



Environmental and Insurance Requirements

Single Family Housing Guaranteed Loan Program

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Welcome to Environmental and Insurance Requirements, presented by USDA's Single Family Housing Guaranteed Loan Program!



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Training Objectives

- Where is the topic located?
 - * 7 CFR Part 3555 and HB-1-3555
- Learning Checks
- Resources

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The objectives of the training include:

1. Demonstrating where the training topic is located in the program regulation, 7 CFR Part 3555 and the technical handbook, HB-1-3555.
2. Providing learning checks to help you gain a working knowledge of the topic, and
3. Links to online resources to assist in locating program information.



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Things change!

- Every effort has been made to ensure training references are accurate at the time of publication.
- Always reference the most recent USDA publications available online.

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Every effort has been made to ensure this training and all references are accurate, however, new program revisions and clarifications may occur. Therefore, please ensure you always reference the most recent USDA publications available online.

This training module is not intended to replace the need to reference the regulation, technical handbook, and additional USDA published documents regarding the Guaranteed Loan Program.



Guaranteed Loan Program Regulation
7 CFR Part 3555

- The regulation is the rule!
- 8 Subparts: A – H
- Appendix 1

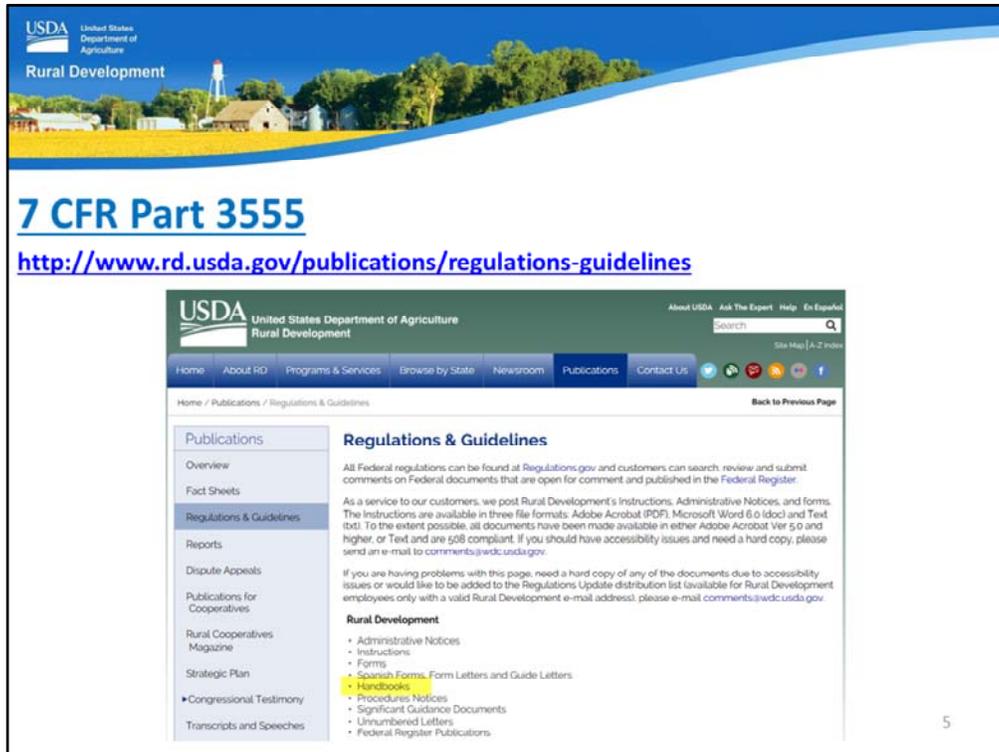
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7 CFR Part 3555 is the program regulation. It is the first place users should look for the answers to their questions.

The regulation is the rule and it cannot be overridden by the technical handbook.

The 7 CFR Part 3555 is comprised of 8 subparts, A through H.

You can access the full regulation online as Appendix 1 from the Regulations and Guidelines website.



The Regulations and Guidelines website is located from the link shown on the slide.

Under “Rural Development” there are many items available from this home page.

To access the regulation, select “Handbooks.”

The screenshot shows the USDA Rural Development website. At the top, there is a header with the USDA logo and the text 'United States Department of Agriculture Rural Development'. Below this is a large image of a rural landscape with a water tower and houses. The main heading is '7 CFR Part 3555'. Below the heading is a navigation bar with links for 'Home', 'About RD', 'Programs & Services', 'Browse by State', 'Newsroom', 'Publications', and 'Contact Us'. A search bar is also present. The main content area is divided into two columns. The left column is titled 'Publications' and lists various document types like Overview, Fact Sheets, Regulations & Guidelines, Reports, Dispute Appeals, Publications for Cooperatives, and Rural Cooperatives Magazine. The right column is titled 'Handbooks' and lists several handbooks, with 'HB-1-3555 SFH Guaranteed Loan Program Technical Handbook' highlighted in yellow. To the right of the handbook list is a 'Table of Contents' for HB-1-3555, listing chapters 1 through 20 and appendices 1 through 10. The page number '6' is visible in the bottom right corner.

A list of all USDA Rural Development handbooks will display.

Be sure to select the correct technical handbook: HB-1-3555.

Once HB-1-3555 is selected, the entire handbook, including all appendix will display for selection.

Appendix 1 is the full regulation, 7 CFR Part 3555.



7 CFR Part 3555: 3555.5

3555.5 Environmental requirements.

- (a) Policy.
- (b) Regulatory references.
- (c) Agency responsibilities.
- (d) Lender and loan applicant responsibilities.

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The regulation Table of Contents provides a quick view of the individual topics included under this Section.

Under Environmental requirements this section includes policy, regulatory references, Agency responsibilities, and lender and loan applicant responsibilities.



7 CFR Part 3555: 3555.5

(b): Regulatory References

- Additional USDA published environmental regulations may apply (RD Instruction 1970)
- New construction considerations are applicable
- Applicable to origination and servicing actions

(c): Agency responsibilities:

- USDA must ensure all applicable regulatory guidelines are met

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3555.5(b) states additional environmental regulations that apply to the program, specifically RD Instruction 1970.

New construction properties, especially those located in special flood hazard areas, do have additional guidelines that must be met.

Environmental policies apply to origination and servicing actions for guaranteed loans.

3555.5(c) reminds USDA that the Agency must ensure all applicable regulatory guidelines are met.



7 CFR Part 3555: 3555.5

(d): Lender and loan applicant responsibilities

- Lenders must use due diligence to avoid hazards
- 1994 National Flood Insurance Reform Act will determine Special Flood Hazard Areas (SFHA)
- Lenders must be knowledgeable of USDA requirements
- Comply with federally mandated flood insurance requirements

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3555.5(d) includes lender and loan applicant responsibilities regarding flood insurance. When dwellings are located in special flood hazard areas, proper insurance must be purchased and maintained.



7 CFR Part 3555: 3555.5

(d): Lender and loan applicant responsibilities

- FEMA National Flood Insurance Program (NFIP), Write Your Own, or private flood insurance required as applicable
- Purchased and maintained for life of loan
- New construction in SFHA ineligible unless: LOMA or LOMR obtained or alternative analysis plus eligible flood elevation certificate documented

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This portion of the regulation also states that flood insurance available through FEMA's National Flood Insurance Program (NFIP), an agency participating in FEMA's "Write Your Own" program or eligible private flood insurance policies are acceptable.

Flood insurance must be purchased and maintained for the life of the loan as applicable.

New construction properties located in SFHA's are ineligible unless a Letter of Map Amendment (LOMA), a Letter of Map Revision (LOMR), (both of which remove the property from the flood zone), or an alternatives analysis is completed per Agency environmental guidelines along with a FEMA elevation certificate to document the lowest floor (including the basement) and all building improvements have been built at or above the 100 year flood plain per NFIP.



Guaranteed Loan Program Technical Handbook
HB-1-3555

- Provides guidance to support the regulation
- HB is not the rule
- 20 Chapters

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The 7 CFR Part 3555 regulation cannot cover every topic and every potential scenario, therefore a technical handbook has been published to support the regulation and provide additional clarification. HB-1-3555 has 20 chapters.

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HB-1-3555

HB-1-3555 SFH Guaranteed Loan Program Technical Handbook

Table of Contents

- Chapter 1 - Overview
- Chapter 2 - Record Retention
- Chapter 3 - Lender Approval
- Chapter 4 - Lender Responsibilities
- Chapter 5 - Origination and Underwriting Overview
- Chapter 6 - Loan Purposes
- Chapter 7 - Loan Terms and Conditions
- Chapter 8 - Applicant Characteristics
- Chapter 9 - Income Analysis
- Chapter 10 - Credit Analysis
- Chapter 11 - Ratio Analysis
- Chapter 12 - Property and Appraisal Requirements
- Chapter 13 - Special Property Types
- Chapter 14 - Funding Priorities
- Chapter 15 - Submitting the Application Package
- Chapter 16 - Closing the Loan and Requesting the Guarantee
- Chapter 17 - Regular Servicing-Performing Loans
- Chapter 18 - Servicing Non-Performing Loans - Accounts with Repayment Problems
- Chapter 19 - Custodial and Real Estate Owned Property
- Chapter 20 - Loss Claims - Collecting on the Guarantee

Acronyms

Glossary

- Appendix 1 - 7 CFR part 3555
- Appendix 2 - Forms and Instructions
- Appendix 3 - Review and Appeals
- Appendix 4 - Agency and Employee Addresses
- Appendix 5 - Income Limits
- Appendix 6 - Interest Assistance
- Appendix 7 - Calvrs Access Instructions
- Appendix 8 - EDI Documentation
- Appendix 9 - Penalties
- Appendix 10 - Unnumbered Letter and State Supplements

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The handbook may be accessed from the Regulations and Guidelines website. Environmental and Flood Insurance topics are located in Chapter 4, 6, 12, 15, and 16.



HB-1-3555: Reference these HB Chapters

- Chapter 4: 4.4, Attachments 4-A and 4-B
- Chapter 6: 6.2 C
- Chapter 12: 12.10 A and B
- Chapter 15: 15.5 A 5
- Chapter 16: 16.2, 16.11 C 1, and 16.11 C 2

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This slide helps you to understand the specific portions of these handbook chapters where information regarding environmental requirements, hazard insurance, and flood insurance guidance is located.

Chapter 4 will focus on Lender Responsibilities.

Chapter 6 is eligible loan purposes.

Chapter 12 is property appraisals and requirements.

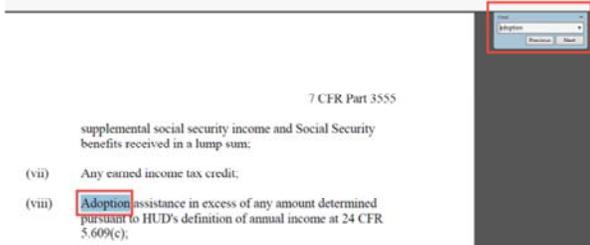
Chapter 15 is submitting a complete loan application to USDA in order to obtain a conditional commitment.

Chapter 16 outlines the specific requirements must meet prior to and post loan closing to be eligible to obtain a loan note guarantee.

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TIPS

- Underwriter = USDA Approved Lender
- USDA = not an underwriter
- Research Rule & HB questions: Table of Contents
- Research Rule & HB questions: Control + F



7 CFR Part 3555

supplemental social security income and Social Security benefits received in a lump sum:

- (vii) Any earned income tax credit;
- (viii) **Adoption** assistance in excess of any amount determined pursuant to HUD's definition of annual income at 24 CFR 5.609(c).

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A few helpful tips:

The underwriter of the loan is the approved lender's underwriter.

USDA is NOT the underwriter of the loan.

When researching topics, it is helpful to begin with the Table of Contents for the regulation and the handbook.

A great best practice when searching for information is to open the regulation or a handbook chapter, select the "Control" button on the keyboard, hold it down, and then also select the "F" key. A keyword search box will appear. Enter a keyword or phrase to locate information more quickly.



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**7 CFR PART 3555 / HB-1-3555
LEARNING CHECKS**

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The best way to learn information is to test your knowledge!



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Question Slide

“Topic”

- Question will be bulleted with scenario, or
- Include a statement/question

TRUE/FALSE or other answer options will be displayed

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Each question slide will list:

- the topic
- A question or scenario, and
- potential responses.



ANSWER SLIDE

“Topic”
ANSWER: 7 CFR Part 3555 and HB-1-3555 references provided

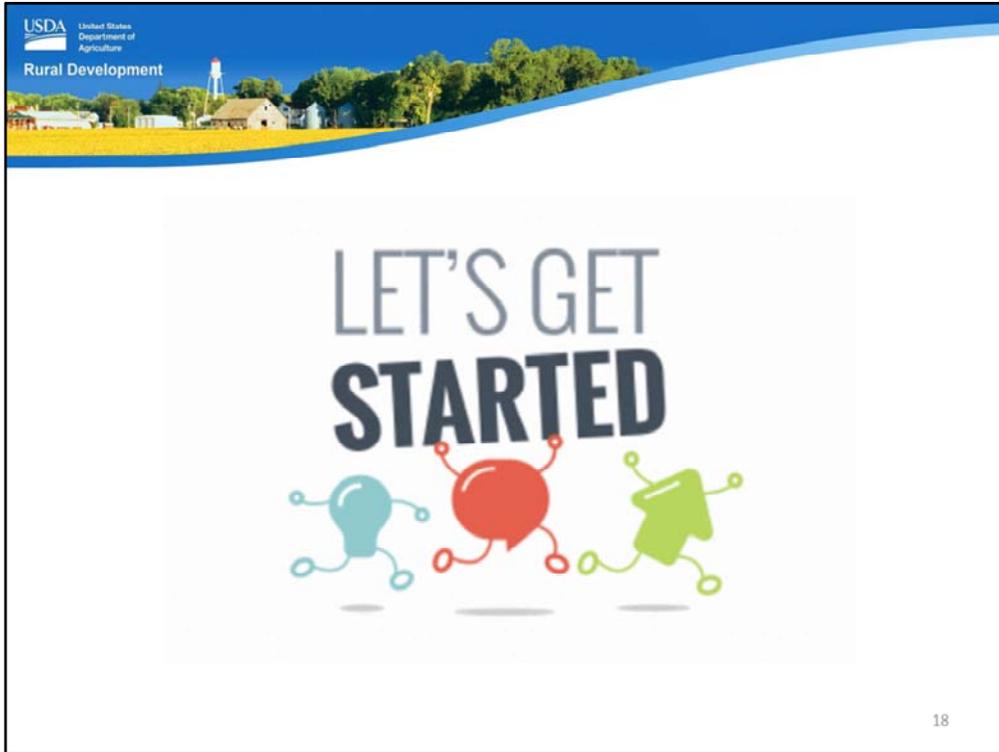
X. Correct Response

- Additional guidance for clarification may be provided

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The answer slide will list:

- The topic
- The reference to the answer from the regulation and handbook
- The correct response, and
- Any additional clarification that may be helpful.



Let's get started!



Environmental and Insurance

- Existing dwelling has private well and septic
- Distance between well and septic meets county code, but not current HUD Handbook required distances
- Property is eligible for guaranteed loan consideration

A. TRUE B. FALSE

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Read the question on the slide and select a response.



Environmental and Insurance
ANSWER: 3555.201(b)(4), HB 12.6 A
A. TRUE

- Well and septic distances must meet current HUD Handbook OR state/county distance requirements

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True.

The distances between a well and septic on a property must meet either the current HUD Handbook required distances OR the distances approved by the state and/or county ordinances/laws.



Environmental and Insurance

- Scott has a purchase contract for an existing 4 bedroom/3 bath home in a SFHA (flood zone)
- The lender must evaluate listings to document there are no other 4 bedroom/3 bath homes available in the community or within reasonable commuting distance outside of the SFHA

A. TRUE B. FALSE

Read the question on the slide and select a response.



Environmental and Insurance

ANSWER: 3555.5(d)(5), HB 12.10 B

B. FALSE

- Scott has selected this home
- No additional research is needed, it is existing dwelling
- Obtain eligible flood insurance

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False.

Scott has selected this home to best meet the needs of his family.

This is an existing dwelling, therefore no additional analysis or considerations are required.

Because the home is located in a flood zone, Scott must obtain eligible flood insurance.



Environmental and Insurance

- Phil wants to buy a home in a SFHA with a private septic
- What requirements may apply to the water source (public or private) for this home:
 - A. Home is serviced by public water
 - B. A cap must be placed on a well in the event of flood
 - C. Opening of well must be above BFE
 - D. All of the above

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Read the question on the slide and select a response.



Environmental and Insurance
ANSWER: 3555.5(d)(1), HB 12.10 B

D. All of the above

- Water source must be protected in the event of a flood
- Flooded septic should not mingle with water source

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Response D.

When a dwelling includes a septic system, there must be sanitation measures in place to ensure there is no co-mingling of septic contents and the dwellings primary water source. Service by public water would certainly meet this requirement.

If the water source is private then either a cap must be placed on the well to prevent contamination, or the opening must be certified that it is above the base flood elevation.



Environmental and Insurance

- Jill is purchasing a new construction dwelling in a SFHA
- A LOMA has been documented
- The new construction dwelling is eligible for a guaranteed loan

A. TRUE B. FALSE

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Read the question on the slide and select a response.



Environmental and Insurance
ANSWER: 3555.5(d)(7), HB 12.10 B and 15.5 A 5
A. TRUE

New construction dwellings in SFHA:

- LOMA or LOMR or
- Eligible FEMA elevation certificate and alternative analysis

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True.

The applicant has secured a LOMA, a Letter of Map Amendment from FEMA, which removes the dwelling from the special flood hazard area. At this time only hazard insurance is required for the dwelling, no flood insurance is necessary.

If the LOMA had not been obtained, a Letter of Map Revision would also be an option. The last option to ensure the new construction dwelling would remain eligible in a SFHA would include an eligible FEMA elevation certificate to document the lowest floor of the dwelling (including the basement) has been built above the 100 year base flood elevation level along with an alternatives analysis. The alternatives analysis basically reviews the current housing stock in comparison to the proposed new construction dwelling to determine there are no existing options that are feasible. If the applicant has determined that existing housing stock is not a viable option, USDA is amicable to this assessment.



Environmental and Insurance

- Existing dwelling purchase: \$135,000
- Located in SFHA
- Flood insurance deductible purchased: \$2,500
- FEMA deductible allowed: \$3,000
- This is an eligible deductible

A. TRUE B. FALSE

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Read the question on the slide and select a response.



Environmental and Insurance

ANSWER: 3555.5(d)(6), HB 12.10 B and 15.5 A 5

A. TRUE

Flood insurance deductibles may not exceed:

- \$1,000 or 1% face value of policy (greater of) or
- State/Federal maximum deductibles (FEMA is a Federal program)

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True.

Flood insurance deductibles may not exceed:

- The greater of \$1,000 or the 1% of the face value of the policy, or
- If maximum deductibles are allowed under State or Federal programs, then these are eligible. FEMA is a Federal program. Therefore if they revise their policies regarding deductibles, these are applicable to the USDA guaranteed loan program.



Environmental and Insurance

- Stafford Community Bank does not escrow for hazard insurance
- They are ineligible to participate in the guaranteed loan program

A. TRUE B. FALSE

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Read the question on the slide and select a response.



Environmental and Insurance

ANSWER: 3555.5(d)(1), HB 4.4

B. FALSE

Lender must ensure they:

- Meet Attachment 4-A
- Ensure borrower(s) execute Attachment 4-B

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False

Because they do not escrow for the collection of real estate taxes and/or hazard insurance they must comply with Handbook Chapter 4, Attachment 4-A.

The borrowers must also execute Attachment 4-B (or a similar form) that states they realize they are responsible to pay the real estate taxes and hazard insurance premiums when they are due.

When borrowers fail to remit payment for these items the servicing lender must take action.



Environmental and Insurance

- Appraiser notes their observation of abandoned gas tanks and an oil spill on the subject property
- Lender's underwriter is not required to perform an additional analysis, request inspections/mitigation, etc.

A. TRUE B. FALSE

Read the question on the slide and select a response.



Environmental and Insurance

ANSWER: 3555.5(a), HB 12.10 A

B. FALSE

- Appraiser completed their due diligence
- Underwriter must complete due diligence as well to ensure the collateral is not at risk, nor poses a health/safety risk to occupants

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False.

The appraiser completed their due diligence and alerted the lender (their client) to potential hazards associated with the property.

The underwriter must now decide their course of action to ensure the property is not at risk, nor poses a health or safety risk to the occupants.



Environmental and Insurance

- Lender signs RD Form 3555-18 “Lender Certification”
- Their signature confirms all applicable hazard and/or flood insurance has been purchased and will be maintained for the life of the loan

A. TRUE B. FALSE

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Read the question on the slide and select a response.



Environmental and Insurance

ANSWER: 3555.5(d), HB 16.2 and 16.11 C

A. TRUE

- Signature on the Lender Certification (Form RD 3555-18) indicates all listed conditions have been met
- This includes hazard and flood insurance requirements
- Lender retains applicable documentation

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True.

When the approved USDA lender signs the lender certification on Form RD 3555-18/18E (the conditional commitment) they are verifying that every applicable condition stated has been met.

This includes the appropriate procurement of applicable hazard and/or flood insurance requirements.

The lender is responsible to retain documentation to support all conditions have been met.

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WAY TO GO!

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Way to go! You have completed the learning checks!

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Regulations

<http://www.rd.usda.gov/publications/regulations-guidelines>

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Regulations & Guidelines

All Federal regulations can be found at Regulations.gov and customers can search, review and submit comments on Federal documents that are open for comment and published in the Federal Register.

As a service to our customers, we post Rural Development's instructions, Administrative Notices, and forms. The instructions are available in three file formats: Adobe Acrobat (PDF), Microsoft Word 6.0 (doc) and Text (txt). To the extent possible, all documents have been made available in either Adobe Acrobat Ver 5.0 and higher, or Text and are 508 compliant. If you should have accessibility issues and need a hard copy, please send an e-mail to comments@wdc.usda.gov.

If you are having problems with this page, need a hard copy of any of the documents due to accessibility issues or would like to be added to the Regulations Update distribution list (available for Rural Development employees only with a valid Rural Development e-mail address), please e-mail comments@wdc.usda.gov.

Rural Development

- Administrative Notices
- Instructions
- Forms
- Spanish Forms, Form Letters, and Guide Letters
- Handbooks
- Procedures Notices
- Significant Guidance Documents
- Unnumbered Letters
- Federal Register Publications

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Don't forget the Regulations and Guidelines website is a valuable source of USDA guideline knowledge.

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Program!



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