

# USDA Rural Development

## General Description:

The Rural Housing Service (RHS) program provides low and moderate-income rural residents with better access to affordable housing finance options with little or no down payment or out-of-pocket costs. The loan is guaranteed by USDA Rural Development. The Borrower's adjusted gross income may not exceed 115% of the HUD median income limit and the property must be located in an eligible rural area.

USDA loans must be underwritten to the guidelines as required by USDA and further modified by this Product Description

Effective for all loans locked on or after: **October 12, 2023**

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## APPRAISAL REQUIREMENTS

### General Guidelines

- FNMA 1004/FHLMC 70: 1-unit residence
- FNMA 1073/FHLMC 465: All condominiums (including site condominiums)
- Appraisals must be AIR compliant.
  - Please refer to the "[Appraiser Independence Chapter](#)" chapter of the Citizens Correspondent Lending Manual for further requirements regarding AIR (previously HVCC).
- UAD (Uniform Appraisal Data) compliant appraisals are required.
  - See [Appraisal Standards & Guidelines](#) for UAD Requirements.
- Appraisal photographs must be color photos and meet all current USDA-RD handbook requirements.
- Qualified appraisers can attest the property meets HUD Handbook 4000.1 standards.
  - If the appraiser does not certify that a property meets the HUD Handbook standards, a home inspection report completed by a qualified home inspector is required per HB-1-3555.
- If the subject property is located in a FEMA Disaster Area, refer to the "[Disaster Requirements](#)" chapter of this manual for a current listing of counties and additional requirements.
- Age of Appraisal: Refer to USDA HB 1-3555, Chapter 12
- Inspection Requirements: Refer to USDA HB 1-3555, Chapter 12

## ASSUMABILITY

- May be assumable with conditions, subject to approval. Note: New purchaser and property are subject to all USDA eligibility requirements.

## BORROWERS (ELIGIBLE/INELIGIBLE)

### Eligible

- Borrower(s) that are unable to obtain the necessary conventional credit without the Rural Development Guarantee are eligible.
  - Refer to full requirements in the USDA HB 1-3555, Chapter 8.
- Individuals with a valid Social Security Number (Tax I.D. Number is not acceptable).
- Individuals only
- All borrowers on the loan must have a clear "A" CAIVRS response
- Maximum number of borrowers is 4.
- Inter Vivos revocable trusts permitted

<p><b>BORROWERS (ELIGIBLE/INELIGIBLE) (CONTINUED)</b></p>	<ul style="list-style-type: none"> <li>• Permanent Resident             <ul style="list-style-type: none"> <li>○ As long as the borrower holds a “Green Card” (INS Form I-551), the loan is eligible under the same guidelines/terms as a loan made to a U.S. citizen. Prior to submission of the Request for Single Family Housing Loan Guarantee (Form RD 3555-21). The borrower’s non-citizen alien identification must be run through the “System Alien Verification for Entitlements” (SAVE) System. The SAVE verification can be conducted through the GUS platform. An approved Green card application will not be acceptable. A copy of the front and back of the “Green Card” must be maintained in the file.</li> </ul> </li> <li>• Non-Permanent Resident:             <ul style="list-style-type: none"> <li>○ All Non-Permanent Residents must provide acceptable evidence of their eligible immigration status.                 <ul style="list-style-type: none"> <li>▪ Proof of valid social security number, and valid Employment Authorization Document (EAD), such as Form I-766, issued by the U.S. Department of Homeland Security.</li> </ul> </li> <li>○ Prior to submission of the Request for Single Family Housing Loan Guarantee (Form RD 3555-21), the borrower’s non-citizen alien identification must be run through the “System Alien Verification for Entitlements” (SAVE) System. The SAVE verification can be conducted through the GUS platform.</li> <li>○ If tax returns are required, they must be U.S. federal returns.</li> <li>○ Funds for closing must be in U.S. bank accounts. If funds were transferred from a foreign depository, the borrower must provide evidence that they owned the funds prior to the transfer.</li> </ul> </li> </ul> <p><b>Ineligible</b></p> <ul style="list-style-type: none"> <li>• Foreign nationals</li> <li>• Co-signers</li> <li>• Borrowers with diplomatic immunity.</li> <li>• Borrowers without social security numbers.</li> <li>• More than four (4) borrowers per transaction.</li> <li>• Non-occupant co-borrowers</li> <li>• Irrevocable trusts</li> <li>• <a href="#">HUD’s Limited Denial of Participation (LDP) list</a> and the <a href="#">System for Award Management (SAM) Excluded Party</a> must be checked. Any entity noted on either the LDP or SAM lists will cause the loan to be ineligible for purchase.</li> </ul>
<p><b>CASH RESERVES</b></p>	<ul style="list-style-type: none"> <li>• Refer to USDA HB 1-3555</li> </ul>
<p><b>CLOSING REQUIREMENTS</b></p>	<ul style="list-style-type: none"> <li>• The borrower(s) may not receive any cash back at closing, other than the documented amount representing costs paid in advance by the borrower from their personal funds (i.e. earnest money deposit, appraisal, credit report fees). Supportive documentation for any amount of cash back the borrower receives at loan closing is required.             <ul style="list-style-type: none"> <li>○ Refinance: (except in Texas) A nominal amount of cash back may occasionally result due to final escrow and interest calculations.</li> </ul> </li> <li>• The borrower(s) may not receive cash back for tax credits, funds in excess of the requested loan amount, or remaining seller concessions.</li> <li>• For POC items paid with a credit card, the Lender must document the updated payment/balance was included in the debt-to-income ratio.             <ul style="list-style-type: none"> <li>○ Re-imbursalment of POCs paid by credit card is not permitted.</li> </ul> </li> <li>• Interest credit permitted; loan must fund by the 10th calendar day of the month preceding the first payment date.</li> <li>• Balance as reflected by the title commitment or credit report must be consistent with the payoff shown on the Closing Disclosure.</li> <li>• A minimum of 12 months chain of title as evidenced by the title commitment is required.</li> <li>• One (1) month of the annual guarantee fee payment must be collected at closing.</li> <li>• The Note must reflect a late charge of 4% for payments not made within 15 days of the due date unless otherwise restricted by state law.</li> </ul>

<b>CONDOMINIUMS/ PUDS</b>	<ul style="list-style-type: none"> <li>• Units in condominium projects are eligible for USDA guarantee if the condominium has been approved or accepted by FHA, FNMA or FHLMC or VA.</li> <li>• VA condo eligibility can only be used if the project has been submitted to VA for approval less than two years prior to the application date.</li> <li>• For FHA Approved Projects provide a fully completed “FHA Approved Condo Certification”</li> <li>• For FNMA/FHLMC provide evidence of current project approval. Refer to Citizens Condo Requirements-Lender Full/CPM Review or PERS.</li> </ul>
<b>CONSTRUCTION-TO-PERMANENT</b>	<ul style="list-style-type: none"> <li>• 1 x close and 2 x close transactions are permitted.             <ul style="list-style-type: none"> <li>◦ The guarantee fee structure for a 1 x close is treated as a purchase transaction.</li> </ul> </li> <li>• Construction must be fully completed prior to purchase by Citizens for all construction-to-permanent transactions.             <ul style="list-style-type: none"> <li>◦ 1 x close requires loan modification fully completed and title update provided.</li> </ul> </li> <li>• Escrow holdbacks are not permitted at time of purchase by Citizens.</li> <li>• Construction rehabilitation is not permitted (newly constructed dwelling only)</li> <li>• Cash back to the borrower is not permitted. Lenders must apply any excess funds from the construction proceeds to reduce the principal balance.             <ul style="list-style-type: none"> <li>◦ If excess funds remaining are from unused prepaid expenses as per handbook 3555-21, the borrower may receive cash back if these funds were paid by the borrower from their personal funds and do not represent loan funds.</li> </ul> </li> <li>• 1 x close transactions:             <ul style="list-style-type: none"> <li>◦ Delegated underwriting only</li> <li>◦ Lenders must follow all applicable requirements as outlined in Handbook 3555-21, Chapter 12, sections 12.12 through 12.26</li> </ul> </li> <li>• 2 x close transactions:             <ul style="list-style-type: none"> <li>◦ Lenders must follow all applicable requirements outlined in Handbook 3555-21, Chapter 6, D. Refinance, and D.1 Construction Financing.</li> </ul> </li> <li>• Refer to <a href="#">Appraisal Standards &amp; Guidelines</a> for more information.</li> </ul>
<b>CREDIT HISTORY</b>	<ul style="list-style-type: none"> <li>• Traditional/Non-Traditional Credit History             <ul style="list-style-type: none"> <li>◦ Traditional credit is the credit information reported on any of the three (3) approved credit agencies.</li> <li>◦ Non-traditional credit is not permitted.</li> </ul> </li> <li>• Minimum Tradeline Requirements             <ul style="list-style-type: none"> <li>◦ GUS Accept: GUS will determine the acceptable tradelines</li> <li>◦ GUS Refer/Manually Underwritten Loans:                 <ul style="list-style-type: none"> <li>▪ At least one borrower whose income and assets are used for qualification must have at least two eligible tradelines (open or closed and/or paid in full) with at least 12 months of repayment history reflected on the credit report associated with GUS.</li> <li>▪ Eligible tradelines include:                     <ul style="list-style-type: none"> <li>• Loans (secured or unsecured)</li> <li>• Revolving accounts</li> <li>• Installment credit</li> <li>• Credit cards</li> <li>• Collections</li> <li>• Charge-Off accounts</li> <li>• Deferred accounts</li> <li>• Authorized user accounts with one of the following:                             <ul style="list-style-type: none"> <li>◦ Tradeline is owned by another borrower on the loan, or</li> <li>◦ Tradeline is owned by the borrower’s spouse, or</li> <li>◦ Borrower can provide satisfactory documentation that they have made payments on the account for the previous 12 months prior to the application.</li> </ul> </li> </ul> </li> <li>▪ Ineligible tradelines include: public records, disputed accounts, court ordered debts and self-reported accounts</li> </ul> </li> </ul> </li> <li>• Authorized User Tradelines - Refer to HB 1-3555</li> </ul>

## CREDIT HISTORY (CONTINUED)

- Bankruptcy
  - Chapter 7 bankruptcies discharged less than three (3) years from the date of the date of the Conditional Commitment (3555-21) are ineligible.
    - When a Chapter 7 bankruptcy absolved the mortgage debt, any subsequent foreclosure or remaining foreclosure action pending (including deed-in-lieu of foreclosure or pre-foreclosure short sale) is not considered as adverse credit.
      - If the title to the property has not been transferred out of the borrower's name, the borrower must qualify with the real estate taxes, home insurance premiums, HOA fees, special assessments.
    - Loans with a GUS accept will not be required to be manually downgraded when the bankruptcy discharge included the mortgage debt.
    - The waiting period will be based upon on bankruptcy discharge date and not upon the subsequent foreclosure action completion date.
  - Chapter 11, 12 or 13 bankruptcies discharged less than one year from the date of the Conditional Commitment (3555-21) are ineligible.
- CAIVRS - All borrowers must be screened through CAIVRS and receive "A" response.
- Charge-Offs, Collections, Consumer Counseling Plans Refer to HB 1-3555
- Delinquent Child Support
  - Borrowers with delinquent child support payments subject to collection by administrative offset are ineligible unless it is documented that:
    - The payments are brought current, or
    - The debt is paid in full or otherwise satisfied.
  - Borrowers with presently delinquent child support payments that are not subject to an administrative offset are ineligible unless it is documented that:
    - That the borrower has an approved repayment agreement in place with three timely payments made prior to closing, or
    - The arrearage is paid in full prior to closing, or
    - A release of liability is documented
- Delinquent Federal Debts
  - Delinquent federal non-tax debts are ineligible unless the debt has been paid in full or a release of liability is documented.
- Delinquent Federal Tax Debt
  - Borrower who owe taxes and do not pay in full are determined delinquent by the IRS.
  - Repayment Plans
    - Any borrower with a delinquent federal tax debt is ineligible unless they have a repayment **plan(s)** approved by the IRS.
    - A minimum of three (3) timely payments must be paid
      - Timely is defined as payments that coincide with the approved IRS repayment **agreement(s)**.
      - The borrower may not prepay a lump sum at one time to equal three monthly payments to meet this requirement.
    - Documentation must be obtained documenting the approved repayment **plan(s)** and the three (3) timely payments.
    - Payments must be included in the debt-to-income ratio if there are 10 or more payments remaining.
      - If there are ten or less payments remaining in the repayment plan, the debt may be excluded if the payment does not exceed 5% of the monthly repayment income.
  - Approved Extension
    - An IRS approved extension to file a tax return does not grant the borrower additional time to pay the taxes that are due.
    - Borrowers must pay their estimated tax due by the IRS filing date or they are considered to be delinquent by the IRS.
      - Borrowers that have owed taxes on prior years returns:
        - An estimated tax payment must be made to the IRS by the specified IRS deadline.
      - Borrowers that have received refunds on prior years returns:
        - An estimated tax payment due to the IRS would not be required.

## CREDIT HISTORY (CONTINUED)

- Failure to File
    - Borrowers that are required to file taxes but have failed to do so for the current or previous years by the IRS due dates without approved extensions and/or required tax payments as determined by the IRS are ineligible.
- Disputed Accounts - Derogatory and Non-Derogatory - Refer to HB 1-3555
- Foreclosure/Deed-in-Lieu/Pre-Foreclosure/Short Sale
  - Foreclosure/Deed-in-Lieu
    - Must have been recorded/completed 36 months prior to the date of the initial application
  - Short Sale
    - A short sale closed within 36 months prior to the date of the initial application is not adverse credit.
      - GUS Accept: A credit exception is not required.
      - Manually underwritten loans: Not permitted
      - Property awarded to the ex-spouse/remaining party in a post-divorce/legal separation agreement:
        - If a short sale occurs, it may be documented the loan was paid as agreed prior to the date of the divorce decree/legal separation agreement
- Frozen Credit: Credit: Credit must be unfrozen and available from all repositories. USDA-RD will not permit exceptions.
- Judgments (Non-Federal)
  - Court ordered judgments must be paid in full or have evidence of three (3) timely payments made per an agreement with the creditor.
  - The monthly payment must be included in the qualifying ratios.
  - Non-borrowing spouse in a community property state: Judgments must be paid in full or meet the requirements above.
  - A GUS “Accept” does not have to be downgraded due to the manual entry of the payment.
- Non-Borrowing Spouse: In community property states, debts of a non-borrowing spouse must be counted in the borrower’s qualifying ratios. If the non-borrowing spouse’s debts are not listed on the credit report, a manual downgrade is not required.
  - USDA-RD requires a copy of the state statute that allows for the exclusion of the non-borrowing spouse debt.
- Rent/Housing History
  - GUS Accept: Verification of Rent is not required
  - Manually underwritten loans: Refer to HB 1-3555.
- Credit Exceptions are not permitted.
- If the borrower(s) has credit issues that that would render an applicant ineligible, such as delinquent child support, delinquent federal debts, etc. and documentation is obtained to support approval of the loan; the underwriter must add a comment to the 1008 or elsewhere in the file certifying the borrower(s) meet the eligibility criteria.

## CREDIT SCORES

- 640 minimum credit score, regardless of GUS approval.
- Credit scores are required on the credit report for all borrowers and co-borrowers.
- If three scores are provided, the middle score will be used.
  - If two of the three scores are the same, the duplicate score will be used to qualify.
- If two scores are provided, the lower of the two scores is used to qualify.
- One valid score is acceptable if:
  - The borrower has sufficient credit history
  - Credit data is available from one repository
  - A credit score is obtained from that repository
  - There is a valid AUS approval
- The lowest of the scores for the borrower or co-borrower, as determined by the credit report, will be viewed as the credit score for the loan file.

<p><b>DOCUMENTATION</b></p>	<p>Full and alternative documentation is permitted per the GUS Findings. The Correspondent Lender is responsible for providing the following additional required documentation for USDA loans:</p> <ul style="list-style-type: none"> <li>• Fully executed Request for Single Family Housing Loan Guarantee (Form RD 3555-21), which includes Income Eligibility Worksheet.</li> <li>• Fully executed Guaranteed Loan Closing Report</li> <li>• Conditional Commitment (Form 3555-18) issued by USDA. <ul style="list-style-type: none"> <li>○ Any conditions listed on the Conditional Commitment (USDA Form 3555-18) must be cleared prior to purchase.</li> <li>○ All pages of the Conditional Commitment, including the Lender Certification, must be submitted. A Rural Development representative must sign page 1 of the Conditional Commitment and the Underwriter must sign page 2 of the Lender Certification prior to submission.</li> <li>○ Page 2 of the Lender Certification must be completed as follows: <ul style="list-style-type: none"> <li>▪ The retained box must be checked and the sold concurrently box must be left blank.</li> <li>▪ The Holding Lender and the Servicing Lender boxes must be left blank.</li> </ul> </li> </ul> </li> <li>• Loan Note Guarantee (LNG) must be submitted to Citizens within 60 days of the loan closing date.</li> <li>• Citizens will complete and deliver Form 3555-11 to USDA upon receipt of the LNG.</li> <li>• Proof of electronic submission of the upfront USDA guarantee fee to the Agency via pay.gov</li> <li>• Homeownership Counseling Certification, if required by USDA-RD.</li> <li>• The maximum age for credit documents is 120 days. Document age is measured from the date of the document to the date the note is signed. Credit documents include all income, employment, asset information and credit reports.</li> <li>• See <a href="#">Underwriting</a> section for Verbal Verification of Employment Guidelines.</li> <li>• Signed IRS 4506-C forms must be included in all loan files submitted for purchase by Citizens. As required per the USDA Handbook, in addition to all borrowers on the loan, each adult member of the household must complete and execute IRS Form 4506-C for the previous two years at closing.</li> <li>• When signed income tax returns are required, IRS validated transcripts are acceptable in lieu of the live signature requirement.</li> </ul>
<p><b>DOWN PAYMENT/ CLOSING COSTS</b></p>	<ul style="list-style-type: none"> <li>• Down Payment: <ul style="list-style-type: none"> <li>○ A minimum down payment from the borrower is not required.</li> </ul> </li> <li>• Closing Costs: <ul style="list-style-type: none"> <li>○ Closing cost may be financed when there is equity above the contract price as supported by the appraisal.</li> <li>○ Prepaid interest may not be financed.</li> <li>○ Bona fide discount points may be financed. The amount of discount points that may be financed is limited to 2% of the base loan amount.</li> </ul> </li> </ul>
<p><b>ESCROW HOLDBACKS</b></p>	<ul style="list-style-type: none"> <li>• Escrow holdbacks are permitted on weather and non-weather-related repairs, subject to the following conditions:</li> <li>• Purchase transactions only.</li> <li>• Permitted for new construction and existing properties (follow new construction guidelines for holdbacks on existing properties).</li> <li>• Non-bank Correspondent Lenders may manage repair escrow funds up to a total of \$1,000. Any amount greater than \$1,000 must be managed by an escrow agent or title company. Correspondent Bank lenders may manage the funds regardless of the repair escrow amount.</li> <li>• Typically involves exterior painting or landscaping. Escrow holdbacks are permitted for interior repairs.</li> <li>• Not permitted for structural repairs, foundation work, roofs, or pools.</li> <li>• Final inspection required once improvements have been completed.</li> <li>• Refer to USDA HB 1-3555, Chapter 12</li> <li>• See “<a href="#">Appraisal Standards &amp; Guidelines</a>” chapter of this manual for additional information.</li> <li>• The more restrictive of Citizens or USDA requirements will apply.</li> </ul>
<p><b>ESCROWS/ IMPOUNDS</b></p>	<ul style="list-style-type: none"> <li>• Required, regardless of LTV.</li> </ul>

<b>GEOGRAPHIC RESTRICTIONS</b>	<ul style="list-style-type: none"> <li>• Dwelling must be in an eligible rural area as per the <a href="#">USDA Eligibility website</a>.</li> <li>• Refer to the website for state specific <a href="#">Geographic Restrictions</a>.</li> </ul>												
<b>GIFTS</b>	<p>Gifts are permitted for down payment and / or closing costs.</p> <ul style="list-style-type: none"> <li>• Gift funds may not be provided from any source that has an interest in the sale of the property (seller, builder, real estate agent).</li> <li>• Gift funds must be documented/sourced per HB-1-3555.</li> <li>• Cash on hand from the donor is not an acceptable source/explanation for the funds</li> <li>• If cash back is received at closing, it cannot exceed the funds advanced by the borrower minus utilized gift funds</li> </ul>												
<b>GUARANTEE FEE</b>	<p><b>Upfront Guarantee Fee</b> The Upfront Guarantee Fee is a one-time, upfront fee charged to the borrower that may be financed into the loan and / or paid in cash.</p> <p><b>Annual Guarantee Fee</b> The Annual Guarantee Fee is calculated based on the outstanding principal balance of the loan and charged for the life of the loan. One (1) month of the annual guarantee fee payment must be collected at closing. The annual guarantee fee is also collected as part of the borrower’s monthly payment and will be placed in an escrow account with the servicing lender.</p> <table border="1" style="margin: 10px auto; border-collapse: collapse; text-align: center;"> <thead> <tr style="background-color: #008000; color: white;"> <th colspan="3">Effective with Conditional Commitments issued on or after <b>October 1, 2016</b> through <b>September 30, 2023</b></th> </tr> <tr style="background-color: #d9ead3;"> <th>Transaction Type</th> <th>Upfront</th> <th>Annual</th> </tr> </thead> <tbody> <tr> <td>Purchase</td> <td>1.00%</td> <td>0.35%</td> </tr> <tr> <td>Refinance</td> <td>1.00%</td> <td>0.35%</td> </tr> </tbody> </table> <p>See <a href="#">Guarantee Upfront and Annual Fee Calculator</a>.</p>	Effective with Conditional Commitments issued on or after <b>October 1, 2016</b> through <b>September 30, 2023</b>			Transaction Type	Upfront	Annual	Purchase	1.00%	0.35%	Refinance	1.00%	0.35%
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Refinance	1.00%	0.35%											
<b>HOMEBUYER EDUCATION</b>	<ul style="list-style-type: none"> <li>• If required by the state or local RD office, all first-time homebuyers must complete a homebuyer education course and provide a certificate of completion prior to closing.</li> </ul>												
<b>INTERESTED PARTIES</b>	<ul style="list-style-type: none"> <li>• Interested party transactions may pose an increased risk and require a thorough review of all documentation associated with the transaction. Examples of types of interested party transactions may include but are not limited to:             <ul style="list-style-type: none"> <li>○ A party to the transaction related to the borrowers by blood, adoption, or legal guardianship</li> <li>○ Property held in an estate, if the borrower holds any ownership interest or other fiduciary role</li> <li>○ Employer/employee sales or corporate sales and transfers</li> <li>○ Borrowers employed in the real estate or construction trades who may be involved in the construction, financing, or sale of the subject property</li> <li>○ Builder acting as the realtor or broker</li> <li>○ Relator/real estate broker selling their own property</li> <li>○ Relator/broker acting as listing/selling agent as well and the mortgage originator</li> </ul> </li> </ul>												

<b>INTERESTED PARTIES (CONTINUED)</b>	<ul style="list-style-type: none"> <li>• Common Red Flags - The following are examples of interested party transactions which may require additional due diligence: <ul style="list-style-type: none"> <li>○ Transactions that were not fully disclosed as a non-arm's length transaction and an indication that the equity position is being compromised</li> <li>○ Any evidence that the borrower is or has been in title to the subject property</li> <li>○ An indication that the seller's mortgage is currently delinquent</li> </ul> </li> <li>• Ineligible Interested Parties Transactions <ul style="list-style-type: none"> <li>○ Purchase of a Short Sale</li> </ul> </li> <li>• Notice of Default filed on the subject property or the subject property is in foreclosure</li> </ul>
<b>INVESTMENT PROPERTIES</b>	<ul style="list-style-type: none"> <li>• Not permitted</li> </ul>
<b>LEGAL DOCUMENTATION</b>	<ul style="list-style-type: none"> <li>• Fannie Mae/Freddie Mac Multi-state Fixed Rate Note (Form 3200 or applicable state specific note)</li> <li>• Fannie Mae/Freddie Mac standard riders as applicable</li> </ul>
<b>LEASEHOLD</b>	<ul style="list-style-type: none"> <li>• The mortgage must cover both property improvements and the leasehold interest in the land;</li> <li>• The leasehold estate must constitute real property, be subject to the mortgage lien and be insured by the title policy.</li> <li>• The estate's term must run 15 or more years beyond the maturity date of the loan closing.</li> <li>• The leasehold estate must be assignable or transferable; and;</li> <li>• The lease cannot be terminated except for nonpayment of lease rents.</li> <li>• All provisions as indicated in the USDA HB 1-3555, Chapter 13, 13.4</li> <li>• Appraisal to show market acceptance of leasehold estates.</li> </ul>
<b>LOAN PURPOSE</b>	<ul style="list-style-type: none"> <li>• Purchase</li> <li>• Rate/Term Refinance</li> </ul>
<b>LOAN TERM</b>	<ul style="list-style-type: none"> <li>• 30-year fixed rate only</li> </ul>
<b>MAXIMUM LOAN AMOUNT</b>	<p><b><u>Maximum Loan Amount</u></b></p> <ul style="list-style-type: none"> <li>• The maximum loan amount is determined by the borrower's income and repayment ability; and</li> <li>• The fair market value of the property as determined by the appraisal; and</li> <li>• The LTV cannot exceed 100% of the market value of the property when the guaranty fee is financed. <ul style="list-style-type: none"> <li>○ The LTV may exceed 100% only by the financed guaranty fee.</li> </ul> </li> <li>• The borrower is permitted to finance reasonable and customary closing costs associated with the transaction as permitted by USDA as long as the total amount financed does not exceed the above parameters.</li> </ul> <p><b><u>Minimum Loan Amount</u></b></p> <ul style="list-style-type: none"> <li>• There is no minimum loan amount</li> </ul>
<b>NON-OCCUPANT CO-BORROWER</b>	<ul style="list-style-type: none"> <li>• Not permitted</li> </ul>



<p><b>NUMBER OF PROPERTIES OWNED</b></p>	<ul style="list-style-type: none"> <li>• The borrower is limited to owning one single family housing unit, whether adequate or inadequate, other than the subject property if all of the following are met:             <ul style="list-style-type: none"> <li>○ The borrower’s current dwelling is not financed by a Rural Development guaranteed or direct loan or active grant.</li> <li>○ The borrower is financially qualified to own more than one house. NOTE: Rental income/loss may need to be considered in the Annual and Repayment Income per HB-1-3555.</li> <li>○ The borrower will occupy the home financed with the USDA loan as their primary residence throughout the term of the loan.</li> <li>○ The current home no longer adequately meet’s the borrower’s needs. Examples include, <b>but are not limited to:</b> <ul style="list-style-type: none"> <li>▪ Relocation due to a new job opportunity.</li> <li>▪ Requires larger home to provide for a growing family</li> <li>▪ Obtaining a divorce when the borrower remains in title and the ex-spouse will retain the dwelling.</li> <li>▪ The borrower is a non-occupying co-owner or co-borrower on another mortgage loan and wants to purchase their own dwelling.</li> <li>▪ In all cases, the following must be obtained:               <ul style="list-style-type: none"> <li>- Satisfactory supporting documentation for the reason the borrower has ownership in another dwelling, or</li> <li>- Documentation that current home no longer adequately meets the borrower’s needs.</li> </ul> </li> </ul> </li> </ul> </li> </ul>
<p><b>OCCUPANCY</b></p>	<ul style="list-style-type: none"> <li>• Owner-occupied primary residence only.</li> <li>• A primary residence is a property occupied by all of the borrowers as their primary residence on a permanent basis. The subject property must be occupied by the borrower(s) within 60 days of closing.</li> <li>• Active duty military personnel:             <ul style="list-style-type: none"> <li>○ Must intend to meet occupancy requirements upon discharge from the service.</li> <li>○ The serviceperson’s family must occupy the property as their principal residence.</li> </ul> </li> </ul>
<p><b>PROGRAMS &amp; SPECIAL FEATURES</b></p>	<p><b><u>Mortgage Credit Certificates</u></b></p> <ul style="list-style-type: none"> <li>• Citizens will permit MCCs issued by a government entity where the subsidy is allowed as a tax credit on the borrower’s tax return.</li> <li>• Citizens will not permit MCCs that are paid by the issuer directly to the servicing lender as a supplement to the borrower’s monthly payment.</li> <li>• Originating lender must be documented as an approved participant in good standing with the MCC issuing authority.</li> <li>• Lenders delivering a loan with an MCC represent and warrant their responsibility for all requirements prescribed by the issuing authority. Neither Citizens nor the servicing lender will fulfill any special requirements of the issuer or the IRS, including servicing and/or reporting responsibilities.</li> <li>• To be considered in qualification, the tax credit must be taken on a monthly basis by adjusting withholdings (tax credit is limited to the applicant’s maximum tax liability). In GUS, the monthly MCC tax credit is deducted from PITI. Do NOT include any portion of the MCC in USDA’s calculation of Annual Income.</li> </ul> <p><b><u>Required Documents:</u></b></p> <ul style="list-style-type: none"> <li>• Copy of the MCC showing rate of credit allowed,</li> <li>• Form IRS W-4 reflecting the borrower is taking the tax credit on a monthly basis,</li> <li>• Associated calculations (income, tax credit, etc.),</li> <li>• Certification from the originating lender that the borrower has completed and processed all documents required to obtain the tax credit, and</li> <li>• Loan Transmittal must be marked to indicate use of the MCC.</li> </ul>

**PROPERTIES  
(ELIGIBLE/INELIGIBLE)**

**Eligible**

- Dwelling must be located in eligible rural area as per the [USDA Eligibility website](#):
  - Refinance of a current USDA-RD guaranteed loan is permitted if the area has since been determined as ineligible.
- Click on Single Family Housing Guaranteed, then “Property Eligibility”.
  - Click on “Accept”.
  - Enter the property address.
  - The web site will respond with, “This property is (or, is not) located in an eligible area” or, “Unable to determine address”, please confirm the accuracy of the address and re-enter the accurate address. The system will not recognize an inaccurate address.
- 1-unit Single family residences (non-farm).
- Property must be predominately residential in use, character and appearance. A minimal income-producing activity, such as maintaining a garden that generates a small amount of income is acceptable. Home-based operations such as: childcare, product sales, or crafts that do not require specific features present are eligible.
- Property must be located on a hard surface or all-weather road.
- Condominiums
- Off-frame Modular Homes that meet all USDA guidelines
- HUD REO properties
- Properties with mineral leases are subject to approval by USDA.
- All applicable water/septic requirements are met as per HB-1-3555.

**Ineligible**

- 2-4 units
- Investment properties
- Second Homes
- Manufactured housing
- On-frame Modular Homes
- Properties located within Coastal Barrier Resource Systems
- No income producing buildings: Property must not include any buildings designed to be used principally for income-producing purposes. As examples: barns, silos, greenhouses, or livestock facilities used primarily for income producing agricultural, farming or commercial enterprise are not permitted.
- No income producing land: Property site must not have any income producing land that will be used principally for income producing purposes. Vacant land or properties used primarily for agricultural, farming or commercial enterprise are ineligible. Example: Property sites that have income-producing characteristics (such as large tracts of arable land ready for planting) are considered income producing property
- Geodesic Domes, Earth Berms
- Properties without a permanent source of heat and, if typical for the area, cooling. Space heaters and similar sources are not considered permanent heating sources.
- Properties with right of redemption - please see geographic restrictions table for any exceptions.
- Co-ops
- Builder trade equity.
- Properties with water purification systems are NOT eligible if the system is required to make the water safe. Systems installed to improve the taste or softness of the water are acceptable
- Hawaii Lava Zones 1 and 2.
- EEM Rural Energy Plus Ineligible
- Properties without any direct vehicular access (considered as unique)
- Properties with sinkholes
- Community Land Trusts
- Container Homes
- Non-traditional or niche property types that have limited marketability, comparable property valuation capabilities, or construction
- Properties with new or existing PACE (Property Assessed Clean Energy) liens
- Properties located in areas where a valid security interest in the property cannot be obtained, such as Indian Tribal Lands.

<b>PROPERTY FLIPPING</b>	<ul style="list-style-type: none"> <li>A flip transaction is generally defined as a purchase transaction for a property that has been recently acquired by the seller and is being sold for a quick profit. A flip transaction is evident if the title reveals several changes in ownership in the course of a few months.</li> </ul>
<b>QUALIFIED MORTGAGE (QM)</b>	<ul style="list-style-type: none"> <li>All loans, regardless of loan product type sold to Citizens, must conform to Qualified Mortgage (QM) guidelines per Dodd Frank regulations.</li> </ul>
<b>RATIOS</b>	<ul style="list-style-type: none"> <li>For GUS Accept: Ratios will be as determined by GUS.</li> <li>For manually downgraded loans: Ratios of 29/41 may be exceeded if there are strong compensating factors that demonstrate higher repayment ability. Ratio waivers are required, and lenders must follow all applicable requirements in HB 1-3555.</li> <li>Accurate estimates of monthly property tax escrows must be used when qualifying borrowers. In new construction cases, Property tax estimates must be based on the land with completed improvements, not on the unimproved land value only. For existing properties, debt ratios should be calculated using the tax amount provided by the current tax bill, title commitment, or recent appraisal. NOTE: Refer to USDA Handbook Chapter 5 “Established Data Tolerances - “Tax and Insurance Escrows” for more information.</li> </ul>
<b>REFINANCES</b>	<p><b><u>Rate/Term Refinance Transactions</u></b></p> <ul style="list-style-type: none"> <li>Refinance transactions are only eligible when refinancing a current Rural Housing Guaranteed Loan. The loan must be secured by the same property as the original loan. The original loan must be Guaranteed Rural Housing (GRH) or USDA Section 502 Direct only.</li> <li>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 account). Subordinate financing, such as home equity lines of credit and down payment assistance “silent” seconds, cannot be included in the new loan amount. Unpaid fees, such as late fees due the servicer, cannot be included in the new loan amount.</li> <li>Additional borrowers may be added, or existing borrowers may be deleted from current loan. All borrowers that will be a party to the promissory note for the new loan must meet all eligibility requirements. At least one borrower from the existing note must be obligated on the new loan.</li> <li>Refinance loans are permitted even if USDA-RD no longer considers the property to be in an eligible rural area.</li> <li>The interest rate on the loan must be lower than the interest rate on the existing loan.</li> <li>Property must be owned and occupied by the borrowers as their principal residence.</li> <li>There are no seasoning requirements on second liens that are being subordinated.</li> <li>The existing loan must have been closed at least 12 months prior to the Agency’s receipt of a conditional commitment request for refinance.</li> <li>Must be current on existing USDA loan for the 12-month period prior to the conditional commitment request for refinance.</li> <li>New principal, interest, taxes, and insurance (PITI) monthly amount must be less than the monthly PITI amount of the existing loan.</li> <li>For primary residences in the state of Texas, incidental cash back to the borrower at closing is not permitted.</li> </ul> <p><b><u>Cash-Out Refinance Transactions</u></b></p> <ul style="list-style-type: none"> <li>Not permitted</li> </ul> <p><b><u>Streamline Refinance Transactions</u></b></p> <ul style="list-style-type: none"> <li>Not permitted</li> </ul>
<b>SELLER/IPC CONTRIBUTION</b>	<ul style="list-style-type: none"> <li>Seller/IPC contributions are limited to 6% of the sales price.</li> <li><b>Seller Rent Back</b> <ul style="list-style-type: none"> <li>Rent backs are limited to 60 days maximum as per the terms of the security instrument.</li> </ul> </li> </ul>

<p><b>SUBORDINATE FINANCING</b></p>	<p><b>Purchase Transactions</b></p> <ul style="list-style-type: none"> <li>• New secondary financing may be provided by a valid city, county, state or federal governmental agency, or a HUD-approved non-profit that is also considered an instrumentality of the government.</li> <li>• Neighborhood Stabilization Program (NSP) liens are not permitted.</li> </ul> <p><b>Refinances</b></p> <ul style="list-style-type: none"> <li>• Existing subordinate financing cannot be paid off with the new loan. This includes but is not limited to home equity lines of credit, closed-end second liens and down payment assistance “silent” second liens. <ul style="list-style-type: none"> <li>○ Any existing secondary financing must be re-subordinated to the new loan. A copy of the Subordination Agreement, subordinate lien Mortgage/Deed of Trust and Note is required.</li> </ul> </li> <li>• New Neighborhood Stabilization Program (NSP) liens are not permitted. <ul style="list-style-type: none"> <li>○ An existing NSP lien may be resubordinated within the allowable program parameters.</li> </ul> </li> <li>• The CLTV is limited to 105% for both Purchases and Refinances.</li> </ul> <p><b>Note:</b> A Renewal and Extension Exhibit/Rider is acceptable in lieu of a subordination agreement on 1-unit primary residences for Texas Rate/Term (no cash-out) refinance transactions when re-subordinating existing subordinate financing that is not a HELOC or a Texas 50(a)(6) loan. See <a href="#">Loan Documentation</a> for additional requirements.</p>
<p><b>TEMPORARY BUYDOWNS</b></p>	<ul style="list-style-type: none"> <li>• Not permitted</li> </ul>
<p><b>UNDERWRITING</b></p>	<p><b>General Information:</b></p> <ul style="list-style-type: none"> <li>• The more restrictive of Citizens or USDA-RD requirements apply.</li> <li>• Citizens does not underwrite USDA-RD loans on a prior approval basis. Loans under this program must be underwritten by the Correspondent Lender.</li> <li>• Refer to the Prohibited Customers and Accounts information in the <a href="#">Anti-Money Laundering</a> chapter.</li> <li>• <b>Guaranteed Underwriting System (GUS):</b> <ul style="list-style-type: none"> <li>○ Regardless of the GUS recommendation, a thorough review of credit, capacity and collateral must be considered on all loans as part of the underwriting process. A GUS recommendation does not constitute loan approval. The lender must contact the local Rural Development State Office for loan data discrepancies in GUS, such as loan amount, sales price, value, income, etc, with the exception of a decrease in the interest rate. A revised GUS approval will be required unless a letter is provided from the USDA office stating the specific discrepancy does not impact the loan approval. Refer to USDA Handbook, Chapter 5, 5.3 for established GUS data tolerances.</li> </ul> </li> <li>• The borrower(s) cannot have had a previous RD loan which resulted in a loss to the government. An additional message will be received from GUS when one or more of the borrowers have had a previous loan with USDA Rural Development.</li> <li>• <b>Manual Underwriting:</b> <ul style="list-style-type: none"> <li>○ All loans must be submitted and approved through GUS. Loans that require a downgrade to a Refer, must follow the Manual Downgrade policy, otherwise, manual underwriting is not permitted. (GUS “Refer” is ineligible)</li> </ul> </li> <li>• <b>Manual Downgrades:</b> <ul style="list-style-type: none"> <li>○ Lenders must follow all applicable requirements in HB 1-3555.</li> </ul> </li> <li>• If the borrower is employed in a residential real estate related profession, the following restrictions apply: <ul style="list-style-type: none"> <li>○ Types of real estate related professions include Real Estate Agents or Brokers, Title Companies, Mortgage Brokers or Lenders, Manufactured Home Dealers, Settlement Agents and Appraisers or Appraisal Companies.</li> <li>○ 4506-C must be included in the submission. Processed tax transcripts for the most recent two (2) years are required and must match the IRS federal income tax returns and information provided by the borrower and supports the income amounts submitted. An additional 4506T must be signed at closing.</li> <li>○ The Correspondent Lender is responsible for determining the reasonableness of income if the borrower has switched employers within the past two (2) years, filed a joint return, but is on the application alone, or compensation structure has changed, etc.</li> <li>○ Loans on Builder/Developer owned properties are not eligible.</li> </ul> </li> </ul>

## UNDERWRITING (CONTINUED)

- If the borrower is employed by the property seller, real estate broker, relative or a closely held family business, the following documentation must be obtained:
  - Most recent paystub reflecting 30 days of income, AND
  - Borrower's signed and completed personal federal income tax returns for the most recent two (2) year period and W-2s for the most recent two (2) year period.
  - Verification of their status should be provided by a written confirmation obtained from an accountant or legal counsel.

**Note:** Current income reported on the VOE or pay stub may be used if it is consistent with W-2 earnings reported on the tax returns. If the tax returns do not include W-2 earnings or income is substantially lower than the current VOE or pay stub, further investigation is needed to determine whether income is stable.

### Employment and Income Eligibility

- The Single-Family Housing Guaranteed Loan Program (SFHGLP) has four distinct income definitions used by the Agency and approved lenders to determine eligibility, to calculate the borrower's ability to repay the loan, and to determine the amount of the loan:
  - Annual Income: The income of all adult household members for the 12-month timeframe, including boarders;
  - Adjusted Annual Income: The household's annual income minus certain qualified household deductions;
  - Qualifying Income: Adjusted annual income compared to established income limits to determine eligibility of the household for the SFHGLP; and
  - Repayment Income: The stable and dependable income used to calculate debt and determine whether the borrower(s) can qualify for the loan.
- Refer to USDA Handbook Chapter 9 for more information.
- Refer to the [USDA Eligibility website](#) for income eligibility.

The Correspondent Lender is responsible for determining the borrower's income for repayment and program eligibility. Borrower(s) must have adequate and dependable income. Lenders are responsible for documenting and following all income type requirements as per the USDA HB-1-3555.

### Medical Marijuana Dispensaries/Marijuana-Related Business (MRB)/Hemp-Related

- Marijuana-Related (MRB)/Hemp-Related Business/Employment
  - If a borrower identifies themselves as an owner (regardless of ownership percentage) of a marijuana/hemp-based business, the loan is ineligible even if the income derived from the business is not being used to qualify. If the borrower is an employee of an MRB or Hemp-Related business, income from the employment cannot be used to qualify.
- Assets: Refer to Assets - Ineligible Assets below
- Properties where Marijuana/Hemp is being cultivated or stored for sale, regardless of its permissibility under state law, (or federal for Hemp) are not eligible

### Verbal Verification of Employment

- A verbal verification of employment (VVOE) must be completed no more than 10 business days prior to the note date for all hourly, salary, and commission income borrowers and not more than 30 calendar days prior to the note date for all self-employed borrowers and include the following information:
  - Name of lender.
  - Lender's employee to list their name, title and date the verification was completed
  - Name of borrower's employer.
  - Date of call.
  - Name and title of person at the employer's office providing the information.
  - Source of the phone number.

The lender is responsible for the accuracy of the VVOE. It is acceptable for Correspondent Lenders to utilize automated systems such as TALX or the Work Number. Lenders may also utilize the services of third parties, and when doing so, continue to accept full responsibility for the accuracy of the results.

- For borrowers who are in the military, an LES (Military Leave and Earnings Statement) dated within 30 days of closing is acceptable in lieu of a VVOE.
- Self-employed borrowers, the following is required:
  - Verify the existence of the borrower's business from a third party that may include a CPA, regulatory agency, or appropriate licensing bureau; or
  - Verify a phone listing and address for the borrower's business through resources such as the telephone book, directory assistance, internet, or contact the appropriate licensing bureau.

**UNDERWRITING  
(CONTINUED)**

- Processor certification is not permitted.
- Public Assistance Housing Vouchers used as Repayment Income: Must be added to income and paid directly to the borrower. Follow USDA-RD requirements for documentation, continuance and treatment of Annual Income calculation.

**4506-C/Income Validation Requirements**

- **4506-C:**
  - IRS 4506-C forms must be signed at closing and included in all loan files submitted for purchase by Citizens. As required per the USDA Handbook, in addition to all borrowers on the loan, each adult member of the household must complete and execute IRS Form 4506-C for the previous two years at closing and be included in the file.
  - Obtaining transcripts: If the IRS returns a message stating the transcripts are unable to be processed:
  - The determination from the IRS that the request could not be processed must be included in the file; and
  - Transcripts may be requested and provided by the borrower/household member. NOTE: When borrower/household member provided transcripts are utilized, the file must include the IRS determination message (unable to process) from the attempt to order transcripts by third party in the file.
    - Adult household members not on the loan application must have an SSN, or other identification to confirm they are legal U.S. residents to enable the submission of a 4506-C. If the required documentation cannot be confirmed, the application cannot be submitted to USDA-RD.
  - Refer to Correspondent National Bulletin 2015-15 for additional information.
- **Income Validation:**
  - Loans submitted to Citizens for purchase must include fully processed tax transcripts. As noted in the USDA Handbook Chapter 9, validation from IRS for the previous two years on all borrowers AND each adult member of the household must be received prior to the request for Conditional Commitment for Loan Note Guarantee. The information received from IRS is not intended to document income, but to validate the income documentation and disclosures provided by the borrower and adult members of the household. If the federal income tax returns are not yet due, the most recent available transcripts must be requested. Tax transcripts are required for all corresponding years of income tax returns submitted in the file.

**Note:** Two (2) years IRS 1040 Transcripts are required on all loans regardless of AUS income documentation feedback. As noted above, 2 years transcripts are also required for all non-borrower adult household members.

**Assets**

- Ineligible Assets include, but are not limited to:
  - Any funds derived from assets that do not meet agency or Citizens policies
  - Funds derived from the employment or ownership in a Marijuana/Hemp-Related business cannot be used towards down payment, closing costs, prepaids, and/or reserves.
    - Co-owners of the subject property (regardless of borrower status) cannot provide funds for down payment, closing costs, prepaids, and/or reserves if they have an ownership in a Marijuana/Hemp-Related business.
  - Cryptocurrency (Digital/Virtual Currency; i.e., Bitcoin)

**Purchasing a Short Sale**

- A borrower purchasing a property from a seller who is selling their home for less than the amount owed to the lender is considered a short sale. Borrowers purchasing a home that is being sold under a short sale are generally eligible provided:
  - The transaction is arms-length involving a realtor and formal sales contract.
  - There is no relationship or identity of interest between buyer and seller.
  - Short sale approval letter from all existing mortgage lien holders accepting the discounted sales price on the subject property must be provided and retained in the loan file.
  - All liens are extinguished with the sales proceeds.
  - Any earnest money deposits must be verified with a bank statement or a printout from the bank at

**UNDERWRITING  
(CONTINUED)**

- The time the earnest money check cleared the borrower's account, regardless of amount.
- Full interior/exterior appraisal is required, regardless of AUS.
- Borrower is not required to pay any amount to the subordinate lien holder to facilitate the short sale.
- An in-depth review of the following must be completed for any red flags detected in the transaction. Documentation of the resolution of any red flags must be included in the loan file:
  - Purchase contract (including all addendums and short sale addendum)
  - Appraisal
  - Title
  - Closing Disclosure
- On certain transactions, the borrower may elect to pay additional fees or payments related to acquiring the property that is typically the responsibility of the seller. In these instances, the following requirements apply:
  - The borrower must be provided with written details of the additional fees or payments. The additional funds required to complete the transaction must be documented on the purchase contract and/or addendum.
  - The servicer or servicers agreeing to the short sale must be provided with written details of the fees or payments and has the option of renegotiating the payoff amount to release the lien(s) against the subject property.
  - All parties (buyer, seller, and servicer) must provide their written agreement of the final details of the transaction which must include the additional fees or payments.
  - The Closing Disclosure must include all fees and payments associated with the transaction.

**Note:** If the borrower pays short sale processing fees or short sale negotiation fees, the fee must be treated as a sales concession if any portion of the fee is reimbursed by an interested party to the transaction.