

CHAPTER 5: ORIGINATION AND UNDERWRITING OVERVIEW

5.1 INTRODUCTION [7 CFR 3555.51(b)]

Single Family Housing Guaranteed Loan Program (SFHGLP) loans are originated and underwritten by approved lenders. However, the process of requesting, issuing, and receiving the loan guarantee is one in which the lender and the Agency must cooperate closely. Lenders must provide the Agency with clear and accurate information so that Agency staff can promptly determine whether the loan qualifies for a guarantee. At the same time, Agency staff must process loan applications quickly and accurately to avoid delays that might hamper the lender's efforts to close the loan efficiently.

5.2 REQUESTING A GUARANTEE [7 CFR 3555.151]

Not all loans are appropriate for the SFHGLP. The lender should determine whether, based on preliminary information, it appears that the loan will meet the program's criteria. The lender should answer the preliminary eligibility questions below to assist in making this determination. The lender should also ensure that the applicants are fully informed about the requirements of the program.

A. Preliminary Determination of Applicant Eligibility

In general, the program is most appropriately used to offset the risk of making high loan-to-value loans in rural areas. It is not intended to offset risks that stem from a poor credit history or poor property condition. In particular, the lender should review the following items to make a preliminary determination of the applicants' eligibility.

- **Applicant Characteristics (Chapter 8)** Are the applicants able to secure conventional credit? Do the applicants own a dwelling? Are the applicants U.S. citizens or eligible non-U.S. citizens as detailed in Chapter 8? If the applicants are not U.S. citizens, they must produce evidence per Agency guidelines to qualify as a non-U.S. citizen.
- **Income (Chapter 9)** At the time of loan approval, is the household's adjusted income below the applicable moderate-income limit? To determine eligibility for the SFHGLP, the lender is responsible for documenting the income of all adult members of the applicants' household (not just those who will be signatories to the

note). Current income limits can be found in Appendix 5, on the USDA Income and Property Eligibility website at <http://eligibility.sc.egov.usda.gov/eligibility/>, or by using the Agency's automated underwriting system, GUS.

In addition to meeting adjusted annual income requirements, the applicants must also have sufficient repayment income and meet additional program requirements. Chapter 9 provides more detailed information about annual, adjusted, and repayment income.

- **Credit (Chapter 10)** Is the credit history consistent with program guidelines? The applicants must have a credit history that demonstrates the ability and willingness to repay the loan. GUS is unable to render an underwriting recommendation on supplemental credit reports. These should be uploaded with the application package.
- **Ratios (Chapter 11)** Do the applicants' PITI (Principal, Interest, Taxes and Insurance) and total debt (TD) ratios fall at or below the limits established by the Agency? Ratios are calculated using repayment income from applicants who will be a party to the Promissory Note.
- **Appraised Value/Loan amount (Chapter 12)** Is the loan amount supported by the appraisal's fair market value? If there is not yet a current appraisal, is the loan amount expected to be supported by the appraisal?
- **Site and Property (Chapter 12)** Does the property appear to be in an eligible rural area as designated by program guidelines? If warranted, did Agency staff confirm that the property location was rural? The Agency encourages lenders and those involved in the origination package to verify a property's eligibility on the Agency's property eligibility website. Property eligibility may be checked online at <http://eligibility.sc.egov.usda.gov/eligibility/>, or by using the Agency's automated underwriting system, GUS.

B. Informing the Applicant

Before requesting a loan guarantee, the lender should take the following steps to ensure that applicants have a general understanding of the SFHGLP.

- **Concept of a loan guarantee.** Describe to the applicants what a loan guarantee is, why it is used, and the benefits of a loan guarantee. Benefits include, but are not limited to, no required down payment and a fixed interest rate.
- **Loan guarantee fee.** Inform the applicants of the upfront guarantee fee to be paid at loan closing.
- **Annual fee.** Inform the applicants of the annual guarantee fee, if applicable.

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- **Occupancy.** Inform the applicants that they must occupy the property as their principal residence.
- **SFHGLP requirements.** Inform the applicants of program requirements such as income limits, property location eligibility, debt ratio thresholds, and other requirements such as the certifications outlined on Form RD 3555-21, *Request for Single Family Housing Loan Guarantee*.

5.3 UTILIZING THE GUARANTEED UNDERWRITING SYSTEM [7 CFR 3555.107(b)]

The Guaranteed Underwriting System (GUS) was developed to automate the process of credit risk evaluation for the SFHGLP. Automated underwriting (AU) systems are an efficient, consistent, objective, and accurate method of mortgage underwriting compared with traditional manual methods. GUS is a tool that helps evaluate the credit risk of the loan request. It compliments but DOES NOT replace the considered judgment of experienced underwriters.

GUS incorporates applicant eligibility and underwriting requirements of this Handbook 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/>. GUS considers mortgage loan application data entered by the approved lender, credit repository data, and income and property information to evaluate a potential applicant'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. GUS is not designed to evaluate the dependability of an applicant's income proposed for repayment. This remains the underwriter's responsibility to determine prior to final submission. Refer to Chapter 9 of this Handbook to determine adequate and dependable income for repayment ability. Lenders are reminded that data entered in GUS must coincide with that of the lender's permanent case file.

A. Functionality of GUS

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 applicants' adjusted annual household income meets the adjusted income limits in accordance with size of household, county, and state in which the applicants will reside.

Rules Based Engine

- The Engine incorporates the guidelines found in this Handbook regarding originating SFHGLP loans.
- Periodically new rules may be created to respond to issues analyzed within the SFHGLP portfolio.

Scorecard

- GUS uses a modified version of the FHA mortgage scorecard known as TOTAL, exclusive to Rural Development.
- 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 HUD.
- Examples of factors considered under the scorecard include but are not limited to credit history, payment-to-income ratios, and loan-to-value ratios.
- The scorecard allows favorable consideration to applicants that exhibit positive compensating factors such as available reserves for housing payments after loan closing.
- Periodically the scorecard may be modified to react to the changing lending market. When modifications occur, loans remaining as a preliminary recommendation may not receive the same underwriting results upon a final submission.

Credit Bureau Interface

- GUS links with a number of credit providers nationwide. Users may link to a full list of credit providers at <https://singlefamily.fanniemae.com/credit-information-providers>.
- 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. An attempt to access information from all national credit repositories will occur, but GUS can complete its credit risk evaluation with information from only one repository.

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- New or re-issued credit can be pulled through GUS.
- Credit reports pulled through GUS are valid for 120 days, unless the credit provider's expiration is more restrictive.
- Lenders are not required to be a Fannie Mae subscriber or partner to utilize the credit report interface in GUS.

B. Gaining Access to GUS

Approved lenders with active Lender Agreements will utilize GUS as part of their credit risk evaluation, when possible. Lenders who utilize this system will be required to enter into a User Agreement and obtain authorized access through the use of an eAuthentication account and password. GUS User Guides may be obtained at <https://www.rd.usda.gov/resources/usda-linc-training-resource-library/guaranteed-underwriting-system>.

C. Underwriting Guidance for Lenders

GUS evaluates the overall creditworthiness of the applicants based upon a number of credit variables and, when combined with remaining functionalities of GUS, indicates a recommended level of underwriting to determine a loan's eligibility for a SFHGLP guarantee. GUS will conclude that the credit and capacity for repayment of the mortgage are acceptable or will refer the loan to the lender's underwriter for further consideration, review, and manual underwriting.

Regardless of the underwriting recommendation provided, the lender remains accountable for compliance with SFHGLP eligibility requirements, as well as any credit, capacity, and documentation requirements. Applicants should not be approved or denied a SFHGLP guarantee solely on the basis of a risk assessment generated by GUS.

D. Compatible Loan Origination System (LOS) and Point of Sale (POS) Vendors

A single file import feature is available in GUS. GUS currently accepts Desktop Underwriter® Specification exported files. For guidance on the current version GUS is accepting at the time of file submission, the lender may refer to the GUS Lender User Guide, which can be located at <https://www.rd.usda.gov/resources/usda-linc-training-resource-library/guaranteed-underwriting-system>.

E. Cash Reserves

Although cash reserves after closing are not required for the SFHGLP, cash reserves are considered in the risk assessment provided by GUS. When disclosing the assets of applicants on the “Assets and Liabilities” page of GUS, lenders have the responsibility to determine if the asset is liquid or readily converted to cash and can be done so absent retirement or job termination. Assets such as 401 (k)s, IRAs, etc. may be included in the underwriting analysis up to only 60 percent of the vested value. Funds borrowed against these accounts may be used for loan closing, but are not to be considered as cash reserves. Gift funds from any source will not be included in the cash reserves calculation in GUS. Cash reserves are used for the purpose of qualifying applicants for a loan. Cash to close remains the lender’s responsibility to verify and document that applicants have sufficient funds to facilitate loan closing. Documentation will be retained in the lender’s permanent case file.

Assets should never be overvalued as it affects the risk assessment provided by the automated underwriting system and misrepresents the file presented for a Conditional Commitment for Loan Note Guarantee. Guidance on the calculation of reserves is explained in Chapter 9. In lieu of entering assets in GUS, the lender may underwrite to the most conservative approach with no consideration of assets on the “Assets and Liabilities” page and underwriting recommendation.

Assets may also influence program eligible income. Refer to Paragraph 9.4 of Chapter 9 for additional information regarding assets and program eligible income.

F. Omitting Liabilities

If a lender omits an adverse trade line when utilizing GUS and receives an Accept underwriting recommendation, an applicant explanation letter and supportive documentation of adverse trade lines will be retained by the lender. The lender will indicate the justification for the omission in the “If Omit, please specify” section of the “Asset and Liabilities” page.

G. Established Data Tolerances

Loan application data submitted to the Agency must reflect a true and accurate representation of the loan to be closed. This data must match the loan file submitted to the Agency when requesting the Conditional Commitment for Loan Note Guarantee or fall within the tolerances established by the Agency.

A tolerance threshold has been established when an increase in obligations do not exceed a cumulative total of \$50. Examples of these obligations include, but are not

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limited to, installment loans, revolving credit lines, real estate taxes, final homeowner's insurance premiums, etc. Loan files that have received a Conditional Commitment for Loan Note Guarantee do not require updated underwriting or resubmission of GUS when the cumulative total of obligations increase, but do not exceed the established thresholds. This tolerance threshold applies to situations where an increase in monthly debt provided on the loan application at time of Conditional Commitment differs from the amount recorded at loan closing.

Tax and Insurance Escrows: Approved lenders must ensure that an accurate estimate for the property tax/insurance component of an applicant's monthly mortgage payment is utilized when submitting loan applications to the Agency. The threshold policy should not be construed to allow lender manipulation of escrow variables to obtain approvals. Care must be taken to assume a realistic estimate is used for computing the monthly escrowed amount. For existing properties, the escrowed amount for real estate taxes is based on the actual taxes assessed. For new construction, tax estimates must be based on the land and completed improvements, not just on the land value (i.e. value of both the property and the completed dwelling). The lender may contact the taxing authority which has jurisdiction over the property to obtain an estimate of the taxes to be assessed for newly constructed homes. The Agency reserves the right to request and review files from lenders that are suspected of purposely underestimating tax and insurance payments in order to secure a commitment or loan guarantee.

Income: Verification of income shall be obtained prior to final submission. Therefore, data entered in GUS must be supported with verifying documentation of income in the lender's permanent loan file. Income shall be verified and documented in accordance with Chapter 9 of this Handbook.

Liquid Assets: Asset data reflected in GUS must be supported by verification documentation. The final submission will reflect the verified amount. Guidance regarding verifying assets can be found in Attachment 9-A.

H. GUS Findings and Underwriting Report

The responsibilities associated with producing loans of acceptable quality for loans guaranteed by the Agency remains the same for a GUS evaluated loan or a manually underwritten loan. 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, Accept with Full Documentation, Refer, Refer with Caution, or Ineligible. 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, loan eligibility, and applicant eligibility.

The GUS Findings and Underwriting Report provides important feedback messages and conditions for the loan. The lender must review the final findings, comply with the conditions, and provide the Agency with any additional documents, as applicable.

The final GUS Findings and Underwriting Report must be retained in the lender's permanent loan file. Non-GUS submissions, Accept with Full Documentation, Refer, and Refer with Caution files will be accompanied by Attachment 9-B, the Uniform Transmittal Summary (*FNMA Form 1008/Freddie Mac Form 1077*), or equivalent. The documentation provided must include calculations for annual, adjusted, and repayment income. Further clarification regarding income can be found in Chapter 9.

The Agency commitment will reference the GUS underwriting findings report as a condition of guarantee loan approval.

I. Lender Steps When Requesting a Commitment

1. Ensure the data entered in GUS is true, complete, accurate, and supported by the documents retained in the lender's permanent loan file.
2. The approved lender's underwriter must review and confirm the entire loan package meets SFHGLP requirements.
3. The lender should verify all required documents have been successfully uploaded per Attachment 15-A, Loan Origination Checklist. Underwriting documents should be combined into a single black and white file. The appraisal report must be uploaded as a separate color file.
4. Submit the file in GUS as a "Final Submission" to electronically transmit the loan application to the Agency.
5. If the loan is a "Refer" or "Refer with Caution," the lender's underwriter must manually underwrite the loan to determine if the applicants are creditworthy, in accordance with SFHGLP credit policies and guidelines. If approved, the lender's underwriter will submit the file in GUS as a "Final Submission" to electronically transmit the loan application to the Agency. Additional documents are required for loans receiving a "Refer," "Refer with Caution" or "Full Documentation" recommendation.
6. Loans that are unsupported by GUS must be manually submitted and underwritten. However, the documents can be submitted through GUS. A job aid

for this type of submission is available in the USDA LINC Training and Resource Library in the “Loan Origination” tab located at <https://www.rd.usda.gov/page/usda-linc-training-resource-library>.

J. GUS Underwriting Recommendations

Based on the analysis of credit, capacity, and other loan characteristics, GUS will render an underwriting recommendation. The recommendation is based upon the data entered in GUS with the representation from the lender that the data is true, complete, accurate, and verified. The following represent possible underwriting recommendations with guidance on documentation to be submitted to the Agency when requesting a Conditional Commitment for Loan Note Guarantee.

ACCEPT/ELIGIBLE Underwriting Recommendation

Minimal documentation provisions apply to GUS underwriting recommendations that receive an Accept, unless a quality control message on the GUS Underwriting Findings Report indicates an Accept with Full Documentation file is required. A quality control message requiring a full documentation file will appear on the GUS Underwriting Findings Report upon final submission. Lenders should submit full additional documentation files as noted in Attachment 15-A, Loan Origination Checklist, for files for that receive GUS underwriting recommendations of Accept with Full Documentation.

If the property is located in a community property state and there is a non-purchasing spouse, additional documents may be required.

Accurate data is the responsibility of the approved lender. By submitting the mortgage loan application request through GUS as a final submission, the lender is representing that the data input is true, complete, accurate, and verified. Underwriting is the responsibility of the approved lender. Lenders are required to review the results of the GUS Underwriting Findings Report and credit reports. If necessary, make data changes and resubmit the loan to GUS. Approved lenders then make a lending decision using the Findings Report obtained from GUS, credit report(s), stable and dependable income, employment, assets, collateral, and other file documentation.

During the review process, should data appear to be questionable, the Agency reserves the right to request further supportive information. Files may be selected for full file review if the lender is a new user to GUS, has demonstrated a disregard for Agency policies and procedures, has a high first year delinquency rate, or loss payments in excess of the national average. Randomly, full documentation of a file in lieu of minimal documentation noted above will be requested when receiving an underwriting

recommendation of Accept. This random selection is for quality control purposes. A message on the lender's final pass of underwriting will confirm when a full documentation file is required. Full file documentation reviews are to confirm the data input into the GUS file accurately reflects that of the lender's file and documentation.

Mortgage loan documents will be delivered electronically through GUS. In cases when the system may be unavailable, or a transition to the system is occurring, documents may be delivered by encrypted email to the appropriate production team at <https://www.rd.usda.gov/page/sfh-guaranteed-lender>. It is anticipated that all lenders will utilize the automated method when available.

ACCEPT/INELIGIBLE Underwriting Recommendation

Loans receiving this recommendation have been determined as meeting the SFHGLP risk standards for loan guarantee; however, do not meet certain eligibility guidelines. Typical reasons for an Accept/Ineligible recommendation may include:

- Property is not located in a rural area
- Income exceeds Agency guidelines
- Non-owner occupied transaction

Loans that receive a recommendation of Accept/Ineligible may still be eligible for a SFHGLP 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 Agency guidelines. Issues that caused the loan to be ineligible may be resubmitted to obtain an updated underwriting recommendation.

REFER or REFER WITH CAUTION Underwriting Recommendation

GUS loans receiving an underwriting recommendation of Refer or Refer with Caution will require the lender's underwriter to perform a manual underwriting evaluation of the mortgage loan application to determine if applicants are creditworthy in accordance with SFHGLP credit policies and guidelines. Risk factors have been identified based upon the data entered in GUS. The credit risk evaluation represented by a Refer with Caution is greater than the credit risk of loans that receive a Refer. Lenders should practice extreme care in their underwriting analysis and decisions when underwriting a loan file receiving a Refer or Refer with Caution recommendation. Lenders must submit additional documentation as noted in Attachment 15-A of this Handbook for files that receive GUS underwriting recommendations of Refer or Refer with Caution. Credit documentation,

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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 approved or denied solely on the basis of a risk evaluation generated by GUS. Mitigating circumstances according to Agency standard guidelines may be considered.

K. Lender's Reliance on the GUS System

Lenders represent and agree that they will not rely principally or exclusively on the GUS system in determining whether credit will or will not be extended to any applicants. The lender remains responsible for the loan qualifying decision in addition to eligibility of the household for the SFHGLP.

L. Lender's Permanent Loan File - Documentation Requirements

The lender's permanent case files must be supported with the following verified documentation, regardless of the GUS recommendation:

- Credit history;
- Adjusted Annual Income – determined for program eligibility;
- Stable and Dependable Income – determined for repayment and qualifying purposes;
- Assets – for income calculation, conventional credit test, and compensating factor analysis;
- Collateral requirements; and
- Any other documentation supporting the mortgage loan request.

Stable and dependable income will be documented in accordance with Chapter 9 of this Handbook and remains the responsibility of the lender. GUS does not evaluate or predict the stability of an applicant's continuance of income. This determination is performed by the lender prior to final submission of an application.

M. Resubmission Policy

The lender is responsible for the integrity of the data used to obtain an underwriting evaluation in GUS. 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. Lenders must follow the Conditional Commitment guidance outlined in Paragraph 15.7 of Chapter 15 of this Handbook prior to closing a loan. **Any request to release GUS for data updates after issuance of a Conditional Commitment will be treated as a new request, processed in date order of applications received.**

Under the following conditions, lenders must resubmit the loan through GUS for an updated evaluation:

- Applicants were either added or deleted from the loan application or critical information has changed.
- A **decrease** in the applicants' 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 applicants' ability to repay the mortgage.

The lender should submit a request via e-mail to the appropriate production team at <https://www.rd.usda.gov/page/sfh-guaranteed-lender>, requesting the loan be released from the Agency 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:

- A **decrease** in loan interest rate
- A **decrease** in loan amount
- A **decrease** of mortgage or personal liabilities
- An **increase** of assets

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- The bureau update of a credit report due to the expiration of the credit report (expires at 120 days prior to loan closing) after a final submit has occurred by the lender and a Conditional Commitment has been issued; yet prior to loan closing as long as no adverse impact has occurred that would affect the outcome of the underwriting recommendation. The lender must retain the updated credit report in their permanent case file.

N. Lender's Representations to the Agency upon Final Submission

The lender represents as of the date of final submission to the Agency the following:

- All terms, conditions and requirements of the SFHGLP are fully satisfied.
- All representations submitted by the lender are true, correct, and verified.
- The lender is in compliance with the criteria outlined in Chapter 3 and eligible to participate in the SFHGLP and utilize the GUS System.
- The lender has not misstated or omitted any material fact about the mortgage loan request for guarantee.
- Applicable laws, including state laws, terms of the note, and security instruments have been correctly and timely disclosed to all applicants.
- The lender represents that all persons executing documents on behalf of the lender are duly authorized to do so.

O. Termination

The Agency reserves the right to terminate the lender's approved lender status in the event of any default under the terms of the lender agreement.

A lender's suspension, withdrawal, or termination of approval to participate in the SFHGLP may be pursued if (not all inclusive):

- A lender fails to provide the Agency with information that is true, complete and accurate.
- Omission of any material fact on any application, other documents, or oral representation made to the Agency when seeking a Loan Note Guarantee.

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- A lender has a 30-, 60-, or 90- day delinquency rate or loss claim rate more than 50% higher than the average 30-, 60-, or 90- day delinquency rate or loss claim for all guarantees issued in the Agency's portfolio. This can be measured within a geographic area of the nation.
- Misuse of GUS in accordance with terms and conditions of the agreement to utilize the System.

Emphasis of any evaluation conducted will be placed on the risk that the loan(s) poses to the Agency.

Agency Actions

- Initially, contact the lender to ensure a firm understanding of the lender's terms and conditions of the lender agreement. Firm evidence of any violations must be discussed and addressed.
- Follow up the initial communication with a written notice outlining the agreed upon plan to improve.
- Allow a lender a reasonable time frame to institute a remedy and represent improvement to the identified findings.
- Monitor the lender for improvement.
- After continued evaluation of findings and results to improve, if the lender fails to comply, their approved lender status may be revoked.