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February 16, 2022

**To:** Clients and Friends

**From:** David F. Dulock

**Subject:** Rural Housing Service Amendments to 7 CFR part 3555, subparts C and D, §3555.107(b), (c), (i) and §3555.151(h)(2)

In the February 7, 2022, issue of the *Federal Register* ([87 FR 6773](#)) the Rural Housing Service (RHS) issued a final rule implementing changes to the Single-Family Housing Guaranteed Loan Program (SFHGLP) to mandate the use of the RHS Guaranteed Underwriting System (GUS) in loan origination and the Lender Loan Closing System (LLC) for loan closings by approved lenders. The final rule is effective May 9, 2022.

The final rule will amend §3555.107(b) introductory text and (b)(1), (3), and (6), to require approved lenders to process SFHGLP loans using the Guaranteed Underwriting System.

The final rule will amend §3555.107(c) and add paragraphs (c)(1) and (2) to describe the two types of loans that will continue to be manually underwritten. First, loans downgraded in the Guaranteed Underwriting System require manual underwriting, although lenders will submit the loan documentation using the Guaranteed Underwriting System. Second, loan products not supported by this automated origination system, such as streamlined-assist refinance transactions and select pilot programs, must be manually underwritten and submitted by secure email or other electronic means approved by the RHS.

The final rule will amend §3555.107(i)(4) to require all loan closing documentation to be submitted by the Lender Loan Closing System.

The final rule will amend §3555.151(h)(2) to clarify procedures for manually underwritten loans. The loan files for manually underwritten loans will continue to be submitted through the automated underwriting system but require full documentation review, and credit score validation or compensating factors.

Readers may review and print the above amendments by clicking on the above hyperlink to the *Federal Register*. The text of these amendments also are reprinted in the Exhibit A attached to this memorandum.

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## EXHIBIT A

### Subpart C—Loan Requirements

#### §3555.107 Applications for and issuance of the loan guarantee.

\* \* \* \* \*

##### (b) *Automated underwriting.*

Approved lenders are required to process SFHGLP loans using Rural Development's automated systems. The automated underwriting system is a tool to help evaluate credit risk but does not substitute or replace the careful judgment of experienced underwriters and shall not be the exclusive determination on extending credit. The lender must apply for and receive approval from Rural Development to utilize the automated underwriting system. Rural Development reserves the right to terminate the lender's use of the automated underwriting system.

(1) Lenders are responsible for ensuring all data is true and accurately represented in the automated underwriting system.

\* \* \* \* \*

(3) The use of Rural Development's automated underwriting system subjects the lender to indemnification requirements in accordance with §3555.108.

\* \* \* \* \*

(6) Lenders will validate findings based on the output report of the automated underwriting system.

\* \* \* \* \*

##### (c) *Manual underwriting.*

Loans requiring manual underwriting (manually underwritten loans) are described in paragraphs (c)(1) and (2) of this section. For manually underwritten loans, full documentation, and verification in accordance with subparts C, D, and E of this part will be submitted to Rural Development when requesting a guarantee and maintained in the lender's file. The documentation will confirm the applicant's eligibility, creditworthiness, repayment ability, eligible loan purpose, adequate collateral, and satisfaction of other regulatory requirements. The following types of loans require manual underwriting:

(1) Loans downgraded by Rural Development's automated system. These loans are manually underwritten by the lender and submitted utilizing Rural Development's automated system.

(2) Loans that are not supported by Rural Development's automated systems. These loans are manually underwritten by the lender and submitted by secure email or other electronic means approved by the Agency.

\* \* \* \* \*

##### (i) \* \* \*

(4) For all loan submissions, evidence of documentation supporting the properly closed loan will be submitted using Rural Development's automated systems.

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### Subpart D—Underwriting the Applicant

#### §3555.151 Eligibility requirements.

\* \* \* \* \*

##### (h) \* \* \*

(2) The repayment ratio may exceed the percentage in paragraph (h)(1) of this section when certain compensating factors exist. The handbook, HB-1-3555, Appendix I, located at <https://www.rd.usda.gov/sites/default/files/hb-1-3555.pdf>, will provide examples of when a debt ratio waiver may be granted. The automated underwriting system will consider any compensating factors in determining when the variance is appropriate. Loans downgraded in the automated underwriting system which must be manually underwritten will require the lender to document compensating factors. The presence of compensating factors does not strengthen a ratio exception when multiple layers of risk are present in the application. Acceptable compensating factors, supporting documentation, and maximum ratio thresholds, will be further defined and clarified in the handbook. Compensating factors include but are not limited to:

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