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Rural Refinance Pilot Program Launched for "Hardest Hit" States

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Rural Housing Service (RHS) released RD Announcement #4634 on April 2, 2012 to announce its Rural Refinance Pilot. The program is designed to assist existing Section 502 borrowers both direct and guaranteed loans in order to refinance their homes with greater speed and ease.

The pilot program is available for a two year period to borrowers in "Hardest Hit" states, where steep home price declines and unemployment have made refinancing a current mortgage into more affordable terms very difficult or impossible.

Eligible "Hardest Hit" States

The following states may participate in the Rural Refinance Pilot: Alabama, Arizona, California, Florida, Georgia, Illinois, Indiana, Kentucky, Michigan, Mississippi, Nevada, New Jersey, New Mexico, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, and Tennessee.

Borrowers in these states will be able to refinance their homes to secure lower interest rates and monthly payments without the need of obtaining a new credit report, new appraisal, or new property inspections.

Additional States are not eligible at this time.

Eligible loan closing costs may be included in the Rural Refinance Pilot program loan amount. This notice replaces RD AN No. 4615 dated February 2, 2012 which will expire December 31, 2012. Additional program clarification is included in that eligible closing costs may be included in the refinance loan amount.

Brief Pilot Description

The Section 501 Guaranteed Loan Refinance Pilot is available to eligible borrowers living in the "Hardest Hit States" who qualify to refinance their current USDA mortgage loans. Under the Rural Refinance Pilot program, a lender does not need to submit a new credit report, new appraisal, any HUD Handbook minimum property determinations, or any additional property inspections. An appraisal will be required for a direct loan refinanced into a new guaranteed loan.

Eligible Borrowers

Current Section 502 Direct or Guaranteed Loan borrowers must:

continued on next page

1. Meet current income eligibility requirements;
2. Reside in an eligible rural area or an area that was eligible at the time of the original loan closing;
3. Have made timely mortgage payments for the 12-month period prior to the refinance.

Overview of Rural Refinance Pilot Guidelines

1. The existing loan must be a Section 502 Direct or Guaranteed loan.
2. The new interest rate must be a fixed rate, and a minimum of 100 basis points below the current interest rate. The interest rate must not exceed RD Instruction 1980-D, Section 1980.320.
3. The new term of the refinance loan must be thirty years.
4. Borrowers may not be added or removed (unless deceased) from the current loan.
5. A Rural Refinance Pilot loan may include the principal balance of the loan plus a portion of or the full upfront guarantee fee and eligible loan closing costs. The applicable one time upfront guarantee fee for a refinance is 1.5 percent. No cash out is permitted to the borrower. Subsidy recapture due for direct loan borrowers is not eligible to be part of the refinance loan. Subsidy recapture must be paid in full by the borrower or subordinated.
6. An annual fee also applies.
7. The home must remain the borrower's primary residence.
8. A new appraisal, new credit report, HUD Handbook determination and additional property inspections are not required.
9. Direct loan borrowers will require a new appraisal to calculate subsidy recapture that may be due, but it will not be used for loan-to-value purposes. The cost of this appraisal is an eligible loan closing cost.

10. Debt-to-income ratio calculations are not required. Therefore debt ratio waiver requests will not be necessary.
11. Rural Refinance Pilot loans must be manually underwritten. They cannot be processed through the Guaranteed Underwriting System (GUS).
12. Customary and reasonable closing costs and other fees may be collected from the borrower by the lender. Such charges may not exceed the cost paid by the lender or charged to the lender by the service provider. An origination fee of up to 1 percent of the total loan amount may be charged to the borrower as an eligible loan closing cost.
13. All the following documentation is required:
 - "Request for Single Family Housing Loan Guarantee" [Form RD 1980-21]
 - Income verifications for all adult household members.
 - Uniform Residential Loan Application.
 - Evidence of qualified alien status, if applicable.
 - Appropriate flood insurance must be obtained if the property is in a flood zone at the time of the new loan closing, even if the area was not in a flood zone at the time of the original loan closing. A flood elevation survey is not required for this pilot. [FEMA Form 81-93]

- Evidence of previous 12 month mortgage payment history. The lender must secure evidence to document the borrower(s) has paid the loan on time for the previous 12 months. The lender may utilize a Verification of Mortgage obtained from or provided directly by the loan servicer that lists the payment history for each of the previous 12 months. As an alternative, the lender may submit a credit report which reflects a satisfactory mortgage payment history over the past 12 months. If the lender submits a credit report to Rural Development as proof of payment history, only the payment history of the current mortgage will be considered. Credit waivers or explanations for adverse credit that may be present on the report are not required.
14. All additional requirements of RD Instruction 1980-D and applicable Administrative Notices continue to apply.