



AG-AMERICA HOBBY FARM AND RURAL RESIDENTIAL LENDING GUIDE

Table of Contents

BORROWER ELIGIBILITY	1
Age of Documents	1
General Overview and Summary	1
CREDIT ELIGIBILITY	2
Underwriting, Ratios and Documentation	2
LTV / CLTV	2
HOBBY FARMER AGRICULTURAL (Ag) INCOME	3
Income Documentation	3
UNDERWRITING GUIDE FOR SELF-EMPLOYED APPLICANTS	3
Example	3
Calculation	3
ASSETS	4
Asset Verification	4
PROPERTY ELIGIBILITY	4
Appraisal	4
Ineligible Properties	5
Property Classified as Hobby (see Borrower Eligibility Guides)	5
Property Classified as Rural Resident (see Borrower Eligibility Guides)	5

BORROWER ELIGIBILITY

Age of Documents

TYPE OF DOCUMENT	LENGTH OF VALIDITY TO NOTE DATE
• Appraisal	• 120 days
• Bank Statements	• 60 days
• Credit Report	• 60 days
• O&E	• 14 days
• Pay Stubs *	• 60 days
• Payoff Statement	• 30 days
• Property Inspections – septic, well, home inspection, etc.	• 90 days
• Self-Employment Verification	• 30 days
• Survey	• 180
• Title and Closing Protection Letter	• 90 days
• VOD	• 60 days
• VOE	• 30 days
• VOR/VOM	• 30 days

- * Borrowers who are not paid on a 12-month schedule (e.g., teachers paid on a 10-month year) and the loan is closing during the months when the borrower will not have a paystub dated within 90 days of closing, provide last paystub received and copy of contract verifying start date of employment for the coming year
 - Note: Altered or blacked out documents are not allowed
- When consecutive credit documents are in the loan file, the most recent document is used to determine whether it meets the age requirement
 - For example, when two consecutive monthly bank statements are used to verify a depository asset, the date of the most recent statement must be no more than 90 days old on the date the note is signed

General Overview and Summary

- The Rural Home Mortgage (RHM) Program offers long-term financing opportunities for residential real estate loans to Rural Residents and, Hobby Farmers, who are U.S. citizens or permanent resident aliens. An individual must be at least 18 years of age or have a guardianship contract, giving authorization to a contemplated transaction. Applications involving a permanent resident alien will require documentation from INS (Immigration and Naturalization Service) that authorizes the applicant to own real estate in the United States. Applications involving entities such as Trust, Partnerships, Corporations, Limited Liability Companies, and Estates are considered ineligible borrowers for the RHM program.
- The majority of borrowers fall within the Hobby Farmer or Rural Resident category in the Rural Home Mortgage Program.
- Hobby Farmer is defined as one whose primary business or vocation is essentially other than farming. A Hobby Farmer has primary employment off-farm and supplements their primary income with agricultural income. A Hobby Farmer lives on or in reasonable proximity to an acreage, exercises direct control of the agricultural income through active management or participation, and the property has the reasonable capability of generating annual gross agricultural income of at least \$500 on a sustained basis.
 - To access the potential for agricultural income, please refer to the section of the Guide for [Hobby Farmer Agricultural Income Documentation](#).
 - Cash out refinance (Hobby Farm) – Beyond the amount of the cash out portion which may be used to pay off home equity, personal vehicle or revolving debts, the amount of actual cash to the borrower will be limited to the lesser of \$100,000 or 25% of the loan amount. The cash out must

be for an eligible purpose such as, improvements to their primary home/property. Examples of ineligible purposes include investments, second homes or providing funding for non-agricultural business purposes.

- Rural Resident is defined as an individual who is not a legitimate FT Farmer or Hobby Farmer. The Rural Resident has property with less than five acres, does not have agriculture income nor does the subject property have the realistic capability of generating sustained agricultural income.
- Rural Resident loans will be underwritten in compliance with Qualified Mortgage / Ability-to-Repay regulations.
- On a purchase transaction, the LTV is based upon the lower of the sales price or appraised value.
- A Rural Resident can only finance the purchase, improvement or refinance of mortgage debts related to the primary home.
- Cash out refinance (Rural Resident) - The cash out must be for an eligible purpose such as, improvements to their primary home / property.
 - The amount of actual cash to the borrower will be limited to the lesser of \$100,000 or 25% of the loan amount.
 - Examples of ineligible purposes include investments, second homes or providing funding for non-agricultural business purposes.
 - A Rural Resident may live in a rural area or in a rural community with a population of 2,500 or less. Ag-America utilizes two websites to confirm population: www.city-data.com and www.idcide.com.

CREDIT ELIGIBILITY

Underwriting, Ratios and Documentation

- 39% Debt-to-income (DTI) ratio (up to 43% on a case-by-case basis with compensating factors). See [Underwriting Guide for Self-Employed Applicants](#), to determine ratios for self-employed borrowers.
- Credit Bureau Score – 700 (average of mid scores)
 - Credit scores are calculated by taking the middle score of the three merged credit scores for each borrower (or lower of the two scores if only two are available).
 - All borrowers will require a middle score of at least 700.
 - Credit histories with significant derogatory issues may override the credit bureau score requirement.

RURAL RESIDENT	HOBBY FARMER
\$100,000 minimum loan amount	\$100,000 minimum loan amount
Maximum home value \$269,807	Maximum loan amount \$2 million
No Prior Bankruptcies, No Prior Mortgage Delinquencies, No Prior Credit Counseling, No Prior Foreclosures/Deed in lieu, No Short Sales or Outstanding Collections	

LTV / CLTV

- LTV: Stated as maximums, adjustments may be made based on the characteristics of the property (i.e. significant tillable acreages, equine facilities, unique characteristics, etc.)
- CLTV: Calculated by dividing the principal balance and any additional subordinate debt into the lesser of the purchase price or the appraised value.
- 30 and 15 year products available

<u>Loan Amount</u>	<u>LTV</u>	<u>CLTV</u>
o Loans \$100,000 - \$600,000	80%	95%
o Loans \$600,001-\$750,000	75%	90%
o Loans \$750,001-\$1 million	70%	80%
o Loans \$1,000,001 - \$1.5 million	65%	75%
o Loans \$1,500,001 - \$2 million	60%	70%

- Second mortgages are allowed providing the loan is from an institutional or government lender.

- Seller carry back financing and contracts for deed are not allowed. The payments used to calculate second mortgages are based on fully amortized payments calculated on the principal balance, a market-interest rate and term of no more than 15 years.
- Credit documentation;
 - Credit Report (3 bureau merged)
 - Credit and Inquiry explanations
 - Supporting credit information, if applicable
 - Rental references
 - Direct credit references
 - Utility histories, etc.
 - Divorce Decree, if applicable with all supporting schedules (court recorded copy)
 - Legible signed and completed 4506T form

HOBBY FARMER AGRICULTURAL (Ag) INCOME

Income Documentation

- All Borrowers – Include the most recent 2 years of signed and dated personal tax returns with all applicable schedules and;
 - Verification of Employment (VOE);
 - W-2's;
 - Recent wage statements/paystubs, dated within 30 days of application.
 - A Hobby Farmer will reflect historic ag-income on the Schedule F (\$500 minimum). The Rural Resident borrower's tax returns will not reflect any farm related income.
- Self-Employed Borrowers – Include a signed and dated Balance Sheet for the business (assets and liabilities).
 - The balance sheet needs to include payment terms for the business related debts, including rates, terms and payment amounts.
 - If the borrowers have a 25% or more interest in a partnership or corporation, the most recent 2 years of signed and dated tax returns with all applicable schedules, for those entities will be required.
 - Hobby Farmer borrower may be required to develop a signed and dated Business Plan outlining how the subject property can or is realistically capable of generating \$500 (minimum) annual ag-income.
 - Land rental agreements, CRP (Conservation Reserve Program administered by the Farm Service Agency (FSA)) contracts, equine boarding contracts, and pasture rent agreements are adequate ways to document ag-income.
 - Signed and dated Year-to-date Profit and Loss statement up to most recent quarter ending, to ensure continued profitability.
 - Note: There is no minimum or maximum number of acres that automatically eliminate a borrower from the Hobby Farmer eligibility.
 - Evidence of Ag or Timber Income

UNDERWRITING GUIDE FOR SELF-EMPLOYED APPLICANTS

Example

- The applicant is self-employed as an electrician. The spouse works as a nurse making \$50,000/year. The balance sheet for the business shows two debts related to the business. One debt is for a van (\$25,000 loan amount with a \$600/mo payment). The other debt is for a building used as the business headquarters (\$150,000 loan with a \$1,500/mo payment). They have applied for a \$200,000 loan to purchase a primary residence. The PITI payment will be \$1,600/mo; they also have a car loan payment of \$500/mo and other consumer debt payments of \$250/mo.

Calculation

\$50,000 wage income (spouse)

Plus \$35,000 (two-year average net business income)

Plus \$12,500 Interest

Plus \$15,000 Depreciation

Plus \$0.00 No other add-backs

= \$112,500 Income before subtracting business related payments

Less \$25,200 Annual Business related payments ($\$600 + \$1500 = \$2100 \times 12$)

= \$87,300 Available income for consumer purposes

\$7,275 Monthly consumer income ($\$87,300 / 12$)

\$1,600 PITI (housing to income ratio = 21.99%)

\$750 Consumer related debt payments

= \$2,350 Total debt (debt to income ratio = 32.30%)

ASSETS

Asset Verification

- Verification of Deposit (VOD)
- Two months of statements – recent and consecutive for;
 - Bank/credit union, 401k, mutual fund and stock
- Other assets;
 - Gift letter, fully executed from an acceptable donor (relative, domestic partner, fiancée, fiancé, church, municipality or nonprofit organization). Document borrower received the gift funds prior to or at closing via;
 - Copy of donor’s gift check and borrower’s deposit receipt
 - Copy of donor’s withdrawal slip and borrower’s deposit receipt
 - Copy of donor’s certified, cashier’s or other official check to the closing agent, or
 - HUD-1 Settlement Statement showing the wire credit for funds received at closing and the wire instructions
 - Earnest Money check
- Purchase Agreement (Sale of present residence);
 - Final HUD-1 with Net Sheet, if applicable

PROPERTY ELIGIBILITY

Appraisal

- Appraisal (FNMA 1004 preferred with tillable acres noted along with a plat book map) and include description of income/expenses to real estate
- Must contain description of the property and applicable forces of value
- The appraisal may be ordered through Ag-America’s AMC site
- Homes financed through the Hobby Farm / Rural Home Mortgage Program are required to be in good condition with no deferred maintenance or incomplete construction shown on the appraisal.
- Owner occupied primary residence
 - Homes with either deferred maintenance or incomplete construction could be financed as an “end loan”, and once the work is completed and verified by the appraiser, including final inspection and photos.

- Some agriculture facilities are permitted, but active/concentrated livestock facilities or extensive business facilities are not eligible.
- Properties should be Hobby Farm in nature and not a full-time business operation.
- Properties must have direct access to state or county maintained streets or roads. Easements may require additional documentation.
- The appraiser should give value to the home and all acreage that will be used as security.
 - For example, the appraiser should not value the home and ten acres with an addendum for the remaining excess acreage.
 - Some flexibility is allowed with regard to distance of comparable sales and adjustments for varying acreages.
- Non-contiguous parcels are permissible on properties.
 - The parcels should be within a reasonable proximity to each other.
 - Contact Ag-America if there is a situation involving non-contiguous parcels.
- Flood Zone Determination is required.
- Water and Waste Treatment – the property is required to have adequate in-service utilities, including well and septic.
 - Waste treatment must meet state and local standards.
- Log homes may be allowed if there are sufficient satisfactory comparable sales within the subject's market area

Ineligible Properties

● Full Time farming operation	● Manufactured Home (modular/wood framed allowed if on permanent basement)
● Property exposed to a high concentration of livestock	● Mobile Home
● Second Home	● Unique Home (Shed, dome, berm and cabin)
● Townhouse, Duplexes or Planned Unit Development	● Investment Properties

Property Classified as Hobby (see Borrower Eligibility Guides)

- Includes properties ranging from five to 160 acres. Properties over 160 acres will be reviewed on a case-by-case basis.
 - When a property exceeds 160 acres, Ag-America may be required to decline the loan due to eligibility for parcels when a significant portion of the property is used for agricultural purposes. The property may otherwise qualify for the Ag-America Commercial Farm and Ranch loan program.
- Properties must have the realistic capability of generating \$500 or more of agricultural related income on a sustained basis.
 - The agricultural income must be realistic, in relation to the characteristics of the property (see [Hobby Farmer Income Documentation Guides](#)).
- The home value should comprise of at least 30 percent of the overall property value.
- The moderate price limitation (\$269,807) does not apply to a borrower classified as a Hobby Farmer.

Property Classified as Rural Resident (see Borrower Eligibility Guides)

- Includes properties less than five acres and the property with no ability to generate agriculture income.
- Located in a rural area or in a community with a population of 2,500 or less (verify using www.idcide.com or www.city-data.com).
- The home-only value is required to be less than \$269,807 (moderate price limitation). The home value is calculated by: total appraised value less the value of land, less the outbuildings (including detached garages).

