

RD AN No. 3912 (1980-D)
October 4, 2003

TO: State Directors
Rural Development

ATTENTION: Rural Housing Program Directors, Guaranteed Rural Housing Specialists,
Rural Development Managers, and Community Development Managers

FROM: Arthur A. Garcia *(Signed by Arthur A. Garcia)*
Administrator
Rural Housing Service

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

PURPOSE/INTENDED OUTCOME:

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

COMPARISON WITH PREVIOUS AN:

This AN replaces AN No. 3903 dated October 15, 2003. The section "Loan Application Documentation" has been corrected to omit mention of a 2 percent Guarantee fee.

EXPIRATION DATE:
November 30, 2004

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

IMPLEMENTATION RESPONSIBILITIES:

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

Term

Term of the new loan will be 30 years.

Interest Rate

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

Security

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

Household Income

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

Approved GRH Lender

An approved GRH lender must make the loan.

Section 502 Leveraged Loans

The GRH program may not be used to refinance Leveraged Loans. Leveraged Loans are loans from a non-RHS source closed simultaneously with a 502 direct loan. The private sector lender takes a first lien; RHS takes a second lien on the same property. Because the first lien is not funded or guaranteed by the Rural Housing Service, it is statutorily prohibited to refinance Leveraged Loans.

Loan Amount Limitations

- Maximum loan amount cannot exceed the balance of the loan being refinanced, plus the guarantee fee, and reasonable and customary closing costs, including funds necessary to establish a new tax and insurance escrow accounts.

- Subordinate financing such as home equity seconds and down payment assistance “silent” seconds cannot be included in the new loan amount. Any existing secondary financing must be subordinate to the new first lien.
- Applicants are not eligible to receive "cash out" from the refinancing transaction. However, applicants may receive reimbursement from loan proceeds at settlement for their personal funds advanced for eligible loan purposes that are part of the refinance transaction, such as an appraisal fee or credit report fee. At loan closing, a nominal amount of “cash out” to the applicants may occasionally result due to final escrow and interest calculations. This amount, if any, must be applied to a principal reduction of the new loan.
- Unpaid fees, such as late fees due the servicer, are not eligible to be included in the new loan amount.

Rural and Non-Rural Areas

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

Applicant Eligibility

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

Processing Requirements

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

Reservation of Funds

After the lender has determined that an applicant will likely qualify for a guaranteed refinance loan, the lender or originator should request a reservation of funds to ensure that funds will be available at the time the loan is ready for final loan approval. Field staff will reserve funds upon receipt of Form RD 1980-86, “Request for Reservation of Funds” from the lender, and funds will remain reserved for 60 days. Field staff should use the Tracking Sheet distributed by the National Office on July 10, 2003 to report their refinance reservations on a weekly basis.

Loan Application Documentation

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

- Signed copy of the final loan application.
- Current credit report.
- Any late mortgage payments within the past 36 months on the existing GRH loan must be addressed by the lender and taken into consideration in the underwriting decision.
- Lender verification of applicant's current employment and income.
- Lender verification that the total adjusted income for the household does not exceed the current moderate-income level established for the area.
- Lender's underwriting analysis, including applicant's qualifying ratios for the loan being refinanced. Ratios must meet requirements as stated in RD Instruction 1980-D, Section 1980.345(c)(3). The monthly housing expense to income ratio may not exceed 29 percent and the total debt to income ratio may not exceed 41 percent. However, lenders may request a waiver of these ratio requirements with documentation of acceptable compensating factors. A satisfactory payment history for the existing mortgage is considered a strong compensating factor.
- Applicants will sign all applicable RD forms including Form RD 1980-21, "Request for Single Family Housing Loan Guarantee" and Form AD-1048, "Certification Regarding Debarment".
- Notwithstanding RD Instruction 1980-D, Section 1980.334 requirements, a complete Uniform Residential Appraisal Report (URAR) will be required only in cases when any accrued interest, closing costs and/or fees (other than the Guarantee fee) will be financed into the loan.
- No property inspections or thermal certification are necessary. Although RHS does not require repairs to be completed for refinance transactions, the lender may require completion of repairs as a condition of loan approval. Expenses related to property inspections and repairs may not be financed into the new loan amount.

Submission Process

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

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

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

Closing Costs and Lender Fees

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

Guarantee Fee

The guarantee fee for GRH refinances will be 0.5 percent. The guarantee fee may be financed into any GRH refinancing loan. As usual, applicants may finance closing costs and fees up to 100 percent of the current appraised value. However, it is possible that the loan-to-value (LTV) of the new loan could exceed 100 percent when the guarantee fee is financed. Loans may only exceed 100 percent LTV to the extent that the excess represents a financed guarantee fee. This provision applies only to GRH refinancing transactions.

Loan Note Guarantee Issuance Requirements

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

Guaranteed Loan System (GLS) Reporting

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

Funding Limitations

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

SUMMARY:

The intent of the new refinance feature of the GRH loan program is to give existing GRH borrowers with satisfactory payment histories the opportunity to benefit from a lower interest rate and increase their ability to be successful homeowners. Applicants must meet all existing eligibility requirements as stated in RD Instruction 1980-D.

The Agency should give applicants with existing GRH loans that are in good standing every consideration when applying for a GRH refinance loan. GRH refinance loans may not be used as a loss mitigation measure for loans that are presently not performing or for borrowers who are

not remaining current on their existing GRH loan. Delinquent GRH 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 Joaquín Tremols or Robert Keyes of the Single Family Housing Guaranteed Loan Division (SFHGLD). They may be reached at (202) 720-1452.