▪ Loan has been current for the twelve month period prior to the Agency's receipt of a conditional commitment request for refinance. ▪ Loan must be fully documented, underwritten and originated in compliance with RD Instruction 1980-D, supplemented by published Administrative Notices. 	<ul style="list-style-type: none"> ▪ Loan must be an existing Section 502 Direct loan. ▪ Loan must have closed at least twelve months prior to the Agency's receipt of a conditional commitment request for refinance. ▪ Loan has been current for the twelve month period prior to the Agency's receipt of a conditional commitment request for refinance. ▪ Loan must be fully documented, underwritten and originated in compliance with RD Instruction 1980-D, supplemented by published Administrative Notices. <p><u>Ineligible loans:</u> The SFHGLP may not be used to refinance leveraged loans from a non-USDA source that was originally closed simultaneously with a Section 502 Direct loan.</p>

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		Refinance Type <i>Guaranteed Loan to Guaranteed Loan</i>	Refinance Type <i>Direct Loan to Guaranteed Loan</i>
Eligibility and Underwriting	Applicant Eligibility	<ul style="list-style-type: none"> ▪ All applicants that will be a party to the promissory note for the new loan must meet all applicable Agency eligibility regulations to qualify for a refinance loan. ▪ As part of the refinance transaction, additional borrowers may be added to the new SFHGLP loan. ▪ Existing borrowers may be deleted from the current loan. At least one original borrower must be retained on the new refinance loan. ▪ Any late mortgage payments within the past 36 months on the existing USDA loan must be analyzed and addressed by the lender to determine if any late payments were a disregard for financial obligations, an inability to manage debt, or factors beyond the control of the borrower when considering the underwriting decision. All scheduled payments over the most recent 12 month period, prior to the Agency’s receipt of the conditional commitment request, must have been paid as agreed. 	

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		Refinance Type <i>Guaranteed Loan to Guaranteed Loan</i>	Refinance Type <i>Direct Loan to Guaranteed Loan</i>
	Loan Purpose and Limitations	<ul style="list-style-type: none"> ▪ Non-streamlined refinance: The maximum loan amount cannot exceed the present fair market value as supported by an appraisal. A portion of or the full amount of the upfront guarantee fee may be financed above the appraised value. The base loan amount may include the balance (principal and interest) of the existing loan to be refinanced, reasonable and customary closing costs, and lender fees, including funds to establish a new tax and insurance escrow account in conjunction with the new loan request. 	<ul style="list-style-type: none"> ▪ Non-streamlined refinance: The maximum loan amount cannot exceed the present fair market value as supported by an appraisal. A portion of or the full amount of the upfront guarantee fee may be financed above the appraised value. The base loan amount may include the balance (principal and interest) of the existing loan to be refinanced, reasonable and customary closing costs, subsidy recapture (if applicable) and lender fees, including funds to establish a new tax and insurance escrow account in conjunction with the new loan request. ▪ Subsidy Recapture. Any recapture amount due may be financed as part of the loan balance, or it may be deferred if the lien position is subordinate to the new SFHGLP loan. A 25% discount will be offered if the borrower does not defer recapture.
Eligibility and Underwriting	Loan Purpose and Limitations. Cont'd	<ul style="list-style-type: none"> ▪ Streamlined refinance: The refinance loan amount cannot exceed the original purchase loan amount. The refinance loan amount may represent the outstanding principal balance (including current interest plus a reasonable and customary reconveyance fee) of the existing loan to be refinanced, <u>plus the upfront guarantee fee.</u> 	<ul style="list-style-type: none"> ▪ Streamlined refinance: Only available for Section 502 Direct loans that have not received payment subsidy. The refinance loan amount cannot exceed the original purchase loan amount. The refinance loan amount may represent the outstanding principal balance (including current interest plus a reasonable and customary reconveyance fee) of the existing loan to be refinanced, <u>plus the upfront guarantee fee.</u>

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		Refinance Type <i>Guaranteed Loan to Guaranteed Loan</i>	Refinance Type <i>Direct Loan to Guaranteed Loan</i>
Eligibility and Underwriting	Loan Purpose and Limitations. Cont'd	<ul style="list-style-type: none"> ▪ Cash out refinance transactions are not permitted. ▪ 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 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 (non-streamlined transactions only). ▪ Nominal “cash out” to the applicants may occur at closing due to final escrow and interest calculations. ▪ Unpaid fees, such as late fees due the servicer, are not eligible to be included in the new loan amount. ▪ There is no limit placed on the number of refinance loans made to an existing SFHGLP borrower however the loan to be refinanced must have closed at least twelve months prior to the Agency’s receipt of a conditional commitment request for refinance. 	

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		Refinance Type <i>Guaranteed Loan to Guaranteed Loan</i>	Refinance Type <i>Direct Loan to Guaranteed Loan</i>
	<p style="text-align: center;">Upfront Guarantee Fee/Annual Fee</p>	<ul style="list-style-type: none"> ▪ Refinance loans are subject to the prevailing upfront guarantee fee and annual fee for the SFHGLP. ▪ Non-streamlined refinance: A portion of or the entire upfront guarantee fee may be financed into the loan above the appraised value. ▪ Streamlined refinance: The refinance loan amount cannot exceed the original purchase loan amount. The refinance loan amount may represent the outstanding principal balance (including current interest plus a reasonable and customary reconveyance fee) of the existing loan to be refinanced, <u>plus the upfront guarantee fee.</u> 	<ul style="list-style-type: none"> ▪ Refinance loans are subject to the prevailing upfront guarantee fee and annual fee for the SFHGLP. ▪ Non-streamlined refinance: A portion of or the entire upfront guarantee fee may be financed into the loan above the appraised value. ▪ Streamlined refinance: Only available for Section 502 Direct loans that have not received payment subsidy. The refinance loan amount cannot exceed the original purchase loan amount. The refinance loan amount may represent the outstanding principal balance (including current interest plus a reasonable and customary reconveyance fee) of the existing loan to be refinanced, <u>plus the upfront guarantee fee.</u>

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		Refinance Type	
		<i>Guaranteed Loan to Guaranteed Loan</i>	<i>Direct Loan to Guaranteed Loan</i>
Eligibility and Underwriting	Repayment Ratios	<ul style="list-style-type: none"> ▪ The monthly housing expense to income ratio may not exceed 29 percent of repayment income. ▪ The total debt ratio may not exceed 41 percent of repayment income. ▪ Lenders may request a waiver of Rural Development when strong compensating factors are documented. A satisfactory payment history for the existing mortgage is considered a strong compensating factor. 	
	Term	<ul style="list-style-type: none"> ▪ Term of the new loan will be a 30 year fully amortized fixed rate mortgage. 	
	Interest Rate	<ul style="list-style-type: none"> ▪ Interest rate of the new loan must be a fixed rate. ▪ The interest rate must be 100 basis points (1%) lower than the existing loan to be refinanced. ▪ The interest rate of the new loan is not subject to RD Instruction 1980-D, Section 1980.320. ▪ Funded buy down accounts are not permitted. 	
	Household Income	<ul style="list-style-type: none"> ▪ Total adjusted income for the household cannot exceed the moderate level for the area as established in RD Instruction 1980-D, Exhibit C. 	
	Security	<ul style="list-style-type: none"> ▪ 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. 	
	Rural and Non-Rural Areas	<ul style="list-style-type: none"> ▪ SFHGLP refinance loans are permissible for properties in areas that have been determined to be non-rural since the existing loan was made. 	

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		Refinance Type <i>Guaranteed Loan to Guaranteed Loan</i>	Refinance Type <i>Direct Loan to Guaranteed Loan</i>
Eligibility and Underwriting	Property Valuation	<ul style="list-style-type: none"> ▪ Non-streamlined refinance: The value of the new mortgage loan request must be supported by a new appraisal. The loan amount cannot exceed the present market value plus the upfront guarantee fee. The new loan amount can include closing costs or lender fees when supported by market value. ▪ Streamlined refinance: The new mortgage loan request can be supported by the original appraisal report obtained in connection with the existing mortgage. The loan amount cannot exceed the original purchase loan amount. The refinance loan may include the outstanding principal balance (including current interest and a reasonable/customary reconveyance fee) of the existing loan refinanced plus the upfront guarantee fee. 	<ul style="list-style-type: none"> ▪ Non-streamlined refinance: The value of the new mortgage loan request must be supported by a new appraisal. The loan amount cannot exceed the present market value plus the upfront guarantee fee. The new loan amount can include closing costs or lender fees when supported by market value. ▪ Streamlined refinance: Ineligible for this transaction when any payment subsidy has been received. The new mortgage loan request can be supported by the original appraisal report obtained in connection with the existing mortgage. The loan amount cannot exceed the original purchase loan amount. The refinance loan may include the outstanding principal balance (including current interest and a reasonable/customary reconveyance fee) of the existing loan refinanced plus the upfront guarantee fee.

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		Refinance Type <i>Guaranteed Loan to Guaranteed Loan</i>	Refinance Type <i>Direct Loan to Guaranteed Loan</i>
	Inspections	<ul style="list-style-type: none"> ▪ No inspections or repairs are required by Rural Development. ▪ Lender may require inspections or repairs. ▪ Expenses related to inspections or repairs may not be financed. 	
	Processing Requirements	<ul style="list-style-type: none"> ▪ The lender will process the refinancing loan package in accordance with RD Instruction 1980-D, except when provided otherwise in this AN. 	

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		Refinance Type <i>Guaranteed Loan to Guaranteed Loan</i>	Refinance Type <i>Direct Loan to Guaranteed Loan</i>
Eligibility and Underwriting	Closing Costs and Lender Fees	<ul style="list-style-type: none"> ▪ 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 – such as Federal Housing Administration (FHA) or Veterans Affairs (VA). ▪ Examples of reasonable and customary fees and charges: <ul style="list-style-type: none"> • actual cost of the appraisal, inspection or credit reports; • imposed verification charges; • title examination and title insurance fees; • attorney fees; • settlement and recording and/or courier/wire/notary fees; • real estate taxes for establishing an escrow; • test or treatment fees; • document preparation fees (if prepared by a third party); and • origination fee. ▪ Lenders and the Agency should make every effort to ensure that applicants are not charged excessive fees as part of the new loan. ▪ Discount points may be financed in connection with the new loan request when the existing borrower’s adjusted household income is at or below the low income limits, as determined by Exhibit C of RD Instruction 1980-D. Also see: http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do. Select <i>Guaranteed</i> from the navigation menu under <i>Income Limits</i>. ▪ Permissible discount points financed in accordance with section 1980.310(d) of RD Instruction 1980-D will not exceed two percentage points of the loan amount for a non-streamlined refinance. Financed discount points must be used to permanently reduce the interest rate. 	

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		Refinance Type <i>Guaranteed Loan to Guaranteed Loan</i>	Refinance Type <i>Direct Loan to Guaranteed Loan</i>
Eligibility and Underwriting	Use of the Guaranteed Underwriting System (GUS)	<ul style="list-style-type: none"> ▪ Non-streamlined refinance: loans may be originated with the assistance of GUS. ▪ Streamlined refinance: loans must be manually underwritten. ▪ Reduced documentation may be submitted for loans receiving an ACCEPT recommendation in GUS. Lenders are required to review the GUS Underwriting Findings Report for a detailed list of required documentation as quality control messages can flag additional requirements. An abbreviated file submission includes: <ul style="list-style-type: none"> • An appraisal report. • FEMA Form 086-0-32, “Standard Flood Hazard Determination Form.” • Form RD 1980-21, “Request for Single Family Housing Loan Guarantee.” The form should be executed by the lender and borrower(s). • Income calculation worksheet for household eligibility income and repayment income. • Copy of the final GUS Underwriting Findings Report. 	

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		Refinance Type <i>Guaranteed Loan to Guaranteed Loan</i>	Refinance Type <i>Direct Loan to Guaranteed Loan</i>
	Document Processing Requirements	<ul style="list-style-type: none"> ▪ The lender will process the refinance loan package in accordance with RD Instruction 1980-D, except when provided otherwise in this AN. ▪ Form RD 1980-21, “Request for Single Family Housing Loan Guarantee” must be completed and executed by the borrower and the lender and accompany the commitment request. Rural Development accepts a fax, scan or photocopy of this executed form. The preferred method of delivery is electronic by use of general e-mail boxes available in all states. Refer to the USDA LINC Training and Resource Library under loan origination for a complete state list of e-mail addresses at https://usdalinc.sc.egov.usda.gov/RHShome.do ▪ Full documentation file as follows: <ul style="list-style-type: none"> • Fully completed and executed mortgage loan application. • Evidence of a qualified alien, as applicable, with the addition of new borrowers. • Current credit report and verification of debt. • Income documentation of household income. • Evidence of the lender’s underwriting analysis addressing repayment ability, credit worthiness and security value. • Evidence of the current market value when the refinance type is <u>non-streamlined refinance</u>. ▪ Submit the fully underwritten file to Rural Development requesting a “Conditional Commitment for Loan Note Guarantee.” 	

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		Refinance Type <i>Guaranteed Loan to Guaranteed Loan</i>	Refinance Type <i>Direct Loan to Guaranteed Loan</i>
Post Closing Delivery	Obtaining the Loan Note Guarantee	<ul style="list-style-type: none"> ▪ Submit closing documents and the guarantee fee to the Agency in accordance with RD Instruction 1980-D, Section 1980.361(a). The preferred method of delivery is electronic by use of general e-mail boxes available in all states. Refer to the USDA LINC Training and Resource Library under loan origination for a complete state list of e-mail addresses at https://usdalinc.sc.egov.usda.gov/RHShome.do ▪ If the provided documentation represents the loan was closed in accordance with the terms of the “Conditional Commitment for Loan Note Guarantee,” a Loan Note Guarantee will be issued. ▪ The Agency will process loan closings for SFHGLP refinance loans using the same procedures used for SFHGLP purchase loans. 	

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