



Announcement 15-02

Date: January 8, 2015

Topic: New USDA Rural Housing Rule and Handbook

PennyMac has aligned with the updated version of the rule governing USDA Rural Housing loans. In addition to the updated rule, Rural Housing released a technical handbook to better assist lenders in underwriting, documenting, and closing loans in accordance with Rural Housing’s requirements.

Some notable changes are shown below. Please note that the below chart does not represent all the changes. Lenders are strongly encouraged to review the Rural handbook for complete information.

Topic	Previous Guideline	New Guideline
Loan Purpose	<i>New</i>	<ul style="list-style-type: none"> • Combination construction and permanent financing not allowed. • Two-closing construction to permanent financing is allowed, and may be structured as a purchase transaction.
Interest Rate	For Purchase Transactions, the maximum interest rate for the Rural Development Guaranteed Rural Housing Program is defined as the FNMA 90-day actual-actual yield requirements plus 60 basis points, rounded up to the nearest quarter percent. Provide a copy of the lock confirmation which includes the date the loan was locked.	<ul style="list-style-type: none"> • The loan must be written at an interest rate that: <ul style="list-style-type: none"> - Is fixed over the term of the loan; - Does not exceed the greater of the Fannie Mae or Freddie Mac rate for 30 year fixed rate conventional loans, and - If the interest rate increases between the time of the issuance of the conditional commitment and the loan closing, the lender will note the change in the loan closing package and submit appropriate updated documentation and underwriting analysis to confirm that the borrower is still eligible. • The interest rate cap is 100 basis points over the current Fannie Mae yield for 90-day delivery for 30-year fixed rate conventional loans, rounded up to the nearest one-quarter of one percent.
Credit Reputation	<i>New</i>	<ul style="list-style-type: none"> • At least one applicant whose income or assets are used for qualification must have at least three trade line payment references that have existed for at least 12 months to establish a credit reputation and validate the credit score. • Required for all loans, including GUS approved transactions.
Housing History	Not required with a GUS accept. Manual underwriting must follow Rural Housing repayment history requirements.	<ul style="list-style-type: none"> • Purchases: Manually underwritten loans with FICOs less than 680 require a rent history of 0x30x12 • Refinances: The existing loan must have been current for the 180-day period prior to the conditional commitment request to refinance
Verbal Verification of Employment (VVOE)	VVOE required within 120 days of note.	<ul style="list-style-type: none"> • Prior to loan closing, lenders are required to obtain a verbal verification of employment for all salaried applicants 10 business days (prior to the note date). • Lenders will confirm with a third party source the existence of an applicant’s business no more than 30 calendar days prior to the note date for self-employed applicants.

Tax Transcripts	<i>New</i>	<ul style="list-style-type: none"> • To validate income documentation and disclosure provided by the applicant's and other adult household members that will reside in the home, Lenders will require each adult member of the household to complete and execute IRS Form 4506-T (or comparable IRS form) for the previous two years at the time of loan application. • Validation from the IRS must be received by the Lender prior to request for Conditional Commitment for Loan Note Guarantee.
Departing Residence: Rental Income	Rental income is allowed on a departing residence when the residence is outside the commuting area, or is not structurally sound, functionally adequate, regardless of the amount of time the rents have been received	Rental income from the departing residence may not be used if received for less than 24 months. Rents received less than 24 months do not represent a stable continued source of income for repayment income due to lack of history and cannot be used when qualifying the loan request.
Maximum Number of Properties Owned	Borrowers may not own a dwelling in the local commuting area. An exception is not required if the borrower owns a dwelling which is not structurally sound or functionally adequate	Current homeowners may be eligible for Rural Housing loans when owning another residence if applicants are: <ul style="list-style-type: none"> • Not financially responsible for another Rural Housing loan, • The subject is the primary residence, and • Applicants must be financially qualified to own more than one home.
Student Loans	Payment for the student loan is dependent on the type of loan. Additional documentation, e.g. letter from loan servicer, online statement, required, in addition to the credit report.	<ul style="list-style-type: none"> • If the student loan payment is fixed, use that payment. • If the payment is not fixed (graduated payment, Income Based Repayment, Interest Only, etc.) then use 1% of the balance. • Additional documentation of the payment is not required.
Long Term Obligations	Obligations with more than 6 months remaining must be included.	Obligations with more than 10 months remaining must be included.
Collection Accounts	<i>New</i>	A capacity analysis of the collection accounts must be completed. All non-medical collection accounts with a combined total of \$2,000 or more must have either: <ul style="list-style-type: none"> • Payment in full prior to or at closing, or • Payment arrangements with the payment included in the DTI, or • 5% default payment included in the DTI.
Sales Concessions	<i>New</i>	Financing or sales concessions may not exceed 6% of the sales price.
Appraisal Age	6 months from the request for conditional commitment	<ul style="list-style-type: none"> • 120 days old at loan closing. • Validity period of an appraisal may be extended to 240 days with an appraisal update report (120 days for the original appraisal plus 120 days for the Appraisal Update Report). • Validity period extend to 150 days without an appraisal update (120 days validity period plus a 30 day extension period). • The 30 day extension period cannot be used when the original appraisal report is updated.
Condo	Condos must be approved by FHA, VA, or Fannie Mae	Lenders must perform an underwriting review of the condo to ensure the project meets HUD, FHA, VA, Fannie Mae or Freddie Mac guidelines.
Swimming Pools	Pools are not included in the Appraiser's estimate of value	Rural Housing may approve dwellings with in-ground swimming pools.
Escrow Holdback: Interior	<i>New</i>	Escrow holdbacks for interior improvements are now allowed provided the holdback is limited to 10% of the final loan amount.

Please contact your Sales Representative with any questions.