Holidays; DU Version 9.2; Reminders and USDA

**Purpose**
This announcement includes the following topics:
- Holiday Schedule.
- DU Version 9.2.
- Updates and Corrections Made.
- Reminder: FHA/VA ARM Look Back Period Deadlines.
- USDA Guideline changes.

**Holiday Schedule**
MSI will be closed to celebrate the Holidays as follows:
- **Wednesday, 12/24/14** MSI will close at noon, Central Time.
- **Thursday, 12/25/14** MSI will be closed to celebrate Christmas.
- **Thursday, 1/01/15** MSI will be closed to celebrate New Year’s Day.

**DU Version 9.2**
The weekend of December 13, 2014 DU will install DU version 9.2. MSI will require all new loan applications dated on/after 12/13/14 to be submitted to DU Version 9.2. Loans originally submitted to DU Version 9.1 may be resubmitted and closed under those guidelines through February 1, 2015.

Significant changes included in this new version are:
- The maximum LTV/CLTV/HCLTV Ratios for 1 unit cash-out refinance transactions are reduced from 85% to 80%.
- Changes to the DU Findings Reports.
- Various DU messages will provide better clarity and consistency to Multiple Financed Properties, New Property Pending Sale and Excessive Value Red Flags.
- Change to DU treatment of life insurance assets.

You may view the Fannie Mae Release Notes at this link: [DU 9.2 Release Notes](#).

**Updates and Corrections Made**
MSI has re-posted the following changes:
- **Conforming Product Suite:**
  - Corrected the Special Considerations/5-10 Financed Properties to more clearly state that only Fixed Rate Mortgages are permitted.
  - Removed the geographic restrictions for Maricopa County, AZ.
- **Government Product Suite:**
  - Removed the geographic restrictions for Maricopa County, AZ.

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Holidays; DU Version 9.2; Reminders and USDA, Continued

Reminder:
FHA/VA ARM Look-Back Period

In response to the CFPB 2013 Final Rule entitled “Mortgage Servicing Rules under the Truth in Lending Act (Reg Z)”. VA and FHA have updated their policies to require adjustable rate mortgages (ARM) loans to have a minimum 45-day look-back period.

This would require that an interest rate adjustment resulting in a change to the Borrower’s monthly payment, be based on the most recent index value available 45 days before the date of the rate adjustment.

MSI will implement this change on the following schedule:

- Loans with Notes that have less than a 45-day look-back period:
  - Loan must be closed on/before 12/15/14.
  - Loans closed in the Seller’s name must be purchased by MSI no later than 1/01/15.

- Loans with Notes that have a 45-day or more look-back period:
  - Loans may be purchased on/after 12/15/14.

USDA Guideline Changes

MSI is currently following the updated guidelines posted by USDA at this link: USDA Handbook 3555 - 12-01-14 (Note that the guidelines still are marked “Draft”); MSI expects further clarifications from the USDA.

- MSI has attached an overview of the guidelines that have changed to this Announcement. Note that this covers ONLY the changed information.
  - Please review to ensure that loans are submitted to MSI underwriting including all required documentation.

- MSI expects to post our updated USDA Product Suite no later than 12/12/14. Changes will be identified by yellow highlight.
  - MSI will continue to update guidelines as USDA refines and clarifies their new handbook.

- MSI expects that all loans submitted for underwriting to MSI are in full compliance with the updated USDA guidelines.

Effective Date

As noted herein.

Seller Guide

The Mod Corr Seller Guide and any other applicable posted documents will be updated within 2 business days of the effective date of each topic.

Questions

If you have questions, contact your Account Executive.
MSI USDA 3555 Handbook Changes Overview

**Important Notes:**

- Effective 12/01/14 the 7CFR 3555 Handbook in DRAFT form became the required handbook for guidance for originating, underwriting and servicing USDA Guaranteed Loans.
- This overview covers **ONLY** the changes to the already existing guidelines that were in-place prior with the 1980-D and subsequent AN's.
- The full 3555 Handbook can be found at this link: [USDA Handbook 3555 - 12-01-14](#). MSI requires all loans submitted to MSI for Underwriting be in full compliance with the new guidelines.
  - **Note:** MSI underwriters will underwrite each USDA loan to ensure that deserving quality Borrowers receive a USDA loan, and that each loan is an acceptable market risk for MSI. To that end, as permitted within USDA guidelines, MSI may “downgrade” a GUS decision and manually underwrite the loan.

3555-21 Form

- USDA has designed a completely new form; as of 12/03/14, USDA retracted their requirement for the initials of each applicant on each page of the 3555-21 Form; initials are now optional, but the borrower’s signatures are required on Page 2.
- The new form is 7 pages long and incorporates loan data, Title 18, Debarment, Annual and Repayment income calculation sheets
- This form is required to be explained to the borrower as well as executed on page 2 and providing answers to questions on page 1
- The finalized form must be printed from GUS and completed by the underwriter with the finalized data from the GUS system.
- PRIOR to submission to the USDA office for application for a commitment, and AFTER the underwriter has completed their underwrite and assessment of the borrower’s qualifying and eligibility criteria, the completed form is required to be initialed on all pages by all qualifying borrowers and returned to the underwriter.
- The form is located on the MSI website at this link: [Form 3555-21](#)

Multiple Properties

- The borrower may retain a current property provided the following are met:
  - They do not have an outstanding lien on a currently insured under USDA 502 Direct or Guaranteed program
  - Current home is uninhabitable or functionally inadequate
  - The new property will be owner occupied by the borrower(s)
  - Commuting distance no longer an allowable reason for allowing for another home
  - Overcrowding can only be considered when the number of people in the home will exceed 1.5 people per ROOM (not bedroom).
- The agency will no longer consider locale, school districts, crime or better amenities as reason for the property being functionally inadequate
  - The borrower is still required to qualify with the full PITI of the current property in addition to the proposed property. The mortgage payment can only be offset by a full 24 months of Schedule E filing on the property.
- The full definition of Owning a Dwelling can be found in 3555 8.2 A

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MSI USDA 3555 Handbook Matrix, Continued

<table>
<thead>
<tr>
<th>LDP/GSA (SAM) Check</th>
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<tbody>
<tr>
<td>✓ Both LDP and GSA checks will be required on the following entities; each borrower, seller, listing/selling agent, real estate agency, loan officer and builder. Debarment from either agency makes the loan &quot;Ineligible&quot;</td>
</tr>
<tr>
<td>✓ The LDP (Limited Denial of Participation) list can be found at this link: <a href="http://www.hud.gov/offices/enforce/ecmemo.cfm">http://www.hud.gov/offices/enforce/ecmemo.cfm</a></td>
</tr>
<tr>
<td>✓ The GSA/SAM (System for Award Management) list can be found at this link: <a href="https://www.sam.gov/portal/SAM/#1">https://www.sam.gov/portal/SAM/#1</a></td>
</tr>
</tbody>
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<thead>
<tr>
<th>Maximum Interest Rate</th>
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<tbody>
<tr>
<td>✓ The new max interest rate is based on 1.0 bps over the Fannie Mae 90 day rate - rounded up to the nearest quarter.</td>
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<thead>
<tr>
<th>Definition: Conventional Credit</th>
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<tbody>
<tr>
<td>✓ USDA has better defined the definition of &quot;Conventional Credit&quot; stating that the ratios of 28/36 are effective after the 20% downpayment has been factored in.</td>
</tr>
<tr>
<td>✓ The full definition of Conventional Credit can be found in 3555 8.2 B</td>
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<table>
<thead>
<tr>
<th>Refinancing current USDA 502 Direct or Guaranteed Loans</th>
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<tbody>
<tr>
<td>✓ The agency is has retained refinance guidelines from AN4738, please refer to the link below to view the AN: <a href="http://www.rurdev.usda.gov/SupportDocuments/an4738.pdf">http://www.rurdev.usda.gov/SupportDocuments/an4738.pdf</a> OR attachment 6-A in the 3555 Handbook under 3555 6.4 A</td>
</tr>
<tr>
<td>✓ All refinances may now be run through the GUS engine, this includes Streamline and Non-Streamline options</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Site Requirements</th>
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<tbody>
<tr>
<td>✓ The agency has better defined income producing properties and allowable structures on the site</td>
</tr>
<tr>
<td>✓ There is no longer the requirement to adhere to the 30% limit on site value</td>
</tr>
<tr>
<td>✓ The entire Section VI Cost Approach of the appraisal must be completed</td>
</tr>
<tr>
<td>✓ Income-producing buildings used chiefly for agricultural, commercial or livestock production are not eligible</td>
</tr>
<tr>
<td>✓ Storage sheds are permitted provided they are not used for income-producing purposes without requiring an adjustment</td>
</tr>
<tr>
<td>✓ In-ground pools no longer require an adjustment or an approval from the State Director</td>
</tr>
<tr>
<td>✓ Sites that have a large garden (without producing income) or barns to house animals for hobby are eligible</td>
</tr>
<tr>
<td>✓ Properties used for home-based operations such as daycare, small scale craft production, in-home self-employed work are eligible provided the property or any portion of the is not altered to accommodate the business use</td>
</tr>
<tr>
<td>✓ The full guideline of Site Requirements can be found in 3555 12.4</td>
</tr>
</tbody>
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MSI USDA 3555 Handbook Matrix, Continued

**Appraisals**
- The agency has better defined appraisal requirements
  - There is no longer the requirement to adhere to the 30% limit on site value
  - The entire Section VI Cost Approach of the appraisal must be completed
  - The Estimated Reproduction Cost-New Improvement is required on all existing dwellings less than 1 year old. Estimated Replacement Cost is completed for actual age
- The full guideline of Appraisals can be found in 3555 12.5

**Private Water and Wastewater**
- The agency has better defined nonpublic water and wastewater requirements
  - Water purification systems are acceptable provided they are durable and meet the requirements of the state health or regulatory body
  - Water quality test is good for 120 days (formerly 90 days)
  - Feasibility of hookup is required. If the property can be feasibly hooked up for $10,000 or less and can be financed, the property must be serviced by public water and wastewater
  - Cisterns are not acceptable (already an MSI guideline)
  - It is acceptable for wells or wastewater to be on an adjacent site provided there are recorded water rights, or encroachment rights for access and limit tampering
  - Shared wells are acceptable. They must meet HUD Handbook 4150.1 and all applying mortgagee letters. No more than 4 properties per well head
  - The agency has defined what they will accept as a Community water and wastewater system
  - Provided the appraiser is current on the HUD Roster, their certification to HUD Handbooks will suffice for the septic inspection.
- The full guideline of Water and Wastewater can be found in 3555 12.6

**Escrow Accounts for Repairs**
- The full guideline of Escrow for Exterior and Interior Development can be found in 3555 12.9 C and D respectively
- The full guideline of Escrow Completion without the Assistance of a Contractor can be found in 3555 12.9 E

**General Statements:**
- The agency has better defined their requirements for the establishment of escrow accounts for both interior and exterior work
  - The cost of the work cannot exceed 10% of the final loan amount
  - The intent is to accommodate minor repair/predications to meet the requirements of HUD Handbooks; it is not to rehabilitate the home
  - Livability of the dwelling is not affected due to the predication or the process of the repair

Continued on next page
Escrow Accounts for Repairs, Continued

- Loan funds may be used for items such as appliances, replacement of mechanicals, flooring, exterior development on new construction only (i.e., seed, sod, landscaping, driveway), handicap accessibility, and energy saving measures (i.e., windows, insulation). The escrow account must be established in a Federally supervised institution.
- MINIMAL repairs may be completed by the borrower at the lender's discretion (such as painting, installing a hand rail, etc.).
- The borrower may never receive loan funds for the cost of materials or labor. (Checks must be cut on HUD to the entity that supplies the necessary items. Checks cannot be cut for supplies purchased by the borrower on a credit card.)
- If loan funds are used for the repairs they must always appear on the HUD.
- Interior or Exterior repairs done AFTER close no longer require a holdback of 1.5X, however the holdback must appear on the HUD and be the amount of the bid and never less.
- Any remaining funds over the bid amount required on the borrower's side must be a Principal Reduction.

Interior Repairs Completed PRIOR to Close:
- The repairs may be done by the borrower or the seller depending on the type of repair (underwriter discretion).
- Repairs that are not considered to be simple or require a professional must be completed by a licensed contractor.
- If loan funds will be used for the repairs the bid or cost of materials must always appear on the HUD and may be paid out at close by the closing agent.
- The repairs must be completed in a workman-like manner and inspected prior to close to meet HUD Handbooks.

Interior Repairs Completed AFTER Close:
- The repairs may be done by the borrower or the seller depending on the type of repair (underwriter discretion).
- Repairs that are not considered to be simple or require a professional must have a bid and be completed by a licensed contractor.
- The bid or cost of materials must always appear on the HUD and paid to the appropriate party regardless of the source of funds (seller, borrower or loan proceeds).
- The pre-approved MSI Escrow Holdback Agreement form must be completed and executed at close on all repairs done after close.
- The repairs must be done in a workman-like manner and inspected to meet HUD Handbooks within 30 days of close.
- Once the repairs are complete and inspected to meet HUD Handbooks the Underwriter will review the inspection and authorize the release of the escrow funds to the respective party.

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MSI USDA 3555 Handbook Changes Overview, Continued

Escrow Accounts for Repairs, Continued

**Exterior Repairs Completed PRIOR to Close:**
- The repairs may be done by the borrower depending on the type of repair (underwriter discretion)
- Repairs that are not considered to be simple or require a professional must be completed by a licensed contractor
- If loan funds will be used for the repairs the bid or cost of materials must always appear on the HUD and may be paid out at close by the closing agent
- The repairs must be done in a workman-like manner and inspected prior to close to meet HUD Handbooks

**Exterior Repairs Completed AFTER Close:**
- The repairs may be done by the borrower depending on the type of repair (underwriter discretion)
- Repairs that are not considered to be simple or require a professional must have a bid and be completed by a licensed contractor
- The bid or cost of materials must always appear on the HUD and paid to the appropriate party regardless of the source of funds (seller, borrower or loan proceeds)
- The pre-approved MSI Escrow Holdback Agreement form must be completed and executed at close on all repairs done after close
- The repairs that are not weather related, must be done in a workman-like manner and inspected to meet HUD Handbooks within 30 days of close
- The repairs that are weather related, must be done in a workman-like manner and inspected to meet HUD Handbooks within 180 days of close
- Once the repairs are complete and inspected to meet HUD Handbooks the Underwriter will review the inspection and authorize the release of the escrow funds to the respective party

**Seller Contributions**
- The agency has better defined limitations on seller contributions
  - There is now a 6% limit on seller contributions
  - The seller contributions can only be used to pay for eligible loan purposes
    - it cannot be used to pay for borrower debts
- The full guideline of Prohibited Loan Purposes can be found in 3555 6.3

Continued on next page
Properties in Flood Zones

✓ The agency has better defined requirements for properties that are in flood zones.
  • There is no longer the requirement to obtain the elevation cert on existing properties
  • New Construction may be located in a flood zone provided the following;
    • A LOMA is obtained, removing the property from the designated flood hazard area, or
    • The Elevation Certificate is obtained showing that the lowest level of living space as well as all mechanicals are below the Base Flood Elevation
  • Flood insurance is required on all properties where a portion of any structure contingent to the dwelling exists within the flood hazard zone.
  • Structures that are detached from the dwelling that are not residential structures are not required to be insured through the NFIP

✓ The full guideline of Hazard Identification can be found in 3555 12.10 B

Discount Points

✓ The agency has better defined limitations on discount points
  • Discount points can NEVER be financed into the loan amount, they must be paid for outside of loan proceeds and seller contributions
  • The only exception to this is for borrowers who are classified by the agency as low income households available at this link: http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=pageLoad&requestInfo=GuaranteedIncomeLimits&NavKey=incomelimit@12

✓ The full guideline of Eligible and Prohibited Loan Purposes can be found in 3555 6.2 & 3555 6.3 respectively

Annual Income

✓ The agency has better defined their requirements on considering and documenting Annual Income
  • A 4506T must be signed by ALL household members age 18 and over and transcripts pulled and evaluated prior to submission to the USDA office for a commitment
  • Full time students (who have documented their full time student status) that are temporarily absent from the home, but will consider the subject property to be their residence when they are not at school are required to document their income.
    • Any income over $480 is disregarded in the annual income calculation
  • Net Family assets are defined as ALL liquid assets held by ALL household members. These liquid asset accounts are required to be documented in accordance with asset documentation requirements regardless of funds to close

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MSI USDA 3555 Handbook Changes Overview, Continued

Annual Income, Continued

- Interest and Dividend income derived from asset accounts and other sources are required to be included in the annual income calculation regardless of dollar amount. The agency has offered two methods to calculate this income;
  - **Amounts aggregate under $5000** are required to use the actual amount of assets derived from these assets - the borrower will have to obtain documentation from their financial institutions as to the amount of assets derived from their asset account
  - **Amounts aggregate over $5000** are required to use the actual amount of assets derived from these assets OR the averaged aggregate amount times the passbook savings rate
- The full guideline of Annual Income can be found in 3555 9.3

Assets

- The agency has better defined their requirements on considering assets and cash reserves
  - Asset accounts can no longer be considered at the most recent balance available; the agency is now requiring that the lesser of the current balance or a two month average be used for reserves.
  - Amounts deposited in the form of gift funds, cash on hand or withdrawals from retirement accounts cannot be counted towards reserves, the account balance must be reduced by the amount of the deposited funds and the averaging function applied
- Retirement funds may be considered as reserves provided they are counted at 60% of the vested balance and documentation has been provided to show unrestricted access to those funds
- All assets input into GUS must be backed up with documentation that meets the guidelines set forth in the 3555
- Gift Funds:
  - Gift Funds may now be provided by household members
  - Gift funds must be from an acceptable donor and from an acceptable source. "Cash on hand" is not an acceptable source
  - Gift funds may be used for cash to close, but cannot be used as reserves and must be backed out of the borrower's averaged asset figures
  - Gift funds (outside of those received from a non-for-profit third party) may be used to pay off debts owed by the borrower prior to submission for a Conditional Commitment
- The full guideline of Assets can be found in 3555 5.3 E

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MSI USDA 3555 Handbook Changes Overview, Continued

**Repayment Income**
- The agency has better defined their requirements on Income for the purposes of repayment
  - Nontaxable income may now be universally grossed up by 25% regardless of the attributable tax savings
  - The tax transcript must be obtained in accordance with income documentation PRIOR to submission to the USDA office for a Conditional Commitment
  - The agency is actively requesting income documentation that covers a consecutive 30 day period, borrowers paid bi-weekly will be required to present 3 (three) consecutive paystubs.
- The full guideline of Repayment Income and Documentation can be found in 3555 9.7 and 9.10 respectively

**Ratio Analysis**
- The agency has better defined their ratio thresholds
  - Standard ratios are still at 29/41. MSI may accept extended ratios with a GUS Accept/Eligible.
  - Ratios may expand up to 32/44 with excellent compensating factors, ratios exceeding 32/44 require a GUS approval
  - These ratios may be exceeded with a GUS accept rating and based on compensating factors
  - Installment accounts with less than 10 payments may now be excluded from the ratios at underwriter discretion. Installment debts may not be paid down to the 10 payment threshold
  - Revolving accounts that do not exhibit a payment are required to be included at the greater of $10.00 or 5% of the outstanding balance, OR the statement documenting the required payment may be used
  - If a borrower has used their credit card for payment of loan services such as an appraisal, this needs to be factored manually into the debts and the borrower qualifies with this additional debt
  - Student loans are required to be considered at 1% of the outstanding balance or a documented verified fixed payment over the life of the loan. (IBR, deferred or graduated payment plans are required to use the 1% rule regardless.)
  - Mortgage debt that is being excluded from the ratios requires that a quit claim deed can be furnished in addition to the proof of timely payment from the other note holder out of their own funds
  - Only co-signed debts may be excluded from the ratios with proof of timely payment from the other note holder out of their own funds. Debts coded on the credit report as "I" (individual) or "J" (joint) cannot be excluded from the ratios
- The full guideline of Ratios can be found in 3555 11.2

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MSI USDA 3555 Handbook Changes Overview, Continued

Credit and Trade Line Analysis

✓ The agency has better defined their requirements for credit and trade lines
  • The borrower must demonstrate at minimum three trade lines (both current and historical) with a minimum 12 month satisfactory history per trade line (deferred student loans do not count regardless of the history being reported)
  • MSI has expanded to accept the use of alternative/non-traditional credit on a limited basis and at the discretion of the underwriter for borrowers who have demonstrated excellent compensating factors to fulfill the trade line requirement USDA has set forth (discussed further in the manual underwriting section) The borrower must have an existing GUS Accept rating in order to qualify for a manual downgrade
  • **Collection accounts aggregate over $2000** (excluding medical) are required to be paid in full or a payment arrangement used in qualifying
  • **Collection accounts aggregate under $2000** are not required to be paid, however the borrower(s) must provide evidence why the circumstances around the collection, why it has not been paid, was it a circumstance within or outside the borrower's control and what has been done to prevent this from happening in the future
  • Borrowers wishing to pay off collections must prove funds available and they must be paid off prior to submission to the agency for a Conditional Commitment
✓ The full guideline of Credit can be found in 3555 10 (all)