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## Credit Matrix

Maximum LTV/FICO Requirements			
Purchase		Rate and Term Refinance	
LTV/CLTV	Minimum FICO	Max LTV/CLTV	Minimum FICO
100.00%	580	100%*	580
*Exclusive of financed guarantee fee			

## Ability To Repay and Qualified Mortgage Rule

- For loans subject to the ATR/QM rule, Keystone will only fund loans that comply with the ATR/QM requirements.
- Correspondents are responsible for providing evidence of compliance with the ATR/QM rules.
- Clear itemization of fees and application of all credits that indicate paid by/to will be required on all loans.
- See Seller Guide section "Ability to Repay and Qualified Mortgage Rule" under "Delivery Procedures" for more details.

## Appraisals

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- A full appraisal (e.g. form 1004 or equivalent, accompanied by form 1004MC) is required for all loans.
- The appraisal must have been completed within 180 days of loan closing.
- The validity period of an appraisal report can be extended only one time with an Appraisal Update Report. The appraisal may be expired at the time the appraisal update is requested. However, when the original appraisal is subsequently updated, the appraisal is valid for no greater than one year from the effective date of the original appraisal report at loan closing.
- Keystone will fund loans secured by properties with “unpermitted” structural additions under the following conditions:
  - The quality of the work is described in the appraisal and deemed acceptable (“workmanlike quality”) by the appraiser;
  - The addition does not result in a change in the number of units comprising the subject property (e.g. a 1 unit converted into a 2 unit).
  - If the appraiser gives the unpermitted addition value, the appraiser must be able to demonstrate market acceptance by the use of comparable sales with similar additions and state the following in the appraisal:
    - Non-Permitted additions are typical for the market area and a typical buyer would consider the "unpermitted" additional square footage to be part of the overall square footage of the property.
    - The appraiser has no reason to believe the addition would not pass inspection for a permit.

## Age of Documents

- Credit documents must be no more than 120 days old on the date the Note is signed, including credit reports and employment, income, and asset documents.
- Preliminary Title Policies must be no more than 180 days old on the date the Note is signed.

## Borrower Eligibility

- U.S. citizens
- Borrowers must have a valid Social Security Number
- Permanent resident aliens, with proof of lawful residence
- Non-permanent residents are allowed as long as they are a qualified alien with proof of lawful residence.
- Non-occupant borrowers are ineligible
- See Property: Maximum Number of Properties Owned for information regarding borrowers who currently own a property
- Housing Choice Voucher Homeownership Program income (commonly known as Section 8 for homeowners) paid via Housing Assistance Payments (HAPs) are an acceptable source of income

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## Condominiums

Keystone must perform an underwriting review of the condominium project to ensure the unit meets HUD/FHA, VA, Fannie Mae, or Freddie Mac guidelines. The 1008 must be marked with the appropriate warranty and include all documentation utilized to make the condo warranty determination.

## Credit History

- Minimum FICO score of 580. Each borrower must have at least one credit score to be eligible.
- Frozen Credit Data at any repository must be made available.
- Purchases: Manually underwritten loans with FICOs less than 680 require a rent history of 0x30x12, if the applicant pays rent.
- Refinances: The existing loan must have been current for the 180-day period prior to the conditional commitment request to refinance
- GUS Accept Files: No credit score validation is required.
- GUS Refer, Refer with Caution, and Manually Underwritten files: Credit score validation is required.
  - Non-traditional credit history is acceptable to supplement the number of trade lines in accordance with Rural Housing's requirements. Borrowers must still have a minimum FICO of 580 to be eligible.
    - Applicants that utilize nontraditional credit to qualify are not eligible for debt ratio waivers.
  - At least one borrower whose income or assets are used for qualification must have at least two eligible trade lines to validate the borrower's credit score. Eligible trade lines consist of credit accounts with at least 12 months of repayment history reported on the credit report.
  - Trade lines eligible to validate the credit score: loans (secured/unsecured), revolving accounts, installment loans, credit cards, collections, charge-off accounts, etc. The accounts may be open, closed, and/or paid in full.
  - Authorized accounts may be used to validate the credit score when one of the following is met:
    - The trade line is owned by another applicant on the mortgage application
    - The owner of the trade line is the spouse of the applicant, or
    - The applicant can provide evidence they have made payments on the accounts for the previous 12 months prior to the loan application.
  - Public records (bankruptcy, foreclosure, tax liens, judgments, etc.), disputed, and self-reported accounts are ineligible trade lines for credit validation.

## Credit: Liabilities

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- GUS Accept files: New installment or revolving accounts that are not reflected on the credit report in GUS must be manually entered on the Asset and Liabilities GUS application page. No downgrade is required.
- Cumulative debt amount \$51 or more: The new/increased debts and payment amounts must be entered into GUS and GUS rerun. USDA must issue a new Conditional Commitment. Keystone will not close loans without a valid Conditional Commitment.
- GUS Refer, Refer with Caution, and Manually underwritten files: New installment or revolving accounts that are not reflected on the credit report in GUS must be manually entered on the Asset and Liabilities GUS application page or loan application for non-GUS loans.
- Non-Purchasing Spouse (NPS): When a borrower resides or the subject property is located in a community property state, a credit report for the NPS must be obtained. The debts of the NPS must be included in the borrower's debt ratio, except for those specifically excluded by state law. The NPS's credit history is not a reason to deny the loan application. Community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin. Alaska is an opt in community property state; property is separate unless both parties agree to make it community property through a community property agreement or a community property trust.
- Verification of Rent/Mortgage History: Not required with a GUS accept. Manual underwriting must follow Rural Housing repayment history requirements.
- Installment and Revolving Credit Accounts: Installment debts with more than ten months repayment remaining must be included in the debt ratio. Revolving debts with reported loan balances on the credit report must have a monthly payment included in the debt ratios. If a payment is not listed the broker may estimate a monthly payment of 5% of the loan balance.
- Student Loans: For outstanding student loans, regardless of the payment status, brokers must use:
  - The payment amount reported on the credit report or the actual documented payment, when the payment is above zero; or
  - One half (.50) percent of the outstanding loan balance documented on the credit report or creditor verification, when the payment amount is zero.
- Co-signed Debt: In order to exclude the payment from total debt, the broker must provide 12 month's payments from the other party or conclusive evidence from the debt holder that there is no possibility that the debt holder will pursue debt collection against the applicant, should the other party default. Individual debt must be included in the DTI.
- Authorized User (AU) Accounts: Brokers are not required to include monthly payments for an AU account in an applicant's debt ratio. A closed AU account requires no consideration. An AU account that is classified as "terminated" is considered a closed trade line. Brokers may continue to include the monthly debt at their discretion if they determine the applicant is making the payment.
- Payments that will come due in the next 24 months, including deferred loans and balloon payments must be included in the DTI
- Short term obligations must be included in DTI if there is significant impact on repayment. Significant impact is defined as 5% or greater of the gross monthly income of the applicant.
- Long-term obligations with more than ten months repayment remaining on the credit report presented at underwriting, including all installment loans, alimony, child support or separate

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maintenance payments, student loans and other continuing obligations must be included in the DTI.

- CAIVRS: Must have a clear "A" CAIVRS response.

## Derogatory Credit: Bankruptcy, Short Sale, Foreclosure, Federal Debt, and Judgments

- Bankruptcy Chapter 7: GUS approval has no minimum seasoning. Follow Rural guidelines for manually underwritten loans.
- When a Chapter 7 bankruptcy absolved the mortgage debt for the borrower any foreclosure or remaining foreclosure pending is an action against the property, not the borrower. The foreclosure action is not considered as adverse credit in the borrower's evaluation. A loan underwritten with the assistance of GUS will not be required to be manually downgraded when the bankruptcy discharge included the mortgage debt.
- Bankruptcy Chapter 11, 12 and 13: GUS approval has no minimum seasoning. Follow rural guidelines for manually underwritten loans.
- 3 years elapsed since completion of Foreclosure, Deed in Lieu, or Short sale/Pre-foreclosure.
  - Short Sales Manually underwritten only:
    - Exceptions can be made when the borrower was not delinquent at the time of Short Sale, or if due to divorce, at the time of divorce, and
    - The prior mortgage payment history must reflect all mortgage payments due were made on time for the 12-month period preceding the short sale, or time of divorce, and all installment debt payments for the same period were also made within the month due.
- A borrower is ineligible for a guaranteed loan if they are presently delinquent on:
  - non-tax Federal debt
  - court ordered child support payments subject to collection by an administrative offset, unless the payments:
    - are brought current or
    - the debt is paid in full or,
    - the debt is otherwise satisfied by a documented release of liability
  - court ordered child support (not subject to an administrative offset) unless
    - the applicant has an approved repayment agreement in place with three timely payments made prior to loan closing;
    - the arrearage is paid in full prior to loan closing, or
    - a release of liability is documented;
  - CAIVRS Claim: an applicant that will be a party to the loan does not have a clear "A" Credit Alert Verification Reporting System (CAIVRS) response.
- All judgment must be paid in full, or
  - Payment arrangements with the creditor have been made

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- The borrower has made regular and timely payments for the three months prior to loan application.
- Prepaying scheduled payments as a means of meeting minimum requirements is unacceptable.
- Brokers will obtain a copy of the payment agreement and validate payments have been made in accordance with the payment agreement.
- The payment agreement will be included in the debt-to-income ratio.
- Exception: If the repayment plan was already established and the applicant has a history of consistent repayment, the payment may be excluded if there are less than 10 months remaining and the broker determines the debt does not have a significant impact on the repayment of the applicant.

## Derogatory Credit: Collections and Charge-Offs

- Keystone's underwriter must review all collection and charge off accounts and determine if the applicant(s) is an acceptable credit risk, regardless of GUS underwriting recommendation. USDA does not require medical collection accounts to be paid.
- No credit exception is required for collection accounts or charge-offs with a GUS Accept.
- All open collections must be listed on the Asset and Liabilities GUS application page and loan application.
- If the applicant has a repayment plan with the creditor for a charged off debt, include the payment in the Asset and Liabilities GUS application page or on the loan application.
- If the cumulative total of all non-medical collections exceeds \$2,000, the following options will apply:
  - Require payment in full of these accounts prior to loan closing;
  - Use an existing repayment agreement or require payment arrangements be made with documentation from the creditor and include the monthly payment; or
  - Include 5% of the outstanding balance as the monthly liability amount, no further documentation required.

## Disputed Accounts

- Disputed Non-Derogatory Accounts
  - GUS Accept files: A GUS Accept recommendation may be retained if the following are met:
    - The disputed trade line has a zero balance;
    - The disputed trade line states "paid in full" or "resolved" on the credit report;
    - The disputed trade lines are 24 months or greater;
    - The disputed trade line is current and paid as agreed;
    - The payment stated on the credit report is included in the monthly debts;
    - A documented payment from the creditor is included in the monthly debts; or

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- 5% of the stated account balance on the credit report is included in the monthly debts.
- Disputed Non-Derogatory Accounts with GUS Refer, Refer with Caution or a Manual Underwrite: The applicant must provide the broker with applicable documentation to support the reason and basis of their dispute with the creditor. Brokers must determine the impact of the disputed account on the repayment of the proposed mortgage debt. Each account must include the payment stated on the credit report, 5% of the balance of the account, or a lesser amount documented from the creditor. No credit exception is required.
- Disputed Derogatory Accounts- Disputed derogatory accounts that must be considered are non-medical collections and accounts with late payments in the last 24 months.
- For all loan types, the broker may exclude the following disputed derogatory accounts:
  - Disputed medical accounts/collections;
  - Charged off accounts,
  - Disputed derogatory accounts that are the result of identity theft, credit card theft, or unauthorized use when evidence (police report, attorney correspondence, creditor statement) is provided to support the applicant's explanation; or
  - Accounts of a non-purchasing spouse in a community property state.
- GUS Accept files: GUS Accept files with less than \$2,000 in disputed derogatory accounts will require Keystone to determine if the disputed accounts may impact the applicant's ability to repay the proposed mortgage obligation. Each account (excluding those listed above) must include a minimum monthly payment of:
  - The payment stated on the credit report,
  - Five percent of the balance of the account, or
  - A lesser amount documented from the creditor. No credit exception is required.
- A GUS Accept must be downgraded to a Refer when the applicant has \$2,000 or more collectively in disputed derogatory accounts in the last 24 months.
- Disputed Derogatory Accounts with Refer, Refer with Caution and manually underwritten files: The broker must analyze the potential impact to the applicant's ability to repay the proposed mortgage debt with disputed derogatory accounts. Each account (excluding those listed above) must include a minimum monthly payment of:
  - The payment stated on the credit report,
  - Five percent of the balance of the account, or
  - A lesser amount documented from the creditor. No credit exception is required.

## Disaster Policy

Keystone will require a post-disaster inspection when the appraisal occurred before the incident end date of the disaster. See Keystone disaster policy located in the Broker Guide for full details.

## Escrows/Impounds

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An impound account for collection of taxes and insurance (or additional escrow items) is required.

## Escrow Holdbacks

Repair Escrows, post issuance of the Loan Note Guarantee, are acceptable. Rural Housing may issue a Loan Note Guarantee prior to the completion of repairs provided the following conditions are met:

- The livability of the dwelling is not affected;
- A signed contract between the borrower and the contractor is in effect for the proposed work and the funds to be escrowed are not less than the contract;
- The funds to be escrowed are not less than the repair cost contract;
- The Closing Disclosure reflects the holdback;
- The development will be complete within 180 days of closing, unless an extension is granted by USDA for inclement weather; and
- The escrow account is established in a federally supervised financial institution.
- Certification of completion is required to verify the work was completed and must:
  - Be completed by the appraiser;
  - State that the improvements were completed in accordance with the requirements and conditions in the original appraisal report;
  - Be accompanied by photographs of the completed improvements; and
  - The individual performing the final inspection of the property must sign the completion report.

Escrow Completion without the Assistance of a Contractor

- When the borrower will complete the planned interior/exterior development on an existing dwelling without the services of a contractor, the contract noted in this section is waived when the following three conditions are met:
  - The estimated cost to complete the work is not greater than 10 percent of the total loan amount; and
  - The escrow amount is less than or equal to \$10,000; and
  - The broker has determined the borrower is capable to complete the work within the 180-day limit.

## Exclusionary List

CAIVRS and GSA list must be checked and cleared.

## Flood Insurance

Existing dwellings:

- Existing dwellings in a SFHA are not eligible under the SFHGLP unless flood insurance through the FEMA National Flood Insurance Program (NFIP) is available. Keystone will require the

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borrower to obtain, and maintain for the term of the mortgage, flood insurance for any property located in a SFHA, listing Keystone as a loss payee.

New or Proposed Dwellings:

- Rural Housing will not guarantee loans for new or proposed homes in an SFHA unless the broker obtains a Letter of Map Amendment (LOMA) that removes the property from the SFHA or Letter of Map Revision (LOMR) that removes the property from the SFHA or obtains a FEMA elevation certificate that shows that the lowest habitable floor (including basement) of the dwelling and all related building improvements is built at or above the 100 year flood plain elevation in compliance with the NFIP.

## Funds to Close

- Cash to close remains the broker's responsibility to verify and document that the borrower has sufficient funds to facilitate closing. The following asset types are most common when documenting cash to close:
  - Checking/Savings, provide the most recent two months statements. Any large deposits must be sourced.
  - Gifts are allowed in accordance with Rural Housing guidelines. Gifts must be specifically identified as a gift in GUS in order to omit from reserves.
  - Cash on Hand is not permitted.
- The lesser of the two-month average balance or actual balance (as reported on the most recent statement) must be used in GUS to calculate the assets. In lieu of entering assets in GUS, Keystone may underwrite to the most conservative approach with no consideration of assets in GUS.

## Guarantee Fee

- Upfront Guarantee Fee: 1% of the loan
  - Financed Guarantee Fee calculated:  $(\text{loan amount} / .99) - \text{loan amount}$
  - Not financed Guarantee Fee calculated:  $\text{loan amount} * 1\%$
- Can be financed above the appraised value
- Annual Fee: .35%

## Hazard and Wind Insurance

- Hazard insurance policies should conform to the GSE coverage requirements of "the standard extended coverage endorsement," which states that a policy cannot be accepted that in whole or part excludes wind, hurricane or catastrophe insurance unless the coverage is provided in another policy with the same coverage limits as the hazard policy.
- Borrower occupied properties should have replacement cost coverage in an amount equal to the guaranteed value of the improvements or the unpaid principal balance, whichever is less.

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- Hazard or wind deductible(s) may not exceed the greater of either \$1,000 or 1 percent of the policy coverage, or the minimum deductible offered by the borrower's chosen insurance carrier.
- See Flood Insurance for flood insurance requirements.

## High Cost / Higher Priced Mortgages (HPML)

- Keystone will not fund High Cost Loans
- Higher Priced Mortgage Loans (HPML) transactions are eligible for funding. HPML guidelines require:
  - Establishment of an escrow account for taxes and insurance premiums on any transaction secured by a principal residence.
  - Must meet all applicable state and/or federal compliance requirements.

## Home Ownership Counseling

Brokers are reminded that certain Rural Housing State Offices require Home Ownership Counseling for first time homebuyers. It is the broker's responsibility to ensure the home buyer education is completed in those states and include documentation to satisfy Rural Housing's requirements in the file.

## Income: Annual

- The borrower's adjusted income may not exceed the Rural Housing's limit for the area. Keystone strongly recommends that brokers include the documentation to support the annual income calculation in the file. Refer to the USDA Income and Property Eligibility website:<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?NavKey=home@1>
- To validate income documentation and disclosure provided by the borrower's and other adult household members that will reside in the home, Keystones will require each adult member of the household to complete and execute IRS Form 4506-C (or comparable IRS form) for the previous two years at the time of loan application. Validation from IRS does not need to be received by Keystone prior to request for Conditional Commitment for Loan Note Guarantee. Keystone must obtain and review the transcripts prior to loan closing
- Full time students aged 18 and up that are not the applicant, co-applicant, or spouse of an applicant are not required to sign the 4506-C or have transcripts provided.
- See Tax Transcript section for requirements.
- Full income verifications/documentation for all borrowers and adult household members is required. In order to verify current income eligibility, income must be documented with the following, as applicable:
  - Salaried:
    - Paystubs covering the most recent 4 weeks period with YTD earnings and W2s for the prior two years. Or, WVOE allowed.
    - VOE within 10 business days prior to closing required.
  - Self-Employed:

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- Two consecutive years of signed Federal Income Tax Returns with all schedules filed with the IRS, or IRS transcripts that include all applicable schedules, along with a recent profit and loss statement (not required to be audited), and
- Two consecutive years of signed business Federal Income Tax returns with all schedules filed with the IRS, or IRS transcripts that include all applicable schedules, if required for the business type.
- Confirmation the business is operational must be obtained within 30 days of the note date/loan closing
- Mortgage Credit Certificate (MCC): include MCC in repayment income. See Attachment 9-A for how to enter MCC in GUS.
- Income from Non-Retirement Assets: All borrowers and adult household members must provide copies of all asset statements to calculate income generated by non-retirement assets. See Handbook chapter 9.4 for complete details on calculating annual income from assets.
  - If the applicants have ownership in a business, or are self-employed, the asset accounts must be closely reviewed to verify assets are not transferred between a personal account and a business account and vice versa. In the event the assets from the business account and personal account are co-mingled, the comingled assets must be included in the calculation of net family assets.
- Income or assets derived from the following sources are ineligible for qualifying:
  - The production or sale of marijuana
  - Bitcoin or other cryptocurrencies
- Refer to Rural Housing Guidelines, Chapter 9-Matrix 9-A for full income and income documentation Requirements.

## Interested Parties Concessions

Seller contributions (or other interested parties) are limited to 6% of the sales price.

## Loan Purpose

- Purchase
  - Closing costs may be financed when there is equity above the contract price.
- Rate & Term Refinance
  - The maximum loan amount cannot exceed the balance of the existing Rural Housing loan being refinanced plus:
    - Accrued interest
    - Financed guarantee fee
    - Reasonable and customary closing costs
    - Fund to establish a new tax and insurance escrow am
  - Unpaid fees, such as late fees due the servicer are not eligible to be included in the new loan amount

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- Borrowers may be reimbursed at closing for any fees paid in advance (for example, appraisal and credit report fee). A nominal amount of "cash-out" to the borrowers 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.
- The existing loan to be refinanced was closed at least 12 months prior to Rural Housing's receipt of a conditional commitment request for refinance
- The borrower has been current on their existing USDA loan for the 180-day period prior to the conditional commitment request for refinance
- At least one original borrower must remain on the new loan
- Cash Out is not allowed
- Combination construction and permanent financing not allowed. Two-closing construction to permanent financing is allowed and may be structured as a purchase transaction.
- Streamline refinances are not allowed.
- See Rural Streamline-Assist Product Profile for information on Rural Streamline-Assist transactions.

## Loan Purpose: Ineligible Transactions

Intra-family purchases as a means to obtain cash-out for the seller while avoiding cash-out qualifications and pricing are not eligible transactions. These types of transactions may seem to meet Agency guidelines, they are not bonafide purchase transactions and therefore not eligible for funding by Keystone. Unacceptable transactions of this type may have some or all of the following characteristics:

- Gift of equity from the seller
- Large amount of seller credits
- Family member remaining in the home and on title after the "purchase"
- Seller unable to qualify for a cash-out transaction of their own

Texas refinances are ineligible

## LTV Determination

Purchase transactions and Refinance Transactions are based on the appraised value.

## Mortgage Products, Eligible

- Fixed Rate 30-year term only
- Interest only not allowed
- Rural Energy Loans are not allowed
- Single Close Construction to Perm Financing are not allowed.
- Rehab and Repair with Purchase is not allowed

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## Occupancy

Owner Occupied Residences only

## Property, Eligible Types

- Single Family Attached/Detached
- PUDs and condos
- Leaseholds with a minimum length of lease of 15 years beyond the maturity date of the loan.
- Purchase Transactions must be located in an area designated as acceptable for Rural Housing. Refinances are permitted for properties in areas that have been determined to be non-rural since the existing loan was made.
- Purchase of dwellings which include an in-ground swimming pool are acceptable.
- New Construction must meet Rural Housing inspection and Builder Warranty requirements; evidence must be included in the file.

## Property, Ineligible Types

- Manufactured homes. This includes on-frame modular homes built on a permanent chassis.
- Mobile Homes
- Cooperatives
- Condotels
- Hotel Condominiums
- Timeshares
- Geodesic Domes
- Working Farms and Ranches
- Unimproved Land and property currently in litigation
- 2-4 units
- Income producing properties that do not meet Rural Housing's requirements. Examples include, but not limited to grain bins, silos, dairy farms, hog barns and multiple equestrian stables.

## Property: Maximum Number of Properties Owned

Current homeowners may be eligible for guaranteed home loans under this part if all the following conditions are met:

- The homeowner's current dwelling is not financed by a Rural Development guaranteed or direct Section 502 or 504 loan or active grant;
- The homeowner is financially qualified to own more than one house (the borrower is limited to owning one single family housing unit other than the one associated with the loan request;

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- The homeowner will occupy the home financed with the guaranteed loan as their primary residence throughout the term of the loan;
- The current home no longer adequately meets the borrowers' needs (See Chapter 8.2 of the Technical Handbook for details regarding what is defined as not meeting needs);
- In all cases, the broker must provide an additional explanation of the burden upon the borrower imposed by the status change both in the near the near and longer term, and also the reasons beyond homeowner convenience why the purchase of the property must be completed prior to the sale of the existing property Departing Residence: borrowers who wish to purchase a new principal residence and retain or rent a residence must qualify with all mortgage liability payments.

## Ratios

- Housing ratio of 29%
  - Keystone will allow a higher housing ratio with a GUS Accept or Rural Housing Approval. Evidence of Rural Housing Approval must be maintained in the file.
- DTI of 41%
  - Keystone will allow a higher DTI with a GUS Accept or Rural Housing Approval. Evidence of Rural Housing Approval must be maintained in the file.
- \$50 tolerance allowed for monthly payment increases.
- Increase of \$51 or more, see Credit: Liabilities

## Recently Listed Properties

No Cash-Out Transaction - the listing must have expired or been withdrawn prior to the application date. Note: if the property was listed in the prior 30 days to the application date, the Early EPO provision will be extended to one year.

## Rental Income

- Repayment Income:
    - Rents received for 24 months or more: (1) Positive net rental income received may be included in the repayment income. (2) Negative net rental income is treated as a recurring liability in the debt ratios. (3) Corresponding mortgage liabilities may be omitted from the debt ratios.
    - Rents received less than 24 months: (1) No rental income may be included for repayment purposes. (2) Corresponding mortgage liabilities must be included in the debt ratios.
  - Annual Income:
    - Include positive net rental income that will be received in the ensuing 12 months.
    - Negative net rental income is counted as zero in the annual income calculation.
- Reserves Not required. When reserves are entered into the GUS, the Broker must

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develop a two-month average. Assets such as 401ks, IRAs, etc., may be included up to only 60% of the vested value.

## Rural Housing Documentation

### RD 3555-18 Conditional Commitment for Single Family Housing Loan Guarantee

- Must include completed, signed, and dated Lender Certification pages. The lender's signature on the Lender Certification certifies to Rural Housing the loan was closed in accordance with all applicable conditions listed and no adverse changes have occurred since the commitment was issued.
- Loans may not have an outstanding contingent Conditional Commitment. All documentation used to satisfy the Conditional Commitment must be included in the file.

## Secondary Financing

Allowed in accordance to Rural Housing requirements

## Tax Transcripts

- Tax transcripts for all\* adult household members are required for the most recent two years.
- Transcripts may be provided in lieu of tax returns
- W2/1099 transcripts are not sufficient.
- Brokers must require each adult household member as applicable to complete and sign IRS Form 4506-C for the previous two tax years at the time of loan application. The 4506-C must request full transcripts with all schedules.
- Brokers must obtain and review the transcripts prior to loan closing and retain them in their permanent loan file
- \*IRS Transcripts are not required for full time students age 18 and older as long as the student is not an applicant, coapplicant not the spouse of an applicant

Guaranteed loans cannot be made to a household that exceeds the applicable adjusted annual income limit. The transcripts provide a qualify control measure to ensure all income and asset earnings reported to the IRS have been disclosed to the broker.

## Temporary Interest Rate Buydowns

Temporary buydowns are eligible subject to

- Max total interest rate reduction of 2%, max increase per year of 1% (only 1/0, 1/1, and 2/1 buydowns allowed)
- Maximum 2 years to reach standard note rate

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- Minimum 660 credit score
- Must qualify at the standard note rate without benefit of the buydown
- Must meet all other applicable USDA requirements, including but not limited to qualification, documentation of buydown, and funding of buydown.
- Borrower funded buydowns are not allowed
- The borrower must agree in writing that the temporary buydown funds will be placed in an escrow and paid directly to the lender each month to reduce the monthly mortgage payment
- The buydown account must be fully funded at origination
- The funds must be placed in an escrow account with a financial institution supervised by a Federal or state agency
- A copy of the escrow agreement, signed by the borrower and the provider of the funds, must be retained in the broker's loan file

## Utilities

For Purchase Transactions, Rural Housing requires the following inspections:

- Private Well/Water Supply: The local health authority or a state certified laboratory must perform a water quality analysis, which must be no greater than 120 days old at loan closing. The water quality must meet state/local standards.
- Private Septic System: The septic system must be free of observable evidence of failure. An FHA roster appraiser, government health authority, licensed septic professional, or qualified home inspector may perform the septic system evaluation. An FHA roster appraiser or qualified home inspector may require an additional inspection due to their observations. Existing dwellings appraised by a HUD roster appraiser, who has indicated the dwelling meets the required HUD handbooks does not require further septic certification.

## UW Method

- All loans must be submitted to Guaranteed Underwriting System (GUS)
- Keystone will manually downgrade an Accept decision to a Refer in the following instances (see Attachment 10-A for full details):
  - A GUS Accept must be downgraded to a Refer when the applicant has \$2,000 or more collectively in disputed derogatory accounts in the last 24 months.
- The loan must receive either an Accept/Eligible or Refer (manual).
  - To ensure the property location and annual income complies with Rural Housing requirements, Brokers must include the Accept/Eligible or Refer/Eligible in the file.
- Non-traditional credit acceptable in accordance with Rural Housing's guidelines. See Credit: History section for more information.

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