



Rural Development

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TO: State Directors
Rural Development

ATTN: Program Directors
Single Family Housing

FROM: Bruce W. Lammers /s/ *Justin Domers*
Administrator FOR
Rural Housing Service

SUBJECT: Single Family Housing Section 504 Repair Pilot

PURPOSE:

This Unnumbered Letter (UL) is issued to extend a pilot program announced on May 23, 2019 which is intended to evaluate the existing regulations and remove regulatory barriers to assist eligible applicants.

BACKGROUND:

On October 5, 2017, Single Family Housing Direct Loan Division (SFHDL) published Procedure Notice 504 which established eligibility decisions based on adjusted annual household income and a total debt ratio of forty-six percent (46%). Revisions also included a minimum amount for initial loans, relaxing the appraisal requirement, eliminating unnecessary field visits, and establishing a streamlined credit evaluation. Section 504 and 504 Pilot training materials can be found in [SharePoint](#) at SFH > Direct > Training > National Office Training Material > PN 504 Chapter 12 Training.

The Fiscal Year 2019 repair loan obligations were over \$10 million less than the appropriated level. The pilot program is an opportunity to increase loan and grant production and reduce restrictions that impede the Section 504 repair program. The pilot program removes the requirement for title clearance, site size restrictions, expands the insurance, escrow and appraisal requirements, and increases the maximum allowable loan and grant amounts.

EXPIRATION DATE:
May 31, 2021

FILING INSTRUCTIONS:
Housing Programs

IMPLEMENTATION RESPONSIBILITIES:

The pilot will waive various regulatory requirements for Section 504 loans and grants, as described in this UL.

Pilot loan and grant applications will not be subject to the restriction in 7 CFR § 3550.105(b) which references the site must not be large enough to be subdivided into more than one site under existing zoning ordinances. The following property requirements remain unchanged. The property must meet area loan limits, must not be used for agricultural or income producing purposes, and be modest for the area. Waiving the prohibition on sub dividable properties will allow more rural applicants to be eligible.

Secured pilot loans with **RHS indebtedness** exceeding \$25,000 will be subject to the requirements in 7 CFR § 3550.108(b) for title clearance/title insurance and the use of a closing agent. This exception for smaller secured loans will reduce the financial burden on applicants with minimal additional risk to the Agency. Pilot loans remain subject to Truth in Lending Real Estate Settlement Integrated Disclosure (TRID) requirements including a Loan Estimate, Closing Disclosure, and Notice of Right to Cancel. Initial and subsequent loans may be closed with a best lien obtainable.

Security is required when the outstanding **504 indebtedness in combination** with the requested assistance will be \$7,500 or greater. Security requirements are unchanged for the 504 pilot. Rural Development staff will conduct loan closings and ensure security instruments are recorded. The applicant must have acceptable ownership interest in the property as evidenced by formats allowed in 7 CFR § 3550.107, except for alternate forms of ownership 3550.107(g). The elimination of title clearance removes confirmation of ownership interests; therefore, alternate forms of ownership under 3550.107(g) are not suitable and jeopardize the Agency's interest.

Generally, secured pilot loans will not be subject to the 7 CFR § 3550.111 requirement for appraisals. However, an "as improved" appraisal and associated appraisal fee will be required when the assessed valuation by local authorities does not support a fully secured interest by the Agency, or when the **sum of all secured (RD or Non-RD) indebtedness** including the proposed repair loan, exceeds \$25,000. If this requirement is cumbersome to the applicant, the loan approval official may choose to process as a non-pilot loan; therefore; pilot requirements are not applicable to the applicant.

Pilot loans and grants will not be subject to the maximum allowable limits currently imposed by 7 CFR § 3550.112(a-c). Pilot loans may be approved up to a maximum unpaid Section 504 loan balance of \$40,000 and \$10,000 in Section 504 lifetime grant assistance. These increases reflect the inflation of labor and material costs.

Pilot loans will be subject to the 7 CFR § 3550.109 requirement for an escrow account for real estate taxes and hazard insurance when the sum of Section **504 secured indebtedness** exceeds \$15,000. When hazard insurance is either not in place or available, pilot loans will include an

escrow account for taxes and force placed insurance coverage in the amount of the Section 504 indebtedness. Flood insurance requirements remain unchanged for this pilot.

The pilot program has been in effect for one year and will be re-evaluated by the Agency annually to determine if the pilot will be extended. The pilot may be modified or terminated at any time at the Agency's discretion. The following twenty-two (22) States and U.S. Territories are selected to provide wide geographic and historic production variation:

California, Hawaii, Illinois, Indiana, Iowa, Kentucky, Maine, Michigan, Mississippi, New Jersey, New Mexico, New York, North Carolina, Oregon, Pennsylvania, Puerto Rico, South Carolina, Texas, Tennessee, Virginia, Washington, and West Virginia.

The pilot will be extended to fiscal year 2021. Affordability will be analyzed according to income, repayment ratios and compensating factors established in paragraphs 12.4 D and 12.7 (HB-1-3550).

If an existing borrower qualifies for a subsequent loan or grant during the pilot period, the pilot will apply to the subsequent request. Subsequent loans offer exceptions to the requirement for an appraisal and closing agent for pilot and non-pilot states. HB-1-3550 Chapter 8 paragraph 8.4 B, states that a closing agent approved by the Agency is required for all section 502 and 504 loans of \$7,500 or greater with the exception of a subsequent loan made for minimum essential repairs necessary to protect the Government's interest. HB-1-3550 Chapter 5, paragraph 5.17 A, states for subsequent loans, no appraisal is required if the loan is less than \$7,500 and is for minimal essential repairs needed to ensure that the dwelling is decent, safe, and sanitary. An appraisal is not required when a subsequent loan is made to protect the Government's interest, regardless of the amount including this pilot program. All subsequent loan requests are required to be listed on the current security instrument if the total 504 indebtedness is \$7,500 or greater.

For questions pertaining to this UL, please contact Danielle Eason, Finance and Loan Analyst, at danielle.eason@usda.gov, or phone (202) 690-1530.